

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

X	U	R	P	A	S		I	N	C	.		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S		

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

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Form Type

A	C	F	S
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Department requiring the report

S	E	C
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Secondary License Type, If Applicable

N	/	A
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COMPANY INFORMATION

Company's Email Address

info@xurpas.com

Company's Telephone Number

889-6467

Mobile Number

N/A

No. of Stockholders

23

Annual Meeting (Month / Day)

2nd week of May

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Nico Jose S. Nollado

Email Address

nix@xurpas.com

Telephone Number/s

889-6467

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

7th Floor Cambridge Centre, 108 Tordesillas St. Salcedo Village, Makati City

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

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



**“STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR
CONSOLIDATED FINANCIAL STATEMENTS”**

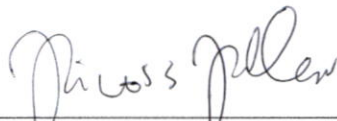
The management of **XURPAS INC. AND SUBSIDIARIES** (the “Group”) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Group’s financial reporting process.

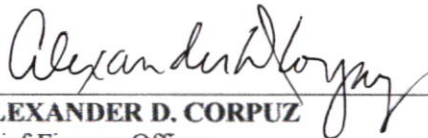
The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



NICO JOSE S. NOLLEDO

Chairman of the Board/ Chief Executive Officer



ALEXANDER D. CORPUZ

Chief Finance Officer


Signed this APR 13 2018

Republic of the Philippines)
PASIG CITY) S.S.

SUBSCRIBED AND SWORN to before me this 13th day of April 2018 affiant(s) exhibiting to me their Competent Evidence of Identity, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUANCE	PLACE OF ISSUANCE
NICO JOSE S. NOLLEDO	P3513313A	June 28, 2017	DFA Manila
ALEXANDER D. CORPUZ	P5670777A	January 18, 2018	DFA NCR East

Doc. No. 181 ;
Page No. 98 ;
Book No. 5 ;
Series of 2018.


ATTY. JEMIMAH ESTELLE T. BARTOLOME
Notary Public
PTR No. 3862288/01.10.18/Pasig City
IBP No. 024673/01.09.18/Makati City
Roll No. 62902
MCLE Compliance Cert. No. V-0020498/04.20.16
Address: 15th Floor Strata 2000 F. Ortigas Jr.
Ortigas Center, Pasig City
Appointment No. 145 (2017- 2018) Pasig City
Expiring on 31 December 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
Xurpas Inc.
7th Floor Cambridge Centre
108 Tordesillas St.
Salcedo Village, Makati City

Opinion

We have audited the consolidated financial statements of Xurpas Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Finalization of Purchase Price Allocation on Acquisition of Art of Click Pte. Ltd. (AOC)

In 2017, the Parent Company finalized the purchase price allocation on the acquisition of AOC which resulted in the final purchase consideration amounting to ₱1.94 billion, fair value of net identifiable assets amounting to ₱85.08 million and goodwill of ₱1.86 billion. We considered the accounting for this acquisition to be a key audit matter because it required significant management judgment and estimation in finalizing the purchase consideration, identifying the underlying acquired assets and liabilities, determining their related fair values and assessing the recognition of any identified intangible asset.

The related disclosures on the acquisition are included in Notes 3 and 23 to the consolidated financial statements.

Audit Response

We reviewed the share purchase agreements and related contracts of this acquisition, the consideration paid and the Group's purchase price allocation. We assessed the competence and capabilities and objectivity of the external valuation specialist engaged by the Parent Company for the preparation of the final purchase price allocation. We involved our internal specialist in testing the identification of the investee's underlying acquired assets and liabilities, testing the fair values of the acquired assets and liabilities and evaluating the assumptions and methodologies used in arriving at these fair values.

Realizability of goodwill, intangible asset with indefinite useful life and investments in associates

The Group has various goodwill and intangible assets with indefinite useful life arising from past acquisitions and business combinations. The Group also has various investments in associates. Under PFRSs, the Group is required to annually test the amount of goodwill and other intangible assets with indefinite useful life for impairment, while an investment in associate is tested for impairment when an indication that the investment is impaired exists. This impairment test was significant to our audit because the balance of goodwill, intangible asset with indefinite useful life and investment in associates as of December 31, 2017 is material to the consolidated financial statements. In addition, management's assessment process is complex and judgmental and is based on assumptions, specifically discount rates, growth rates, earnings before interest, taxes, depreciation and amortization (EBITDA) margins, working capital and capital expenditures.

The Group's disclosures about goodwill and intangible asset with indefinite useful life are included in Notes 3 and 11 while the disclosures about investments in associates are included in Note 9 to the consolidated financial statements.

Audit Response

We involved our internal specialist in evaluating the methodologies and the assumptions used in the impairment testing analyses. These assumptions include discount rates, growth rates, EBITDA margins, working capital and capital expenditures. We compared the key assumptions used, such as growth rates, EBITDA margins, working capital and capital expenditures against the historical performance of the subsidiaries and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to



which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill, intangible asset with indefinite useful life and investments in associates.

Provisions and Contingencies

The Group is involved in assessments for national taxes. This matter is significant to our audit because the estimation of the potential liability resulting from these tax assessments requires significant judgment by management. The inherent uncertainty over the outcome of these tax matters is brought about by the differences in the interpretation and implementation of the laws and tax rulings.

The Group's disclosures about provisions and contingencies are included in Notes 3 and 30 to the consolidated financial statements.

Audit Response

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

Other Information

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

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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



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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

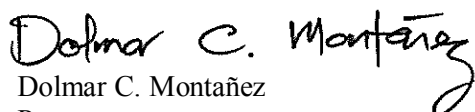
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is
Dolmar C. Montañez.

SYCIP GORRES VELAYO & CO.



Dolmar C. Montañez

Partner

CPA Certificate No. 112004

SEC Accreditation No. 1561-A (Group A),

April 21, 2016, valid until April 21, 2019

Tax Identification No. 925-713-249

BIR Accreditation No. 08-001998-119-2016,

February 15, 2016, valid until February 14, 2019

PTR No. 6621303, January 9, 2018, Makati City

April 13, 2018



XURPAS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016 (As restated, Note 23)
ASSETS		
Current Assets		
Cash (Notes 4 and 27)	P215,254,510	P428,517,653
Financial assets at fair value through profit or loss (Notes 5 and 27)	—	335,915,489
Accounts and other receivables (Notes 6, 20 and 27)	845,666,454	956,902,412
Available-for-sale financial assets (Notes 7 and 27)	—	108,428,123
Other current assets (Note 8)	57,943,929	52,628,844
Total Current Assets	1,118,864,893	1,882,392,521
Noncurrent Assets		
Available-for-sale financial assets - net of current portion (Notes 7 and 27)	159,053,079	44,544,956
Investments in associates (Note 9)	515,662,941	549,855,745
Property and equipment (Note 10)	76,145,631	80,527,763
Intangible assets (Notes 11 and 23)	3,773,880,106	3,798,689,171
Pension assets (Note 22)	310,699	2,386,458
Deferred tax assets - net (Notes 21 and 23)	115,527,088	62,275,532
Other noncurrent assets	50,735,845	55,756,949
Total Noncurrent Assets	4,691,315,389	4,594,036,574
	P5,810,180,282	P6,476,429,095
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 12, 20 and 27)	P493,108,422	P413,725,647
Loans payable (Notes 13 and 27)	377,419,000	3,000,000
Income tax payable	10,081,586	64,435,355
Liability for written put option (Notes 23 and 27)	864,705,965	864,705,965
Payable to former shareholders of a subsidiary (Note 23)	244,426,311	314,133,411
Other current liabilities (Note 14)	77,172,352	127,715,600
Total Current Liabilities	2,066,913,636	1,787,715,978
Noncurrent Liabilities		
Loans payable - net of current portion (Notes 13 and 27)	—	13,998,370
Finance lease - net of current portion (Note 19)	605,713	1,163,602
Payable to former shareholders of a subsidiary - net of current portion (Note 23)	—	491,292,825
Deferred tax liabilities - net (Notes 21 and 23)	355,859,101	363,851,905
Pension liabilities (Note 22)	31,302,583	28,906,894
Total Noncurrent Liabilities	387,767,397	899,213,596
Total Liabilities	2,454,681,033	2,686,929,574
Equity		
Equity attributable to equity holders of Xurpas Inc.		
Capital stock (Note 24)	186,764,015	186,764,015
Additional paid-in capital (Note 24)	3,343,119,550	3,343,119,550
Retained earnings (Note 24)	322,730,858	379,812,719
Net unrealized loss on available-for-sale financial assets (Note 7)	(70,000)	(150,000)
Cumulative translation adjustment	35,366,128	16,457,357
Retirement benefit reserve (Note 22)	(1,189,261)	(2,939,890)
Equity reserve (Notes 23 and 24)	(1,250,719,186)	(892,221,754)
Treasury stock (Note 24)	(115,464,275)	(71,510,352)
	2,520,537,829	2,959,331,645
Noncontrolling interests (Notes 23 and 24)	834,961,420	830,167,876
Total Equity	3,355,499,249	3,789,499,521
	P5,810,180,282	P6,476,429,095

See accompanying Notes to Consolidated Financial Statements.



XURPAS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
		2016 (As restated, Note 23)	2015
	2017		
INCOME			
Service income (Note 15)	₱2,009,551,016	₱1,896,460,031	₱824,022,641
Sale of goods	94,018,662	50,678,833	74,351,659
	2,103,569,678	1,947,138,864	898,374,300
COST AND EXPENSES			
Cost of services (Note 16)	1,373,414,504	1,101,895,599	314,694,526
Cost of goods sold	81,005,679	41,818,202	69,811,640
	1,454,420,183	1,143,713,801	384,506,166
GENERAL AND ADMINISTRATIVE EXPENSES (Note 17)	572,616,955	354,727,296	190,520,168
EQUITY IN NET LOSSES OF ASSOCIATES (Note 9)	36,721,355	33,902,387	9,479,226
OTHER (INCOME) CHARGES - NET (Note 18)	(82,228,258)	35,690,480	(17,231,901)
	527,110,052	424,320,163	182,767,493
INCOME BEFORE INCOME TAX	122,039,443	379,104,900	331,100,641
PROVISION FOR INCOME TAX (Note 21)	19,467,099	114,268,767	101,482,539
NET INCOME	102,572,344	264,836,133	229,618,102
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>			
Unrealized gain on available-for-sale financial assets (Note 7)	80,000	60,000	15,000
Cumulative translation adjustment	18,000,941	11,186,558	6,484,416
<i>Item that may not be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gain on defined benefit plan, net of tax (Note 22)	3,067,528	6,236,333	3,645,986
	21,148,469	17,482,891	10,145,402
TOTAL COMPREHENSIVE INCOME	₱123,720,813	₱282,319,024	₱239,763,504
Net income attributable to:			
Equity holders of Xurpas Inc.	₱35,765,776	₱215,304,020	₱221,059,181
Noncontrolling interests	66,806,568	49,532,113	8,558,921
	₱102,572,344	₱264,836,133	₱229,618,102
Total comprehensive income attributable to:			
Equity holders of Xurpas Inc.	₱56,505,176	₱230,461,838	₱230,231,811
Noncontrolling interests	67,215,637	51,857,186	9,531,693
	₱123,720,813	₱282,319,024	₱239,763,504
Earnings Per Share (Note 26)			
Basic	₱0.02	₱0.12	₱0.13
Diluted	₱0.02	₱0.12	₱0.13

See accompanying Notes to Consolidated Financial Statements.



XURPAS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year Ended December 31, 2017												
Equity attributable to equity holders of Xurpas Inc.												
	Capital Stock (Note 24)	Additional Paid-in Capital (Note 24)	Retained Earnings - Appropriated (Note 24)	Retained Earnings - Unappropriated (Note 24)	Net Unrealized Loss on Available- for-sale Financial Assets (Note 7)	Cumulative Translation Adjustment	Retirement Benefit Reserve (Note 22)	Equity Reserve (Notes 23 and 24)	Treasury shares (Note 24)	Total	Non- Controlling Interest	Total Equity
Balance at beginning of year, as previously reported	₱186,764,015	₱3,343,119,550	₱235,819,709	₱184,050,112	(₱150,000)	₱16,457,357	(₱2,939,890)	(₱892,221,754)	(₱71,510,352)	₱2,999,388,747	₱830,167,876	₱3,829,556,623
Adjustment as a result of the finalization of the purchase price allocation (see Note 23)	—	—	—	(40,057,102)	—	—	—	—	—	(40,057,102)	—	(40,057,102)
Balance at beginning of year, as restated	186,764,015	3,343,119,550	235,819,709	143,993,010	(150,000)	16,457,357	(2,939,890)	(892,221,754)	(71,510,352)	2,959,331,645	830,167,876	3,789,499,521
Appropriation for share buy-back transactions	—	—	26,649,121	(26,649,121)	—	—	—	—	—	—	—	—
Reversal of appropriation for share buy-back transactions	—	—	(81,184,846)	81,184,846	—	—	—	—	—	—	—	—
Cash dividend declaration	—	—	—	(92,847,637)	—	—	—	—	—	(92,847,637)	(59,896,761)	(152,744,398)
Reversal of appropriation for dividend declaration	—	—	(65,819,709)	65,819,709	—	—	—	—	—	—	—	—
Payments to a former shareholder of a subsidiary	—	—	—	—	—	—	—	(358,497,432)	—	(358,497,432)	—	(358,497,432)
Acquisition by a subsidiary of its own shares from noncontrolling interest shareholders	—	—	—	—	—	—	—	—	—	—	(2,525,332)	(2,525,332)
Share buy-back transactions	—	—	—	—	—	—	—	—	(43,953,923)	(43,953,923)	—	(43,953,923)
Net income	—	—	—	35,765,776	—	—	—	—	—	35,765,776	66,806,568	102,572,344
Other comprehensive income - net of tax effect	—	—	—	—	80,000	18,908,771	1,750,629	—	—	20,739,400	409,069	21,148,469
Total comprehensive income	—	—	—	35,765,776	80,000	18,908,771	1,750,629	—	—	56,505,176	67,215,637	123,720,813
Balance at end of year	₱186,764,015	₱3,343,119,550	₱115,464,275	₱207,266,583	(₱70,000)	₱35,366,128	(₱1,189,261)	(₱1,250,719,186)	(₱115,464,275)	₱2,520,537,829	₱834,961,420	₱3,355,499,249



Year Ended December 31, 2016 (As restated, Note 23)

Equity attributable to equity holders of Xurpas Inc.												
	Capital Stock (Note 24)	Additional Paid-in Capital (Note 24)	Retained Earnings - Appropriated (Note 24)	Retained Earnings - Unappropriated (Note 24)	Net Unrealized Loss on Available- for-sale Financial Assets (Note 7)	Cumulative Translation Adjustment	Retirement Benefit Reserve (Note 22)	Equity Reserve (Notes 23 and 24)	Treasury shares (Note 24)	Total	Non- Controlling Interest	Total Equity
Balance at beginning of year	₱172,000,066	₱1,219,718,163	₱65,819,709	₱184,978,622	(₱210,000)	₱6,484,416	(₱8,064,767)	(₱848,496,865)	₱—	₱792,229,344	₱771,522,209	₱1,563,751,553
Issuance of new shares through cash subscription	7,770,000	1,190,606,997	—	—	—	—	—	—	—	1,198,376,997	—	1,198,376,997
Appropriation for share buy-back transactions	—	—	170,000,000	(170,000,000)	—	—	—	—	—	—	—	—
Cash dividend declaration	—	—	—	(86,289,632)	—	—	—	—	—	(86,289,632)	(4,900,000)	(91,189,632)
Acquisition of a subsidiary	6,993,949	932,794,390	—	—	—	—	—	—	—	939,788,339	—	939,788,339
Acquisition of NCI	—	—	—	—	—	—	—	(43,724,889)	—	(43,724,889)	(12,927,441)	(56,652,330)
Issuance of a subsidiary's shares to noncontrolling interest shareholders	—	—	—	—	—	—	—	—	—	—	24,615,922	24,615,922
Share buy-back transactions	—	—	—	—	—	—	—	—	(71,510,352)	(71,510,352)	—	(71,510,352)
Net income, as previously reported	—	—	—	255,361,122	—	—	—	—	—	255,361,122	49,532,113	304,893,235
Adjustment as a result of the finalization of the purchase price allocation (see Note 23)	—	—	—	(40,057,102)	—	—	—	—	—	(40,057,102)	—	(40,057,102)
Net income, as restated	—	—	—	215,304,020	—	—	—	—	—	215,304,020	49,532,113	264,836,133
Other comprehensive income - net of tax effect	—	—	—	—	60,000	9,972,941	5,124,877	—	—	15,157,818	2,325,073	17,482,891
Total comprehensive income	—	—	—	215,304,020	60,000	9,972,941	5,124,877	—	—	230,461,838	51,857,186	282,319,024
Balance at end of year, as restated	₱186,764,015	₱3,343,119,550	₱235,819,709	₱143,993,010	(₱150,000)	₱16,457,357	(₱2,939,890)	(₱892,221,754)	(₱71,510,352)	₱2,959,331,645	₱830,167,876	₱3,789,499,521



	Year Ended December 31, 2015										
	Equity attributable to equity holders of Xurpas Inc.										
	Capital Stock (Note 24)	Additional Paid-in Capital	Retained Earnings - Appropriated (Note 24)	Retained Earnings - Unappropriated (Note 24)	Net Unrealized Loss on Available- for-sale Financial Assets	Cumulative Translation Adjustment	Retirement Benefit Reserve (Note 22)	Equity Reserve (Notes 23 and 24)	Total	Non- Controlling Interest	Total Equity
Balance at beginning of year	₱172,000,066	₱1,219,718,163	₱—	₱98,539,176	(₱225,000)	₱—	(₱10,737,981)	₱—	₱1,479,294,424	₱11,263,488	₱1,490,557,912
Appropriations for dividend declaration	—	—	65,819,709	(65,819,709)	—	—	—	—	—	—	—
Cash dividend declaration	—	—	—	(68,800,026)	—	—	—	—	(68,800,026)	(8,750,000)	(77,550,026)
Recognition of liability for written put option	—	—	—	—	—	—	—	(848,496,865)	(848,496,865)	—	(848,496,865)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	759,477,028	759,477,028
Net income	—	—	—	221,059,181	—	—	—	—	221,059,181	8,558,921	229,618,102
Other comprehensive income - net of tax effect	—	—	—	—	15,000	6,484,416	2,673,214	—	9,172,630	972,772	10,145,402
Total comprehensive income	—	—	—	221,059,181	15,000	6,484,416	2,673,214	—	230,231,811	9,531,693	239,763,504
Balance at end of year	₱172,000,066	₱1,219,718,163	₱65,819,709	₱184,978,622	(₱210,000)	₱6,484,416	(₱8,064,767)	(₱848,496,865)	₱792,229,344	₱771,522,209	₱1,563,751,553

See accompanying Notes to Consolidated Financial Statements.



XURPAS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016 (As restated, Note 23)	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱122,039,443	₱379,104,900	₱331,100,641
Adjustments for:			
Depreciation and amortization (Notes 10, 11, 16 and 17)	66,975,820	48,631,028	14,334,419
Equity in net losses of associates (Note 9)	36,721,355	33,902,387	9,479,226
Pension expense, net of contributions (Note 22)	11,778,555	323,136	6,959,464
Interest expense (Note 18)	5,904,716	13,018,342	5,612,191
Loss (gain) from retirements and disposals of property and equipment (Note 10)	316,000	(619,450)	—
Unrealized gain from financial assets at FVPL (Note 5)	—	(915,489)	(317,867)
Interest income (Note 4)	(1,588,435)	(3,025,253)	(9,434,640)
Realized gain on financial assets at FVPL (Note 5)	(2,216,289)	(4,836,415)	(5,473,524)
Gain on curtailment (Note 22)	(2,924,924)	(5,767,588)	—
Unrealized foreign currency exchange loss (gain)	(8,677,654)	17,717,894	245,051
Other income (charges) subsequent to a business combination (Notes 18 and 23)	(90,912,178)	44,737,874	—
Operating income before changes in working capital	137,416,409	522,271,366	352,504,961
Changes in working capital:			
Decrease (increase) in:			
Accounts and other receivables	111,235,958	(157,779,241)	46,898,730
Other current assets	(5,315,085)	(6,132,763)	13,148,984
Increase (decrease) in:			
Accounts and other payables	76,645,851	(14,087,922)	(548,493,791)
Other current liabilities	67,736,955	(168,178,916)	274,274,827
Net cash generated from operations	387,720,088	176,092,524	138,333,711
Interest received	1,588,435	3,025,253	9,938,750
Interest paid	(4,767,843)	(12,985,688)	—
Income taxes paid, including creditable withholding taxes	(136,019,397)	(148,241,920)	(156,205,991)
Net cash provided by (used in) operating activities	248,521,283	17,890,169	(7,933,530)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from redemption of investments in financial assets at FVPL (Note 5)	338,131,778	2,270,154,282	505,904,583
Proceeds from disposal of property and equipment (Note 10)	—	2,881,419	—
Additions to:			
Financial assets at FVPL (Note 5)	—	(2,520,000,000)	(80,000,000)
Available-for-sale financial assets (Note 7)	(6,000,000)	(67,296,000)	(81,774,956)
Investments in associates (Note 9)	—	(469,780,137)	(72,583,350)
Property and equipment (Note 10)	(26,383,728)	(48,505,655)	(13,305,142)
Intangible assets (Note 11)	(10,571,807)	(14,442,412)	(13,534,939)
Decrease (increase) in other noncurrent assets	5,021,105	(3,623,269)	(37,253,809)
Payments to a former shareholder of a subsidiary (Note 23)	(470,087,747)	—	—
Acquisition of a subsidiary, net of cash acquired (Note 23)	—	(36,419,930)	(767,128,006)
Net cash provided by (used in) investing activities	(169,890,399)	(887,031,702)	(559,675,619)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans payable (Note 13)	407,419,000	3,000,000	—
Payment of finance lease liability (Note 19)	(1,863,531)	(1,640,872)	—
Purchase of treasury shares (Note 24)	(43,953,923)	(71,510,352)	—
Payment of loans payable (Note 13)	(46,998,370)	—	(6,628,000)
Dividends paid (Note 24)	(231,078,267)	(86,779,632)	—
Payments to a former shareholder of a subsidiary (Note 23)	(358,497,432)	—	—
Issuance of shares (Note 24)	—	1,243,200,000	—
Increase in noncontrolling interest	—	24,615,922	—
Transaction cost (Note 24)	—	(44,823,003)	—
Acquisition of noncontrolling interest (Note 24)	—	(56,652,330)	(77,550,026)
Net cash provided by (used in) financing activities	(274,972,523)	1,009,409,733	(84,178,026)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH	(16,921,504)	(17,635,549)	(245,051)
NET (DECREASE) INCREASE IN CASH	(213,263,143)	122,632,651	(652,032,226)
CASH AT BEGINNING OF YEAR	428,517,653	305,885,002	957,917,228
CASH AT END OF YEAR (Note 4)	₱215,254,510	₱428,517,653	₱305,885,002

See accompanying Notes to Consolidated Financial Statements.



XURPAS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Xurpas Inc. (the Parent Company or Xurpas) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on November 26, 2001. The principal activities of the Parent Company and its subsidiaries (collectively referred to as the Group) are to develop, produce, sell, buy or otherwise deal in products, goods or services in connection with the transmission, receiving, or exchange of voice, data, video or any form or kind of communication whatsoever.

The Parent Company's registered office address and principal place of business is at 7th Floor, Cambridge Centre, 108 Tordesillas St. Salcedo Village, Makati City.

On December 2, 2014, the Parent Company's shares of stock were listed in the PSE (see Note 24).

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 13, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets which have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), the Group's functional currency. All amounts were rounded off to the nearest peso, except when otherwise indicated.

Statement of Compliance

The accompanying consolidated financial statements of the Group as at December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017 have been prepared in accordance with Philippine Financial Reporting Standard (PFRS).

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Xurpas Inc. and its subsidiaries as at December 31, 2017 and 2016.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect that return through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other voter holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

Noncontrolling interests ("NCI") represent the portion of profit or loss and net assets in a subsidiary not wholly owned and are presented separately in the consolidated statement of comprehensive income and consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from the Parent Company's equity.

Total comprehensive income within a subsidiary is attributed to the noncontrolling interest even if that results in a deficit balance.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any noncontrolling interest and the cumulative translation differences recorded in equity.
- Recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

As of December 31, 2017 and 2016, the consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries:

	Percentage Ownership			Principal Activities
	2017	2016	2015	
Xeleb Technologies Inc. (formerly Fluxion, Inc.) (Xeleb Technologies)	67.00%	67.00%	65.00%	Enterprise services and mobile consumer services
Xeleb Inc. (Xeleb)	67.00	67.00	67.00	Mobile consumer services
Seer Technologies, Inc. (Seer)	70.00	70.00	70.00	Enterprise services
Codesignate Inc. (Codesignate)*	52.50	52.50	52.50	Enterprise services

(Forward)



	Percentage Ownership			Principal Activities
	2017	2016	2015	
Storm Technologies, Inc. (formerly Storm Flex Systems, Inc.) (Storm)	56.60%	56.60%	51.52%	Human resource management
Pt. Storm Benefits Indonesia (Storm Indonesia)	56.60	56.60	51.52	Human resource management
Yondu, Inc. (Yondu)	51.00	51.00	51.00	Enterprise services and mobile consumer services
Yondu Software Labs Inc. (Yondu Software)	51.00	—	—	Enterprise services
Xurpas Enterprise Inc. (Xurpas Enterprise)	100.00	100.00	—	Enterprise services
Art of Click Pte. Ltd. (AOC)	100.00	100.00	—	Mobile consumer services
<i>*Codesignate is a 75.00%-owned subsidiary of Seer. The Group's effective ownership over Codesignate is 52.50%. The Group has determined that it has control over the entity and consolidates the entity on this basis.</i>				

All subsidiaries are domiciled in the Philippines except for Storm Indonesia and AOC which are domiciled in Indonesia and Singapore, respectively.

Xeleb Technologies, Inc.

On August 22, 2016, Deeds of Absolute Sale were executed for the acquisition by the Parent Company of the remaining 35% interest in Xeleb Technologies for ₱45 million. The acquisition of the 35% interest resulted in the Parent Company acquiring 100% interest in Xeleb Technologies.

On the same date, Xeleb Technologies acquired 3,349,996 shares or 67% majority stake in Xeleb from the Parent Company at ₱1.00 per share or ₱3.35 million. In addition, Xeleb Technologies acquired the remaining 33% stake in Xeleb from its minority stakeholders for a total consideration of ₱1.65 million. This resulted in 100% ownership interest of Xeleb Technologies in Xeleb.

Xeleb Technologies and Xeleb are entities under common control of the Parent Company before and after the restructuring. As a result, the acquisition was accounted for using the pooling of interests method in 2016. This transaction has no effect on the carrying amounts of the Group's assets and liabilities, but has resulted to consolidation of Xeleb's assets and liabilities into Xeleb Technologies (see Note 23).

On August 24, 2016, the BOD and Stockholders of Xeleb Technologies approved its increase in authorized capital stock from ₱5.00 million divided into 5,000,000 common shares at a par value of ₱1.00, to ₱100.00 million divided into 4,000,000,000 common shares at a par value of ₱0.025.

On the same date, Xeleb Technologies' BOD authorized the registration and/or use of the name "Xeleb Technologies Inc." to replace its corporate name "Fluxion, Inc." that was approved by the SEC on November 21, 2016.

On November 21, 2016, the SEC approved the increase in authorized capital stock of Xeleb Technologies. On the same date, Xeleb Technologies issued shares in relation to Subscription Agreements by the Parent Company, Selajo Inc., Conrev Inc., Joseliemm Holdings Inc. and Rainy Day Future Entertainment, Inc. for a total subscription of 1,000,000,000 common shares. This resulted in the reduction of the Parent Company's interest in Xeleb Technologies to 67.00%.



Xurpas Enterprise Inc.

On March 23, 2016, the Parent Company incorporated Xurpas Enterprise. Xurpas Enterprise was organized to primarily engage in the business of software development including designing, upgrading and marketing all kinds of information technology systems or parts thereof and other related services.

Xeleb Inc.

On July 14, 2015, the Parent Company incorporated Xeleb Inc., a mobile games company domiciled in the Philippines. Xeleb was organized primarily to design, develop, test, build, market, distribute, maintain, support, customize, sell and/or sell applications, games, software, digital solutions, whether internet, mobile or other handheld applications, portals, hardware and other related projects and services, except internet provider services, both for proprietary and custom development purposes.

Storm Technologies, Inc.

On October 27, 2016, the Parent Company acquired additional 3,735 common shares of Storm for ₱10.00 million. This brought the Parent Company's ownership from 51.52% to 56.60% of the outstanding capital stock of Storm and there was no change in control (see Note 23).

On August 12, 2016, Storm's BOD authorized the registration and/or use of the name "Storm Technologies, Inc." to replace its corporate name "Storm Flex Systems, Inc." and was approved by the SEC on December 27, 2016.

Art of Click Pte. Ltd.

On October 6, 2016, Xurpas signed a Share Purchase Agreement with Emmanuel Michael Jean Allix and Wavemaker Labs Pte. Ltd. (the "Sellers") for the acquisition of 100% stake in AOC for an aggregate consideration of ₱1.94 billion in cash and in Parent Company's shares (see Note 23).

AOC is engaged in the business of mobile media agency that offers a marketing platform for advertisers.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for amended PFRS and improvements to PFRS which were adopted beginning January 1, 2017. Adoption of these new standards and amendments did not have any significant impact on the consolidated financial position or performance unless otherwise indicated.

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

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

Adoption of these amendments did not have any impact on the Group's consolidated financial statements.



- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows*, Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Group has provided the required information in Note 29 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Adoption of these amendments did not have any impact on the Group's consolidated financial statements.

Standards and Interpretation Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Group does not expect that the future adoption of the said pronouncements to have a significant impact on the consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

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

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

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

The Group has assessed that the adoption of these amendments will not have any impact on the 2018 consolidated financial statements.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not



compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the mandatory effective date and is currently assessing the potential impact of adopting PFRS 9 in 2018.

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date and is currently assessing the potential impact of adopting PFRS 15 in 2018.

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

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.



The Group has assessed that the adoption of these amendments will not have any impact on the 2018 consolidated financial statements.

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

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

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

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

Effective beginning on or after January 1, 2019

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

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

The Group plans to adopt the new amendments on the mandatory effective date and is currently assessing the potential impact of adopting PFRS 9.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar



to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

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

The Group is currently assessing the impact of adopting PFRS 16.

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

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

The Group has assessed that the adoption of these amendments will not have any impact on the 2018 consolidated financial statements since the Group's investments in associates are accounted for using equity method.

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

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

The interpretation specifically addresses the following:

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



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

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

Standards and Interpretation with Deferred Effectivity

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

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

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

Cash

Cash includes cash on hand and in banks.

Fair Value Measurement

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (see Note 27).

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instrument

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at FVPL.

The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity investments (HTM), AFS investments and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As at December 31, 2017 and 2016, the Group's financial instruments are of the nature of loans and receivables, financial assets at FVPL, AFS financial assets and other financial liabilities.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the profit or loss (interest income or interest expense and other financing charges accounts) unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets at FVPL

Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.



Derivatives embedded in the host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at FVPL. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVPL.

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative that would need to be separately recorded.

Financial assets at FVPL are recorded in the consolidated statements of financial position at fair value, with changes in the fair value recorded in other income under “Other income (charges)” account in the consolidated statements of comprehensive income.

As at December 31, 2016, the Group holds its investment in Unit Investment Trust Fund (UITF) Security Bank (SB) Peso money market fund as held for trading and classified these as financial assets at FVPL (see Note 5).

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. This accounting policy relates to cash, accounts and other receivables (except for advances to employees which are subject to liquidation), refundable deposits under other current assets, and cash bond under other noncurrent assets in the consolidated statements of financial position.

After initial measurement, accounts and other receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in interest income under “Other income (charges)” account in the consolidated statements of comprehensive income. The losses arising from impairment of such loans and receivables are recognized in the profit or loss as “Provision for impairment losses” under “General and administrative expenses” account. Accounts and other receivables is included in current assets if maturity is within 12 months from the reporting date.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified or designated as financial assets at FVPL, HTM financial assets, or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets include convertible notes and equity investments.



After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in “Net unrealized gain (loss) on available-for-sale financial assets” in the consolidated statements of comprehensive income until the investment is derecognized, at which time the cumulative gain or loss is recognized in other comprehensive income, or determined to be impaired, at which time the cumulative loss is recognized in the profit or loss and removed from unrealized gain or loss on AFS financial assets. AFS financial assets which are not quoted are subsequently carried at cost less allowance for impairment losses.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

When the security is disposed of, the cumulative gain or loss previously recognized in changes in equity is recognized as “Other income” in the profit or loss. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets is reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the profit or loss when the right to receive payment has been established. The losses arising from impairment of such financial assets are recognized as “Provision for impairment losses” in the profit or loss.

The Group’s AFS financial assets pertain to convertible notes and quoted and unquoted equity securities. AFS financial assets are included in current assets if expected to be realized within 12 months from the reporting date.

Other financial liabilities

Other financial liabilities pertains to issued financial instruments that are not classified or designated at FVPL and contains contractual obligations to deliver cash or another financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Group’s “Accounts and other payables” (except “Taxes payable”, “Deferred output VAT” and statutory payables included as “Others”), “Loans payable”, “Liability for written put option”, “Payable to former shareholders of a subsidiary”, “Finance lease liability” and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Impairment of Financial Assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.



Loans and receivables

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Accounts receivable, together with associated allowance accounts, are written off when there is no realistic prospect of the future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, credit history, past-due status and terms.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

AFS financial assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss - is removed from other comprehensive income and recognized in profit or loss as "Miscellaneous" under "General and administrative expenses" account. Impairment losses on equity investments are not reversed through the profit or loss. Increases in fair value after impairment are recognized directly in "Unrealized gain or loss on available-for-sale financial assets" in other comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows



for the purpose of measuring impairment loss and is recorded as part of “Interest income” account in the profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the loss.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- a. the right to receive cash flows from the asset have expired;
- b. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- c. the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a ‘pass-through’ arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Group’s statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Investments in Associates

The Group’s investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

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

An investment is accounted for using the equity method from the day it becomes an associate. On acquisition of investment, the excess of the cost of investment over the investor’s share in the net fair value of the associate’s identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized. Any excess of the investor’s share of the net fair value of the associate’s identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the associate.



Under the equity method, the investment in an associate is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the associate, less any impairment in values. The consolidated statement of comprehensive income reflects the share of the results of the operations of the associate company. The Group's share of post-acquisition movements in the associate's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Group and the associate company are eliminated to the extent of the interest in the associate company and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when their investment in an associate is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associate. When the associate subsequently reports net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

Inventories

Inventories are stated at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price and other directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. It excludes the cost of day-to-day servicing.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the property and equipment which are as follows:

	Years
Transportation equipment	3 to 5
Office equipment	2 to 4
Information technology (IT) equipment	2 to 4
Furniture and fixtures	2 to 5
Leased asset	3 to 5
Leasehold improvements	Useful life or lease term, whichever is shorter



The estimated residual values, useful life and depreciation and amortization method are reviewed at least annually to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

If there is an indication that there has been a significant change in depreciation and amortization rate or the useful lives, the depreciation of that property and equipment is revised prospectively to reflect the new expectations.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged against current operations.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

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

The estimated useful lives of intangible assets follow:

	Years
Customer relationships	Indefinite
Leasehold rights	7
Developed software	5 - 8

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.



Research and Development Costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of goods sold.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any noncontrolling interests in the acquiree. For each business combination, the Group elects whether to measure the noncontrolling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument, is measured at fair value with changes in fair value recognized either in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.



After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

When goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Noncontrolling Interests

In a business combination, as of the acquisition date, the Group recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. There is a choice of two measurement methods for those components of noncontrolling interests that are both present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of a liquidation. They can be measured at:

- a. acquisition-date fair value (consistent with the measurement principle for other components of the business combination); or
- b. at their proportionate share of the value of net identifiable assets acquired.

Written put option over NCI

Any put option granted to noncontrolling interests gives rise to a financial liability measured at fair value, which will be the present value of the redemption amount. The Group's accounting policy on financial instruments applies for the subsequent measurement of the financial liability.

The Group assesses whether the terms and conditions of the option give the acquirer present access to the ownership interest in the share subject to the put option. Factors that indicate that the NCI put provides a present ownership interest include:

- a. pricing - to the extent that the price is fixed or determinable, rather than being at fair value;
- b. voting rights and decision-making - to the extent that the voting rights or decision-making connected to the shares concerned are restricted;
- c. dividend rights - to the extent that the dividend rights attached to the shares concerned are restricted; and
- d. issue of call options - a combination of put and call options, with the same period of exercise and same/similar pricing indicates that the arrangement is in the nature of a forward contract.



If it is concluded that the acquirer has a present ownership interest in the shares concerned, the put option is accounted for as an acquisition of the underlying shares, and no noncontrolling interest is recognized.

When the terms of the transaction do not provide a present ownership interest, the noncontrolling interests continues to be recognized within equity until the NCI put is exercised. The carrying amount of noncontrolling interest changes due to allocations of profit or loss, changes in other comprehensive income and dividends declared for the reporting period. The financial liability for the put option is recognized through a debit made to “Equity reserve”, a component of equity attributable to the Parent Company.

If the put option is exercised, the entity accounts for an increase in its ownership interest. At the same time, the entity derecognizes the financial liability and recognizes an offsetting credit in the same component of equity reduced on initial recognition.

If the put option expires unexercised, the financial liability is reclassified to the same component of equity that was reduced on initial recognition.

Combinations of Entities under Common Control

Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method is generally considered to involve the following:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity under the “Equity reserve” account.

Impairment of Nonfinancial Assets

The Group assesses at each financial reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each financial reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss



unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments in associates

The Group also determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount and the carrying value of the associate company and recognizes the difference in profit or loss.

In assessing impairment indicators, the Group considers, as a minimum, the following indicators:

(a) dividends exceeding the total comprehensive income of the associate in the period the dividend is declared; or (b) the carrying amount of the investment in the separate financial statements exceeding the carrying amount of the associate's net assets, including goodwill.

Intangible assets with indefinite useful life

Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level and when circumstances indicate that the carrying value may be impaired.

Impairment of goodwill

For assessing impairment of goodwill, a test of impairment is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGUs is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Equity

Capital stock and additional paid-in capital

Capital stock is measured at par value for all shares issued. When the shares are sold at premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital". When the shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. The costs of an equity transaction that is abandoned are recognized as an expense.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.



Retained earnings

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policy and other capital adjustments.

Unappropriated retained earnings

Unappropriated retained earnings represent the portion of retained earnings that is free and can be declared as dividends to stockholders.

Appropriated retained earnings

Appropriated retained earnings represent the portion of retained earnings which has been restricted and therefore is not available for dividend declaration.

Equity reserve

Equity reserve represents:

- (a) a portion of equity against which the recognized liability for a written put option was charged;
- (b) a portion of equity against which payments to a former shareholder of a subsidiary was charged;
- (c) gains or losses resulting from increase or decrease in ownership without loss of control; and
- (d) difference between the consideration transferred and the net assets acquired in common control business combination.

Stock dividends

A stock dividend is considered to be small if the new shares being issued are less than 20-25% of the total number of shares outstanding prior to the stock dividend. On the declaration date of a small stock dividend, the dividend recorded is equal to market value of the shares being issued.

A stock dividend is considered to be large if the new shares being issued are more than 20-25% of the total value of shares outstanding prior to the stock dividend. On the declaration date of a large stock dividend, the dividend recorded is equal to the par value of the shares being issued.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, and sales taxes, if any. The Group assesses its revenue recognition arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group is acting as principal in all arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Service income

Service income consists of revenue from Value-Added Services (VAS), Business Process Outsourcing (BPO), and income earned for mobile solution and key platform maintenance and development services recognized by reference to the stage of completion of the transaction at the end of the reporting period in accordance with the service agreement.

VAS pertains to the Group's short services of mobile content application for telephone, internet, mobile and other forms of communication. BPO pertains to business outsourcing for technical support services and software developments.

Stage of completion of uncompleted contracts as the end of a reporting period are being determined based on the completion of proportion of work as indicated in the purchase orders or service agreement. Service income is recognized when the delivery of the products or services has occurred and collectability is reasonably assured. Advance payments made by customers on which services



have not yet been rendered are reflected as "Unearned revenue" under other current liabilities in the consolidated statements of financial position.

Sale of goods

Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of the consideration received or receivable, net of discounts and applicable taxes. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery and the amount of revenue can be measured reliably. Advance payments made by customers on which services have not yet been rendered are reflected as "Unearned revenue" under other current liabilities in the consolidated statements of financial position.

Interest income

Interest income is recognized as it accrues using the effective interest method.

Other income

Other income is recognized as it accrues.

Cost and Expenses

"Cost of services", "Cost of goods sold", and "General and administrative expenses" are expenditures recognized in the statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measure reliably. The following specific recognition criteria must also be met before costs and expenses are recognized:

Cost of services

Cost that includes all expenses associated with the specific sale of services. Cost of services include salaries, wages and employee benefits, utilities and communication, supplies and other expenses related to services. Such costs are recognized when the related sales have been recognized.

Cost of goods sold

Cost of goods sold consists of inventory costs related to goods which the Company has sold. Inventory costs include all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

General and administrative expenses

General and administrative expenses constitute expenses of administering the business and are recognized in profit or loss as incurred.

Leases

Group as lessee

Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Finance lease

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of minimum lease payments. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the assets or the respective lease terms.



Income Tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

Deferred tax

Deferred tax is provided using the balance sheet method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investment in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and NOLCO can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investment in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will not reverse in the foreseeable future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic associates and interests in joint ventures.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the financial reporting date. Movements in deferred tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

Deferred tax relating to items outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.



Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

Value-Added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of sales tax except:

- Where the tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the tax authority is included as part of other current assets or payables in the consolidated statement of financial position.

Pensions and other long-term employee benefits

The net pension liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any).

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. Defined benefit costs comprise the following:

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Net interest on the net defined benefit liability or asset is recognized as expense or income in the profit or loss.

Remeasurements comprising actuarial gains and losses are recognized immediately in the statements of financial position with a corresponding debit or credit through other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.



The Group also provided other long-term employee benefit obligations to an employee of a subsidiary as remuneration for the services provided by the employee to the subsidiary, which are to be settled in cash. A liability and expense for the long-term employee benefit is recognized when the services have been rendered and is amortized during the period of entitlement.

Foreign Currency Transactions

The Group's consolidated financial statements are presented in Philippine Peso, which is also the Parent Company and the subsidiaries' functional currency, except for AOC and Storm Indonesia which are US dollar and Indonesian Rupiah, respectively. The Philippine peso is the currency of the primary economic environment in which the Parent Company operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions denominated in foreign currencies are initially recorded in Philippine Peso at the exchange rate at the date of transaction. Foreign currency-denominated monetary assets and liabilities are retranslated at the closing rate at reporting date. Exchange gains or losses arising from foreign currency transactions are recognized in profit or loss.

Earnings per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to common stockholders of the parent by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year attributable to common stockholders of the parent by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares, if any.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services and serves different markets. Financial information on business segments is presented in Note 28 to the consolidated financial statements.

Provisions

Provisions are recognized when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

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

Events after the Reporting Period

Post year-end events up to date when the consolidated financial statements are authorized for issue that provide additional information about the Group's position at the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.



Information on events after the reporting period is presented in Note 31 to the consolidated financial statements.

3. Significant Accounting Judgments and Estimates and Assumptions

The preparation of the accompanying consolidated financial statements in compliance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments and estimates used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

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

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Group's financial statements.

a. Determination of control over investment in subsidiaries

The Group determined that it has control over its subsidiaries by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following were also considered:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual agreements
- The Group's voting rights and potential voting rights

b. Existence of significant influence over associates

The Group determined that it exercises significant influence over its associates (see Note 9) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee) and board representation.

c. Capitalization of development costs

The Group determined that intangible assets arising from development qualify for recognition by determining that all of the following are present:

- i. The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- ii. Intention to complete and its ability and intention to use or sell the asset;
- iii. How the asset will generate future economic benefits;
- iv. The availability of resources to complete the asset; and
- v. The ability to measure reliably the expenditure during development.



d. Determination of identifiable intangible assets acquired through business combination

The Group determined that there are identifiable intangible assets to be recognized as result of business combination by considering, among others, the separability or contractual-legal criterion.

The following are the intangible assets acquired through business combinations:

- i. *Customer Relationship* - pertains to Yondu's noncontractual and contractual agreements with Globe Telecommunications, Inc. (GTI), its major customer, which are expected to generate revenues for the Group in subsequent periods
- ii. *Developed Software* - pertains to telecommunications equipment software licenses, corporate application software and licenses, proprietary mobile campaign platform, and other VAS software applications that are not integral to the hardware or equipment
- iii. *Leasehold rights* - pertains to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination

e. Present ownership over underlying shares in written put option

The Group determined that it does not have present ownership over the underlying shares in written put option by considering, among others, the voting rights, decision making rights and dividend rights attached to the shares.

f. Indefinite useful life of customer relationships

The Group has determined that the recognized customer relationships has an indefinite useful life based on GTI's current relationship with the Group and expected future cash-inflows from contracts with GTI.

Management's Use of Estimates

The key assumptions concerning future and other key sources of estimation uncertainty at the 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.

a. Evaluating impairment of goodwill and intangible assets with indefinite useful lives

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less cost of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a Discounted Cash Flow (DCF) model.

The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the growth rates, earnings before interest, taxes, depreciation and amortization (EBITDA) margins, working capital and capital expenditures used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognized by the Group.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level and when circumstances indicate that the carrying value may be impaired.



The carrying values of these nonfinancial assets follow:

	2017	2016 (As restated)
Goodwill (Notes 11 and 23)	₱2,544,617,520	₱2,544,617,520
Customer relationship (Notes 11 and 23)	1,077,809,700	1,077,809,700
	₱3,622,427,220	₱3,622,427,220

b. Fair value measurement of intangible assets resulting from business combination

Intangible assets resulting from business combinations are valued at fair value at the acquisition date as part of the business combination. Valuation techniques are used to determine the fair value of the intangible assets. Valuation techniques include multi-period excess earnings method (MEEM), “premium profits” method and the “relief from royalty” method. The table below summarizes the carrying amounts of the intangible assets as of December 31, 2017 and the related valuation techniques used to determine fair value at the acquisition date for business combinations in 2015 and 2016. There are no business combinations in 2017.

	Intangible Asset	Valuation Technique	Carrying Value
Yondu	Customer relationships	MEEM	₱1,077,809,700
	Developed software	MEEM	67,196,538
	Leasehold rights	Premium profits method	8,152,333
Storm	Leasehold rights	Premium profits method	2,438,158
Seer	Leasehold rights	Premium profits method	677,704
		Relief from royalty	
AOC	Developed software	method	46,131,671
			₱1,202,406,104

The fair values of the intangible assets identified are sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for determining terminal values. The growth rate is most relevant to the customer relationship intangible asset which is determined to have an indefinite useful life.

Discount rates used are risk-adjusted asset-specific discount rates considering information such as the reliance of the administration of the asset on the ongoing operation of the acquiree, the relative risk of the asset in relation to the acquiree’s other assets and the relative risk of the asset in relation to the acquiree’s overall risk.

Below are the significant inputs used in the estimation of the fair value that are not observable in the market:

- Assumed discount rate for and customer relationships and developed software ranging from 14.46% to 28.50%
- Assumed discount rate for leasehold rights range from 5.60% to 14.67%
- Terminal value, calculated based on long-term sustainable growth rates for the industry at 3%

Expected future cash inflows used for the determination of fair value do not consider the effects of any significant future investments or modification in the state of the developed software as of acquisition date which may enhance the asset’s performance.

It is possible that future results of operations could be materially affected by changes in estimates or in the effectiveness of the Group’s strategies in utilizing such intangible assets.



c. Provisions and contingencies

The Group is currently involved in assessments for national taxes. The estimate of the probable costs for the resolution of these assessments has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these assessments will have a material effect on the Group's consolidated financial position and results of operations.

d. Estimating allowance for impairment losses

The Group estimates the level of allowance for impairment losses on trade receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include among others, the length of the relationships with the customers, customers' payment behavior, known market factors, age and status of receivables. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

The amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

As of December 31, 2017 and 2016, allowance for impairment losses on accounts and other receivables amounted to ₱113.79 million and ₱1.88 million, respectively (see Note 6). Accounts and other receivables, net of allowance for impairment losses, amounted to ₱845.67 million and ₱956.90 million as at December 31, 2017 and 2016, respectively (see Note 6).

e. Recognizing deferred tax assets

The Group reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the subsidiaries of the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized. The Group looks at its projected performance in the sufficiency of future taxable income.

The Group recognized gross deferred tax assets amounting to ₱122.77 million and ₱69.50 million as at December 31, 2017 and 2016, respectively (see Note 21).

4. Cash

This account consists of:

	2017	2016
Cash on hand	₱385,595	₱8,113,051
Cash in banks	214,868,915	420,404,602
	₱215,254,510	₱428,517,653

Cash in banks earn interest at the prevailing bank deposit rates.

Interest income earned from cash in banks amounted to ₱1.59 million, ₱3.03 million and ₱9.43 million in 2017, 2016 and 2015, respectively (see Note 18).



5. Financial Assets at Fair Value through Profit or Loss

The Group invested in the SB Peso Money Market Fund (the Fund). The Fund, which is structured as a money market UITF, aims to generate liquidity and stable income by investing in a diversified portfolio of primarily short-term fixed income instruments. As of December 31, 2017 and 2016, the fair value of the Group's total investment in the Fund follows:

	2017	2016
Beginning	₱335,915,489	₱80,317,867
Additions	—	2,520,000,000
Redemptions	(338,131,778)	(2,270,154,282)
Unrealized gains	—	915,489
Realized gains	2,216,289	4,836,415
	₱—	₱335,915,489

The fair value of the investment in UITF is ₱128.15 NAV per unit as at December 31, 2016 and is determined using valuation techniques. This valuation technique maximizes the use of observable market data where it is available such as quoted market prices or dealer quotes for similar instruments. Thus, the fair value measurement is categorized under Level 2 of fair value hierarchy (Note 27).

For the year ended December 31, 2017 and 2016, the Group recognized realized gain from redemption of financial assets at FVPL under "Other income (charges)" amounting to ₱2.22 million and ₱4.84 million, respectively (see Note 18).

6. Accounts and Other Receivables

This account consists of:

	2017	2016
Trade receivables	₱933,361,381	₱933,663,242
Advances to employees	5,159,944	7,952,381
Receivable from related parties (Note 20)	7,490,000	43,990
Others	13,449,238	17,126,242
	959,460,563	958,785,855
Less: Allowance for impairment losses	113,794,109	1,883,443
	₱845,666,454	₱956,902,412

Trade receivables arise mainly from the mobile content development services rendered by the Group to its major customer, GTI, and other telecommunication companies. These are noninterest-bearing and are generally settled on a 30- to 60-day term. As of December 31, 2017 and 2016, the Group's receivables from GTI amounted to ₱540.96 million and ₱401.16 million, respectively, which comprise 58% and 43%, respectively, of the total gross trade receivables (see Note 27).

Advances to employees mainly pertain to advances which are subject to liquidation. These also include noninterest-bearing salary loans made by the employees and are collectible in one year.

Receivable from related parties are noninterest-bearing and are due and demandable.

Others are noninterest-bearing and are generally collectible within one year.



The table below shows the movements in the provision for impairment losses of trade receivables:

	2017	2016
At beginning of year	₱1,883,443	₱3,487,562
Provisions (Note 17)	106,539,273	387,325
Write-off	(3,296,697)	(1,991,444)
Translation adjustments	8,668,090	—
	₱113,794,109	₱1,883,443

7. Available-for-Sale Financial Assets

This account consists of:

	2017	2016
Balance at beginning of year	₱152,973,079	₱85,617,079
Additions during the year	6,000,000	67,296,000
Unrealized gain on AFS financial asset	80,000	60,000
	159,053,079	152,973,079
Less: Current portion	—	108,428,123
	₱159,053,079	₱44,544,546

In 2017, the Group reclassified AFS financial assets from current assets to noncurrent assets to reflect management's intention on these investments as of December 31, 2017.

The rollforward analysis of net unrealized loss on AFS financial assets follow:

	2017	2016
Balance at beginning of year	(₱150,000)	(₱210,000)
Unrealized gain on AFS financial asset	80,000	60,000
Balance at end of year	(₱70,000)	(₱150,000)

Unrealized gain on AFS financial asset is recognized under "Other comprehensive income" in the consolidated statements of comprehensive income.

Carrying amount of the investments in AFS financial assets as of December 31, 2017 and 2016 are as follow:

	2017	2016
Quoted shares		
Club Punta Fuego	₱380,000	₱300,000
Unquoted equity investment		
Zowdow Inc.	44,244,956	44,244,956
Unquoted debt investments		
MatchMe Pte. Ltd.	52,495,000	52,495,000
Altitude Games Pte. Ltd.	28,856,000	28,856,000
Einsights Pte. Ltd.	23,475,000	23,475,000
Social Light Inc.	6,000,000	—
Pico Candy Pte. Ltd.	3,602,123	3,602,123
	₱159,053,079	₱152,973,079



The quoted shares are categorized under the Level 2 of the fair value hierarchy. The unquoted equity and debt investments are categorized under Level 3 (Note 27).

Quoted equity investments

Quoted equity instruments consist of investment in golf club shares.

Unquoted equity investments

In April 2015, the Group acquired 666,666 shares of Series A Preferred Stock of Zowdow Inc. (“Zowdow”), formerly Quick.ly, Inc. (“Quick.ly”), at a purchase price of \$1.50 per share for a total investment of US\$999,999 or ₱44.24 million. As at December 31, 2017 and 2016, the Group holds a 3.56% ownership of Zowdow on a fully-diluted basis.

Fair value of unquoted equity investments was determined using prices from recent sales at arm’s length transaction. No unrealized gain or loss was recognized for these investments in 2017, 2016, and 2015 (Note 27).

Unquoted debt investments

MatchMe Pte. Ltd.

On November 2, 2015, the Group acquired a convertible promissory note for US\$300,000 (₱14.06 million) issued by MatchMe Pte. Ltd. (“MatchMe”), an associate of the Group based in Singapore (Note 9). On February 11, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US\$500,000 (₱23.89 million). On October 7, 2016, the Group acquired additional convertible promissory note issued by MatchMe for US\$300,000 (₱14.55 million).

Altitude Games Pte. Ltd.

On January 19, 2016, the Group purchased a convertible promissory note for US\$400,000 (₱19.26 million) issued by Altitude Games Pte. Ltd. (“Altitude Games”), an associate of the Group. On September 21, 2016, the Group acquired additional convertible promissory note for US\$200,000 (₱9.60 million) issued by Altitude Games.

Einsights Pte. Ltd.

On September 30, 2015, the Group purchased a convertible promissory note for US\$500,000 (₱23.48 million) issued by Einsights Pte. Ltd. (“Einsights”), a Singapore-based technology solutions provider with operations in Singapore, Vietnam, Hong Kong, India, Australia, Canada and Switzerland.

Social Light Inc.

On December 13, 2017, the Group acquired a convertible promissory note for ₱6.00 million issued by Social Light, Inc. (“Social Light”), a local solutions provider in the marketing industry and was founded in 2013.

Pico Candy Pte. Ltd.

In August 2013, the Group invested in Pico Candy Pte. Ltd.’s convertible bonds amounting to SG\$0.10 million, which is equivalent to ₱3.60 million. Pico Candy Pte. Ltd. operates a digital sticker distribution platform. It was founded in 2013 and is based in Singapore.



8. Other Current Assets

This account consists of:

	2017	2016
Prepaid expenses	₱26,017,981	₱28,880,301
Input VAT	14,671,997	12,359,282
Creditable withholding tax	10,110,652	6,343,846
Deferred input VAT	6,895,163	4,806,549
Inventories	248,136	238,866
	₱57,943,929	₱52,628,844

Prepaid expenses mainly pertain to advances to contractors, deposits and advances to rentals and prepaid professional fees.

Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services.

Creditable withholding taxes pertain to prepaid taxes recognized at the amount withheld at source upon payment, and can be carried forward and claimed as tax credit against income tax due.

Deferred input VAT represents input VAT related to unpaid balances for the services availed by the Group. These will be recognized as input VAT and applied against output VAT upon payment. Any remaining balance is recoverable in future periods.

Inventories include purchases of goods to be sold. These are carried at cost.

9. Investments in Associates

This account consists of:

	2017	2016
Cost		
Balance at beginning of year	₱575,584,063	₱105,803,926
Additions during the year	—	469,780,137
Balance at end of year	575,584,063	575,584,063
Equity in net loss during the year		
Balance at beginning of year	(43,381,613)	(9,479,226)
Share in net losses during the year	(36,721,355)	(33,902,387)
Balance at end of year	(80,102,968)	(43,381,613)
Cumulative translation adjustment		
Balance at beginning of year	17,653,295	6,484,416
Movement during the year	2,528,551	11,168,879
Balance at end of year	20,181,846	17,653,295
	₱515,662,941	₱549,855,745



The Group's equity in the net assets of associates and the related percentages of ownership are shown below:

	Percentages of Ownership		Carrying Amounts	
	2017	2016	2017	2016
Micro Benefits Limited	23.53%	23.53%	₱427,067,861	₱457,273,937
MatchMe Pte. Ltd.	28.59	28.59	51,668,837	56,193,284
Altitude Games Pte. Ltd.	21.78	21.78	26,327,413	27,841,006
PT Sembilan Digital Investama	49.00	49.00	10,506,945	8,201,170
Altitude Games Inc.	21.17	21.17	91,885	346,348
			₱515,662,941	₱549,855,745

Micro Benefits Limited

On March 9, 2016, the Parent Company acquired 718,333 new Series C Preferred Shares equivalent to a 23.53% stake in Micro Benefits Limited ("Micro Benefits") for US\$10.00 million. Micro Benefits, a company registered in Hong Kong, is engaged in the business of providing employee benefits to Chinese workers through its operating company, Micro Benefits Financial Consulting (Suzhou) Co. Ltd., located in China.

MatchMe Pte. Ltd.

On March 30, 2015, the Parent Company acquired 1,000,000 ordinary shares of MatchMe, an international game development company based in Singapore, for a total consideration amounting to ₱60.47 million.

In 2016, MatchMe issued 325,385 common shares to various individuals which resulted in the decrease in the Parent Company ownership interest from 31.52% to 28.59%.

Altitude Games Pte. Ltd.

On December 11, 2014, the Parent Company acquired 11.76% stake for 13.33 million ordinary shares in Altitude Games, a Singaporean IT company engaged in computer game development and publishing. The Parent Company paid ₱17.98 million as consideration for the said investment.

On the same date, Mr. Nico Jose S. Nollado, a stockholder, assigned 11.36 million ordinary shares representing 10.02% ownership interest in Altitude Games pursuant to the Deed of Assignment with the Parent Company. Accordingly, the Parent Company recognized a payable to a stockholder amounting to ₱15.24 million from the said assignment which was subsequently paid in 2015.

As at the December 31, 2017 and 2016, the Parent Company owns 21.78% ownership interest in Altitude Games resulting from the said acquisitions. The Parent Company acquired a total of 24.69 million shares with par value of US\$0.01 per share for a total consideration of US\$740,800 or US\$0.03 per share.

PT Sembilan Digital Investama

On March 26, 2015, the Parent Company acquired 147 shares representing 49% shareholdings in PT Sembilan Digital Investama ("SDI") amounting to ₱10.83 million. The acquisition gave the Parent Company access to PT Ninelives Interactive, a mobile content and distribution company in Indonesia, which SDI owns.



Altitude Games Inc.

On July 22, 2015, the Parent Company subscribed to 211,656 shares of stock or 21.17% shareholdings in Altitude Games Inc. (“Altitude Philippines”), an affiliate of Altitude Games. Altitude Philippines engages in the business of development, design, sale and distribution of games and applications.

As of December 31, 2017 and 2016, there are no capital commitments relating to the Group’s interests in its associates.

The Parent Company considers an associate with material interest if its net assets exceed 5% of its total consolidated net assets of the Group as of reporting period and considers the relevance of the nature of activities of the entity compared to other operations of the Group. There are no significant restrictions on the Parent Company’s ability to use assets and settle liabilities of the Group.

Following is the significant financial information of the associate with material interest:

Micro Benefits

	2017	2016
Current assets	₱118,405,999	₱291,151,328
Noncurrent assets	125,783,623	80,108,343
Current liabilities	(6,757,117)	(11,622,772)
Noncurrent liabilities	(364,449,487)	(362,916,647)
Total equity	(127,016,982)	(3,279,748)
Proportion of Group’s ownership	23.53%	23.53%
Group’s share in identifiable net assets	(29,887,096)	(771,725)
Goodwill and changes in fair value of net assets	456,954,957	458,045,662
Carrying amount of the investment	₱427,067,861	₱457,273,937

No dividends were received in 2017 and 2016.

	2017	2016
Total revenue	₱75,965,086	₱54,961,560
Total expenses	215,879,654	157,388,334
Net loss/ Total comprehensive loss	(139,914,568)	(102,426,774)
Group’s share in net loss/ total comprehensive loss for the year	(32,921,898)	(24,101,020)

Aggregate financial information on associates with immaterial interest is as follows:

	2017	2016
Carrying amount	₱88,595,080	₱92,581,808
Group’s share of net losses for the year	(3,799,457)	(9,801,367)
Group’s share in total comprehensive loss	(3,799,457)	(9,801,367)



10. Property and Equipment

Rollforward of this account is as follows:

December 31, 2017

	Transportation Equipment	Office Equipment	IT Equipment	Furniture and Fixtures	Leasehold Improvements	Leased Asset	Total
Cost							
At beginning of year	₱3,696,444	₱8,515,567	₱26,790,279	₱11,373,737	₱55,704,738	₱4,667,410	₱110,748,175
Additions	—	3,074,609	18,027,657	952,160	4,329,302	1,112,000	27,495,728
Retirements and disposals	(3,575,908)	(587,610)	(1,278,425)	(9,880)	—	(811,800)	(6,263,623)
Translation adjustments	—	9,537	60,367	10,654	—	—	80,558
At end of year	120,536	11,012,103	43,599,878	12,326,671	60,034,040	4,967,610	132,060,838
Accumulated Depreciation and Amortization							
At beginning of year	3,658,040	7,242,377	2,543,175	3,741,228	10,656,937	2,378,655	30,220,412
Depreciation and amortization (Notes 16 and 17)	4,923	2,035,651	13,569,232	2,915,983	12,432,323	636,835	31,594,947
Retirements and disposals	(3,542,427)	(587,610)	(1,158,264)	(9,880)	—	(649,441)	(5,947,622)
Translation adjustments	—	7,700	30,065	9,705	—	—	47,470
At end of year	120,536	8,698,118	14,984,208	6,657,036	23,089,260	2,366,049	55,915,207
Net Book Value	₱—	₱2,313,985	₱28,615,670	₱5,669,635	₱36,944,780	₱2,601,561	₱76,145,631

December 31, 2016

	Transportation Equipment	Office Equipment	IT Equipment	Furniture and Fixtures	Leasehold Improvements	Leased Asset	Total
Cost							
At beginning of year	₱3,696,444	₱6,146,473	₱25,314,920	₱4,269,030	₱31,727,369	₱2,859,870	₱74,014,106
Additions through business combination (Note 23)	—	55,282	506,600	73,063	—	—	634,945
Additions	—	2,335,524	15,063,154	7,117,341	23,977,369	1,807,540	50,300,928
Disposals	—	(16,070)	(14,055,615)	(77,715)	—	—	(14,149,400)
Translation adjustments	—	(5,642)	(38,780)	(7,982)	—	—	(52,404)
At end of year	3,696,444	8,515,567	26,790,279	11,373,737	55,704,738	4,667,410	110,748,175
Accumulated Depreciation and Amortization							
At beginning of year	3,282,916	5,600,230	2,018,401	2,082,183	2,116,068	730,364	15,830,162
Depreciation and amortization (Notes 16 and 17)	375,124	1,651,521	12,402,831	1,659,045	8,540,869	1,648,291	26,277,681
Disposals	—	(9,374)	(11,878,057)	—	—	—	(11,887,431)
At end of year	3,658,040	7,242,377	2,543,175	3,741,228	10,656,937	2,378,655	30,220,412
Net Book Value	₱38,404	₱1,273,190	₱24,247,104	₱7,632,509	₱45,047,801	₱2,288,755	₱80,527,763



Depreciation and amortization for the years ended December 31, 2017 and 2016 are charged as follows:

	2017	2016
Cost of services (Note 16)	₱863,862	₱1,064,453
General and administrative expenses (Note 17)	30,731,085	25,213,228
	₱31,594,947	₱26,277,681

The Group retired and disposed property and equipment with cost amounting to ₱6.26 million for a loss of ₱0.32 million in 2017 and ₱14.07 million for a gain of ₱0.62 million in 2016 recognized under “Other income (charges) - net” account.

The Group’s fully depreciated property and equipment with aggregate cost of ₱38.14 million and ₱18.93 million are still in use as at December 31, 2017 and 2016, respectively.

There were no capitalized interest as at December 31, 2017 and 2016.

11. Intangible Assets

This account consists of:

December 31, 2017

	Goodwill	Customer Relationship	Developed Software	Leasehold Rights	Total
Cost					
At beginning of year, as previously reported	₱2,043,384,111	₱1,077,809,700	₱125,565,895	₱17,378,812	₱3,264,138,518
Adjustment as a result of the finalization of the purchase price allocation (see Note 23)	501,233,409	—	61,508,895	—	562,742,304
At beginning of year, as restated	2,544,617,520	1,077,809,700	187,074,790	17,378,812	3,826,880,822
Additions during the year	—	—	10,571,807	—	10,571,807
At end of year	2,544,617,520	1,077,809,700	197,646,597	17,378,812	3,837,452,629
Accumulated amortization					
At beginning of year, as previously reported	—	—	21,488,276	3,627,929	25,116,205
Adjustment as a result of the finalization of the purchase price allocation (see Note 23)	—	—	3,075,445	—	3,075,445
At beginning of year, as restated	—	—	24,563,721	3,627,929	28,191,650
Amortization (Note 16)	—	—	32,898,186	2,482,687	35,380,873
At end of year	—	—	57,461,907	6,110,616	63,572,523
Net Book Value	₱2,544,617,520	₱1,077,809,700	₱140,184,690	₱11,268,196	₱3,773,880,106



December 31, 2016 (As restated)

	Goodwill	Customer Relationship	Developed Software	Leasehold Rights	Total
Cost					
At beginning of year	₱687,808,790	₱1,077,809,700	₱111,123,483	₱17,378,812	₱1,894,120,785
Additions through business combination (Note 23)	1,856,808,730	—	61,508,895	—	1,918,317,625
Additions during the year	—	—	14,442,412	—	14,442,412
At end of year	2,544,617,520	1,077,809,700	187,074,790	17,378,812	3,826,880,822
Accumulated amortization					
At beginning of year	—	—	4,693,062	1,145,242	5,838,304
Amortization (Note 16)	—	—	19,870,659	2,482,688	22,353,347
At end of year	—	—	24,563,721	3,627,930	28,191,651
Net Book Value	₱2,544,617,520	₱1,077,809,700	₱162,511,069	₱13,750,882	₱3,798,689,171

Goodwill

Goodwill pertains to excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

Customer Relationship

Customer relationship pertains to Yondu's noncontractual and contractual agreements with GTI, its major customer, which are expected to generate revenues for the Group in subsequent periods.

Developed Software

Developed software pertain to telecommunications equipment software licenses, corporate application software and licenses and other VAS software applications that are not integral to the hardware or equipment.

Leasehold Rights

Leasehold rights pertain to cost savings arising from lower than market rate rental in the lease contracts acquired through business combination.

The amortization expense of intangible assets recognized in "Depreciation and amortization" under "Cost of services" in the consolidated statements of comprehensive income amounted to ₱35.38 million and ₱22.35 million in December 31, 2017 and 2016, respectively (see Note 16).

Impairment testing of goodwill and customer relationships with indefinite useful life

Goodwill and customer relationship acquired through business combinations were reviewed to look for any indication that an asset may be impaired. The Group used a discounted cash flow analysis to determine value-in-use. Value-in-use reflects an estimate of the future cash flows the Group expects to derive from the cash-generating unit, expectations about possible variations in the amount or timing of those future cash flows, the time value of money and the price for bearing the uncertainty inherent in the asset. The calculation of the value-in-use is based on reasonable and supportable assumptions, the most recent budgets and forecasts approved by management covering a five-year period. Management determined the financial budgets based on past performance and its expectations for market development.

Key Assumptions Used in Value-in-Use Calculations

Key assumptions used to determine the value-in-use are discount rates including cost of debt and cost of capital, growth rates, EBITDA margins, working capital and capital expenditure.



- Discount rate*

The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group used discount rates based on the industry's weighted average cost of capital (WACC). The rates used to discount the future cash flows are based on risk-free interest rates in the relevant markets where the subsidiaries are domiciled taking into consideration the debt premium, market risk premium, gearing, corporate tax rate and asset betas of these subsidiaries. In 2017 and 2016, management assumed discount rates of 14.01% to 20.28% and 9.4% to 16.0%, respectively.
- Growth rate*

Average growth rates in revenues are based on the Group's expectation of market developments and the changes in the environment in which it operates. The Group uses revenue growth rates based on past historical performance as well as expectations on the results of its strategies. On the other hand, the perpetual growth rate used to compute for the terminal value is based on the forecasted long-term growth of real gross domestic product (GDP) of the economy in which the business operates.
- EBITDA margin*

The EBITDA margin represents the operating margin before depreciation and amortization and is estimated based on the margin achieved in the period immediately before the budget period and on estimated future development in the market. Committed operational efficiency programs are taken into consideration.
- Capital expenditure*

In computing the value-in-use, estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits expected to arise from the asset in its current condition. Capital expenditures that improve or enhance the asset's performance therefore are not included.

Management recognizes that unfavorable conditions can materially affect the assumptions used in the determination of value-in-use. An increase of 10.5% to over 100.0% discount rates, or a reduction of growth rates of 20.0% to over 100.0% would give a value-in-use equal to the carrying amount of the cash generating units in 2017.

Impairment testing of goodwill

Goodwill acquired through business combinations pertain to the subsidiaries acquired during the year.

Allocation of goodwill to the CGUs is as follows:

	2017	2016 (As restated)
Art of Click Pte. Ltd.	₱1,856,808,730	₱1,856,808,730
Yondu, Inc. mobile consumer services (Yondu VAS)	334,937,958	334,937,958
Yondu, Inc. knowledge process outsourcing (Yondu BPO)	205,209,959	205,209,959
Storm Technologies, Inc.	134,161,688	134,161,688
Seer Technologies, Inc.	13,499,185	13,499,185
	₱2,544,617,520	₱2,544,617,520



The recoverable amounts have been based on value-in-use calculations using cash flow projections from forecasts provided by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a steady growth rates of 3% to 6%.

In 2017 and 2016, no impairment loss was recognized for the goodwill recognized from the business combinations.

Impairment testing of customer relationships

The recoverable amount of customer relationships was determined based on a value-in-use calculation using cash flow projections from financial budgets covering a five-year period. The pre-tax discount rate applied to the cash-flow projections is 16.9% and 15.1% in 2017 and 2016, respectively. The growth rate used to extrapolate the cash flows beyond the five-year period is 6%. The growth rate is based on the long-term sustainable growth rates for the industry.

In 2017 and 2016, no impairment loss was recognized for the customer relationships.

12. Accounts and Other Payables

This account consists of:

	2017	2016
Trade payables	₱218,584,771	₱257,608,036
Payable to related parties (Note 20)	102,534,280	27,812,097
Deferred output VAT	62,546,030	55,595,725
Taxes payable	29,000,225	31,373,312
Accrued expenses		
Salaries and wages	18,847,919	10,411,650
Network cost	14,007,254	5,905,291
Royalty	9,337,974	9,126,274
Rent	5,870,291	4,662,747
Provision for probable loss (Note 30)	5,603,697	5,603,697
Utilities	1,801,970	—
Professional fees	1,573,099	2,031,480
Transportation	563,715	—
Others	2,998,284	48,082
Others	19,838,913	3,547,256
	₱493,108,422	₱413,725,647

Trade payables represent the unpaid subcontracted services and other cost of services to third parties. These are noninterest-bearing and are normally settled within one year.

Deferred output VAT represents deferral of output VAT related to trade receivables for the services rendered by the Group. These will be recognized as output VAT and applied against input VAT upon receipt of payment.

Taxes payable include output VAT after application of available input VAT and expanded withholding tax on payment to suppliers and employees' compensation which are settled within one year.



Accrued expenses mainly consist of accruals for salaries, professional fees, utilities, transportation and travel, rent, outsourced services and royalty. These are noninterest-bearing and are normally settled within one year.

Others consist of statutory payables to SSS, Philhealth and HDMF. These are noninterest-bearing and are normally settled within one year.

13. Loans Payable

In 2017, the Group availed ₱407.42 million short-term, unsecured and interest bearing 30- to 360-day term loans from different local banks, with interest rates of 4.00 to 5.8125% per annum. As of December 31, 2017, the total outstanding loans payable amounted to ₱377.42 million.

In 2016, the Group availed from a local bank short-term notes payable amounting to ₱3.00 million. As of December 31, 2016, total outstanding loans payable amounted to ₱17.00 million, with interest rates of 6.00 to 6.75% per annum. These loans are secured by trade receivables equivalent to the outstanding balances of the loans. As at December 31, 2016, the Group classified ₱3.00 million loans payable under current liabilities which is due within one year. These loans were settled in 2017.

Interest expense recognized in the consolidated statements of comprehensive income in 2017, 2016 and 2015 amounted to ₱5.90 million, ₱1.49 million and ₱0.93 million, respectively (see Note 18).

There were no undrawn loan commitments, transaction costs and interest expenses capitalized in 2017, 2016 and 2015.

14. Other Current Liabilities

This account consists of:

	2017	2016
Dividends payable	₱38,152,639	₱116,486,508
Unearned revenues	37,830,783	9,803,002
Finance lease liability (Note 19)	1,188,930	1,426,090
	₱77,172,352	₱127,715,600

Dividends payable pertain to amount payable to the previous stockholders of Xeleb Technologies, Seer Technologies, Yondu and AOC for dividends declared before the Parent Company acquired the shares of these subsidiaries.

Unearned revenues pertain to amounts received from clients from which the Group will obtain funds to finance the goods purchased by the clients' employees. This account also includes advance payments made by customers and clients on which goods and services are yet to be delivered.



15. Service Income

Service income, amounting to ₱2,009.55 million, ₱1,896.46 million and ₱824.02 million in 2017, 2016 and 2015, respectively, pertain to revenues earned from mobile consumer products and services, mobile enterprise services and knowledge process outsourcing rendered by the Group to its major customer, GTI, and other telecommunication companies.

In 2017, 2016 and 2015, the Group's revenue from GTI amounted to ₱1,170.10 million, ₱1,315.22 million and ₱611.89 million, respectively, which comprise approximately 58%, 69% and 74%, respectively, of the total service income of the Group.

16. Cost of Services

Cost of services consists of the following:

	2017	2016 (As restated)	2015
Salaries, wages and employee benefits	₱639,940,780	₱486,897,470	₱164,987,938
Outsourced services (Note 20)	463,381,883	368,534,252	36,539,184
Royalty fees (Note 19)	81,309,693	48,444,694	14,034,071
Segment fee and network costs	71,145,105	97,065,281	55,099,561
Web hosting	50,553,473	47,846,951	12,045,737
Depreciation and amortization (Notes 10 and 11)	36,244,735	23,417,800	7,413,343
Rent (Note 19)	11,228,412	8,383,837	6,257,375
Consultancy fees	8,605,350	6,496,179	3,367,551
Utilities	1,887,804	6,016,390	2,813,955
Prizes and winnings	1,389,406	1,649,132	1,600,216
Commissions	806,937	184,734	1,250,000
Seminar and trainings	215,284	37,940	615,304
Transportation and travel	—	3,169,465	2,210,915
Miscellaneous	6,705,642	3,751,474	6,459,376
	₱1,373,414,504	₱1,101,895,599	₱314,694,526

17. General and Administrative Expenses

This account consists of:

	2017	2016	2015
Salaries, wages and employee benefits	₱163,022,037	₱126,487,520	₱66,933,067
Provision for impairment losses (Note 6)	106,539,273	387,325	3,487,562
Professional fees	48,025,457	43,306,503	19,253,060
Taxes and licenses	43,660,122	18,645,365	2,838,301

(Forward)



	2017	2016	2015
Rent (Note 19)	₱33,171,842	₱30,630,037	₱10,739,128
Depreciation and amortization (Note 10)	30,731,085	25,213,228	6,921,076
Outsourced services	19,214,959	10,422,401	6,196,641
Marketing and promotions	16,310,353	5,049,347	13,527,021
Advertising	16,017,585	12,279,821	10,331,194
Utilities	14,101,056	15,761,555	7,107,956
Transportation and travels	12,921,436	12,448,990	7,082,467
Entertainment, amusement and recreation	10,186,164	14,072,398	9,534,714
Seminars and trainings	10,112,674	3,538,530	2,711,026
Dues and subscriptions	8,366,593	8,665,080	2,589,970
Repairs and maintenance	6,891,063	6,925,257	9,201,573
Supplies	5,543,696	7,799,226	5,100,951
Insurance	2,006,292	1,021,230	962,358
Directors' fees	1,722,500	1,875,000	617,500
Miscellaneous	24,072,768	10,198,483	5,384,603
	₱572,616,955	₱354,727,296	₱190,520,168

18. Other Income (Charges)

This account consists of:

	2017	2016 (As restated)	2015
Other income (charges)			
subsequent to a business combination (Note 23)			
Waiver of deferred purchase consideration	₱364,012,055	₱—	₱—
Foreign exchange losses	(26,594,140)	(22,778,615)	—
Accretion of unamortized interest expense	(30,916,092)	—	—
Interest expense on payable to former shareholders of a subsidiary	(61,633,130)	(21,959,259)	—
Additional payments to a former shareholder of a subsidiary	(153,956,515)	—	—
	90,912,178	(44,737,874)	—
Other income	18,280,576	7,884,608	7,735,975
Gain from redemption of FVPL (Note 5)	2,216,289	4,836,415	5,473,524
Interest income (Note 4)	1,588,435	3,025,253	9,434,640
Gain (loss) on retirement and disposal of assets (Note 10)	(316,001)	619,451	199,953
Interest expense	(5,904,716)	(13,018,341)	(5,612,191)

(Forward)



	2017	2016 (As restated)	2015
Foreign exchange gains (losses)	(₱9,611,563)	₱6,389,803	₱—
Bank charges	(14,936,940)	(689,795)	—
	(8,683,920)	9,047,394	17,231,901
	₱82,228,258	(₱35,690,480)	₱17,231,901

Other income pertains to gain on curtailment, gain on reversal of payables and other miscellaneous income.

Interest expense consists of:

	2017	2016 (As restated)	2015
Interest on loans payable (Note 13)	₱5,904,716	₱1,493,655	₱927,776
Amortization of discount on liability for written put option (Note 23)	—	11,524,686	4,684,415
	₱5,904,716	₱13,018,341	₱5,612,191

19. Agreements and Lease Commitments

Agreements with Licensors

The Group entered into various agreements with licensors for the use of and or distribution of the licensors' products and services as mobile content. Under these agreements, the Group pays the licensors a certain percentage of revenues earned from the use and distribution of licensors' products and services. The amounts arising from these agreements are recorded as "Royalty fees" under "Cost of services", and the related liability are recorded as "Accrued expenses" under "Accounts and other payables". In 2017, 2016 and 2015, royalty fees amounted to ₱81.31 million, ₱48.44 million and ₱14.03 million, respectively (see Note 16).

Finance Lease

The Group entered into a finance lease agreement with BPI Leasing Corporation for the use of IT and transportation equipment with a lease term of three (3) and five (5) years, respectively. Effective monthly interest rates range from 0.83% to 1.12%.

Details of finance lease liability recognized as of December 31, 2017 and 2016 follow:

	2017	2016
Finance lease liabilities	₱1,794,643	₱2,589,692
Less: Noncurrent portion	605,713	1,163,602
	₱1,188,930	₱1,426,090



The present value of future minimum payments follow:

	2017	2016
Not later than one year	₱1,332,023	₱1,575,804
Later than one year and not later than five years	639,574	1,185,880
Total minimum lease payments	1,971,597	2,761,684
Less: Amounts representing finance charges	176,954	171,992
	₱1,794,643	₱2,589,692

Carrying amount of assets under the finance lease amounted to ₱2.60 million and ₱2.29 million as of December 31, 2017 and 2016, respectively. These are presented as “Leased asset” under “Property and equipment” (see Note 10).

Operating Lease

The Group entered into various lease agreements with third parties for the office spaces it occupies. Leases have terms ranging from one to three years and renewable subject to new terms and conditions to be mutually agreed upon by both parties.

- a. The Parent Company entered into a noncancellable lease contract with Gervel, Inc. for office space for a period of three (3) years which commenced on April 1, 2014 and expired on March 31, 2017. The lease contract may be renewed in writing by mutual agreement of the parties.

In 2017, the Parent Company renewed this contract for a period of three (3) years which commenced on April 1, 2017 and will expire on March 21, 2020. The applicable rate per month is ₱0.27 million and a corresponding annual increase of 4%.

- b. The Parent Company renewed a non-cancellable lease contract with Gervel, Inc. for the office space for a period of one (1) year and six (6) months which commenced on October 1, 2015 and expired on March 31, 2017. The lease contract may be renewed in writing by mutual agreement of the parties.

In 2017, the Parent Company renewed its contract for a period of three (3) years which commenced on April 1, 2017 and will expire on March 31, 2020. The applicable rate per month is ₱0.29 million and a corresponding annual increase of 4%.

- c. In 2017, the Parent Company entered into a non-cancellable lease contract with Gervel, Inc. for an office space for a period of two (2) years and four and a half (4.5) months which commenced on November 16, 2017 and will expire on March 31, 2020. The applicable rate per month is ₱0.33 million. The lease contract may be renewed in writing by mutual agreement of the parties.
- d. Xeleb Technologies entered into a noncancellable lease agreement with TKS Holdings, Inc. for a period of one (1) year which commenced on May 1, 2014 and expired on April 30, 2015 with an applicable rental rate per month of ₱0.17 million. The lease contract was renewed for a period of two (2) years which commenced on May 1, 2015 and expired on April 30, 2017 for a monthly rental rate of ₱0.21 million for the first year and ₱0.23 million for the second year of lease.

In 2017, Xeleb Technologies renewed the lease agreement with TKS Holdings, Inc. for a period of one (1) year which commenced on May 1, 2017 and will expire on April 30, 2018. The applicable monthly rate is ₱0.21 million for both office and parking rentals.



- e. In 2014, Storm entered into a noncancellable lease contract with ECA Next Properties, Inc. for a period of one (1) year, which commenced on May 1, 2014 and expired on April 30, 2015. This contract was renewed for another period of two (2) years which commenced on May 1, 2015 and expired on April 30, 2017. The monthly rental for the first year period amounted to ₱0.07 million and shall be increased by five percent (5%) for the second year. The lease contract was preterminated in January 2016.
- f. In 2014, Storm entered into a noncancellable lease contract with CYG Trinkets Shop for a period of two (2) years which commenced on March 1, 2014 and expired on February 29, 2016. The contract may be renewed in writing under the same terms and conditions upon mutual agreement between the parties. In 2016, Storm renewed its lease contract for another 2 years which commenced from March 1, 2016 and will expire on March 1, 2018. The applicable monthly rent amounts to ₱0.04 million.
- g. In 2014, Storm entered into a noncancellable lease contract with Kepwealth Property Phils., Inc. for the Storm's office situated in Cebu City for a period of two (2) years which commenced on December 1, 2014 and expired on November 30, 2016. The applicable lease rental on the first year amounted to ₱0.03 million per month and shall be increased by ten percent (10%) annually.
- h. In 2015, Storm entered into a cancellable lease contract with All Estate Realty Brokerage Inc. for a period of two (2) years which commenced on April 15, 2015 and expired on April 14, 2017. The lease contract may be renewed upon mutual agreement between the parties. Monthly rent applicable on the first year amounted to ₱0.05 million per month with 10 percent (10%) annual escalation rate on the second year.

In 2017, Storm renewed its lease contract for another year which commenced on April 15, 2017 until April 14, 2018. Monthly rent amounted to ₱0.05 million.

- i. In 2016, Storm entered into a noncancellable lease contract with United Tristar Realty Corporation for a period of 9 months which commenced on April 1, 2016 and expired December 31, 2016. The lease contract may be renewed upon mutual agreement between the parties. In 2017, Storm renewed its lease contract for another 1 year which will commence on January 1, 2017 and expired on December 31, 2017. Monthly rent amounted to ₱0.05 million per month.
- j. In 2017, Storm entered into a cancellable lease contract with Richdale Resource Management Corporation for a period of one (1) year which commenced on February 10, 2017 and will expire on February 8, 2018. Monthly rent applicable amounted to ₱0.05 million.
- k. In 2013, Seer executed a lease contract with Super Prime Holdings Inc. for a lease term of three (3) years which commenced November 15, 2013 and expired on November 14, 2016. The applicable lease rate amounted to ₱0.15 million per month on the first year subject to 6% annual escalation rate.
- l. In 2016, Seer executed a non-cancellable lease contract with TKS Holdings, Inc. for a period of one (1) year which commenced on November 15, 2016 and expired on November 14, 2017. The applicable lease rate amounted to ₱0.20 million per month. The lease contract may be renewed upon agreement between the parties.

In 2017, Seer renewed its lease contract on office units and parking slots for another year which commenced on November 15, 2017 and will expire on November 14, 2018. The applicable monthly rate per month amounted to ₱0.22 million. For both office units and parking slots.



- m. In 2014, Codesignate entered into a lease agreement with Jecoprime Development Corporation for a period of two (2) years which commenced December 12, 2014 and expired on December 11, 2016. The applicable base rent amounted to ₱0.07 million per month.
- n. In 2014, Yondu entered into a noncancellable lease contract with Panorama Development Corporation for its new office. The term of the lease is seven (7) years, which commenced on November 1, 2014 and will expire on October 31, 2021. The applicable rate per month for the first year is ₱1.02 million and a corresponding increase of 5% on the second year of lease.
- o. In 2015, Yondu entered into a cancellable lease agreement with Septus, Inc. for a period of five months which commenced on July 27, 2015. Yondu has extended its lease until second quarter of 2016. The applicable rate is ₱0.49 million.
- p. In 2016, Yondu entered into a noncancellable lease contract with Panorama Development Corporation. The term of the lease is five and a half (5.5) years, which commenced on April 16, 2016 and will expire on October 31, 2021. The applicable rate per month for the first year is ₱0.80 million and a corresponding increase of 5% in the succeeding years.
- q. In 2016, AOC entered into a noncancellable lease contract with Chan Pek Har & Loh Pek Har & Loh Lik Hwa. The term of the lease is two (2) years, which commenced on July 20, 2015 and expired on July 19, 2017. The applicable rate per month is SG\$5,800.

During the year, AOC renewed its lease contract for one (1) year from July 20, 2017 to July 19, 2018 at a monthly rental of SG\$5,465.

Total rent expense charged under “Cost of services” and “General and administrative expenses” in the consolidated statements of comprehensive income amounted to ₱44.40 million, ₱39.01 million and ₱17.00 million in 2017, 2016 and 2015, respectively (see Notes 16 and 17).

As at December 31, 2017 and 2016, the future minimum lease payments under noncancellable operating leases follow:

	2017	2016
Within one year	₱39,559,799	₱31,692,981
After one year but not more than 5 years	98,505,656	99,315,324
	₱138,065,455	₱131,008,305

20. Related Party Transactions

The Group, in the normal course of business, has transactions with related parties. Parties are considered to be related if, among others, one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions, the parties are subject to common control or the party is an associate or a joint venture.

Terms and conditions of transactions with related parties

There have been no guarantees provided or received for any related party receivables and payables. These accounts are noninterest-bearing and are generally unsecured. Except as otherwise indicated, the outstanding accounts with related parties shall be settled in cash. The transactions are made at



terms and prices agreed upon by the parties. Impairment assessment is undertaken through examination of the financial position of the related party and market in which this related party operates.

Details of transactions with related parties and their outstanding payables to a related party as at December 31, 2017 and 2016 follow:

					Outstanding Balance			
			Amount/Volume		2017		2016	
	Terms	Conditions	2017	2016	Receivable	Payable	Receivable	Payable
Associates								
Cost of services (a-c)	Noninterest-bearing	Unsecured	₱23,156,366	₱12,104,146	₱—	₱4,724,298	₱—	₱4,568,854
Advances (d)	Noninterest-bearing	Unsecured, no impairment	4,990,000	—	4,990,000	—	—	—
			28,146,366	12,104,146	4,990,000	4,724,298	—	4,568,854
Stockholders								
Payable to directors and officers (a, b)	Noninterest-bearing	Unsecured	100,287,072	23,557,146	—	97,809,982	—	23,243,243
Advances (c)	One year; noninterest-bearing	Unsecured, no impairment	2,500,000	631,603	2,500,000	—	43,990	—
			102,787,072	24,188,749	2,500,000	97,809,982	43,990	23,243,243
					₱7,490,000	₱102,534,280	₱43,990	₱27,812,097

Associates:

- The Parent Company gained exclusive rights to distribute several of Altitude Games' applications. In return, the Parent Company shall pay Altitude Games a certain percentage of the revenues generated from such applications.

In 2017, 2016 and 2015, the Group recognized "Outsourced services" under "Cost of services" amounting to ₱7.42 million, ₱4.30 million and ₱9.62 million, respectively, in relation to the aforementioned transaction. As at December 31, 2017 and 2016, payable to Altitude Games amounted to ₱3.72 million and ₱0.68 million, respectively.

- In February 2016, the Group entered into a service agreement with Altitude Philippines, wherein the latter will render mobile content and application services in favor of the Group. In return, the Group shall pay Altitude Philippines a certain percentage of the revenues generated from such applications.

Total outsourced services charged under "Cost of services" account in the consolidated statements of comprehensive income amounted to ₱1.88 million and ₱5.10 million in 2017 and 2016, respectively, and outstanding payables amounted to ₱1.01 million and ₱3.58 million as of December 31, 2017 and 2016, respectively.

- In 2016, the Parent Company was granted exclusive right to distribute "Globe with Friends," a game developed by MatchMe, an associate. As agreed by the parties, the Parent Company shall pay MatchMe a certain percentage of the revenues earned from the said game.

For the years ended December 31, 2017 and 2016, the Group recognized "Outsourced services" under "Cost of services" amounting to ₱13.86 million and ₱2.70 million. As at December 31, 2017 and 2016, payable to MatchMe amounted to nil and ₱0.31 million.

- Advances to associates pertain to short-term loan agreement entered into by the Parent Company with Altitude Philippines for working capital purposes.



Stockholders:

- a. In 2017, the Parent Company entered into a loan agreement with its directors amounting to US\$1,945,758 or ₱97.15 million subject to 5% interest rate per annum. The Group recognized interest expense amounting to ₱1.42 million under “Other income (charges)” in its consolidated statements of comprehensive income. As at December 31, 2017, outstanding loans and interest payable amounted to ₱97.15 million and ₱0.66 million, respectively.
- b. Payable to directors and officers also pertain to directors’ fees and advances from officers amounting to ₱1.72 million and nil, respectively, in 2017, and ₱1.88 million and ₱21.68 million, respectively, in 2016. Outstanding payable amounted to nil and ₱23.24 million as at December 31, 2017 and 2016, respectively.
- c. Advances to stockholders pertain to cash advances for operational and corporate-related expenses subject to future liquidation. These are noninterest-bearing and are due and demandable.

Key management compensation

Compensation of key management personnel pertaining to short-term employee benefits amounted to ₱90.92 million, ₱37.76 million and ₱45.22 million in 2017, 2016 and 2015, respectively.

21. Income Taxes

Provision for income tax for the years ended December 31, 2017, 2016 and 2015 consists of the following:

	2017	2016 (As restated)	2015
Current	₱81,542,409	₱152,767,452	₱129,405,014
Final	123,219	572,968	1,894,404
Deferred	(62,198,529)	(39,071,653)	(29,816,879)
	₱19,467,099	₱114,268,767	₱101,482,539

The components of the Group’s net deferred taxes are as follows:

Net deferred tax assets:

	2017	2016 (As restated)
Deferred tax assets on:		
NOLCO	₱36,615,958	₱23,874,003
Accruals	55,897,498	14,763,575
Pension liability	9,390,775	8,672,068
Unutilised losses for the current year	6,018,963	—
Allowance for doubtful accounts	4,896,741	5,846,314
Allowance for impairment of assets	1,182,203	1,182,203
MCIT	1,531,759	1,143,967
Provision for probable loss	1,681,109	1,681,109

(Forward)



	2017	2016 (As restated)
Past service cost	₱696,449	₱626,804
Unrealized foreign currency exchange loss	—	6,854,973
	117,911,455	64,645,016
Deferred tax liabilities on:		
Unrealized foreign currency exchange gain	2,291,157	1,378,900
Pension asset	93,210	715,937
Unrealized gain from financial assets at FVPL	—	274,647
	2,384,367	2,369,484
Net deferred tax assets	₱115,527,088	₱62,275,532

Net deferred tax liabilities:

	2017	2016 (As restated)
Deferred tax assets on interest expense on liability for written put option	₱4,862,730	₱4,862,730
Deferred tax liabilities on fair value adjustment on intangible assets	(360,721,831)	(368,714,635)
Net deferred tax liabilities	(₱355,859,101)	(₱363,851,905)

Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The details of the subsidiaries' deductible temporary differences, NOLCO and MCIT for which no deferred tax assets are recognized since management believes that there are no sufficient taxable profits against which the deferred tax assets can be utilized are as follows:

	2017	2016
NOLCO	₱48,267,731	₱4,486,724
MCIT	39,651	—
	₱48,307,382	₱4,486,724

The carryforward NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deduction against income tax liabilities over a period of three years are as follow:

NOLCO:

Year Incurred	Beginning	Additions	Applied/ Expired	End	Year of Expiration
2014	₱9,721,161	₱—	₱9,721,161	₱—	2017
2015	34,777,339	—	—	34,777,339	2018
2016	40,686,981	—	—	40,686,981	2019
2017	—	94,856,604	—	94,856,604	2020
	₱85,185,481	₱94,856,604	₱9,721,161	₱170,320,924	



MCIT:

Year Incurred	Beginning	Additions	Applied/ Expired	End	Year of Expiration
2014	₱674,502	₱—	₱674,502	₱—	2017
2015	469,465	—	—	469,465	2018
2017	—	1,101,945	—	1,101,945	2020
	₱1,143,967	₱1,101,945	₱674,502	₱1,571,410	

AOC recognized unutilized losses amounting to ₱6.02 million that can be claimed as deduction from future taxable income.

The reconciliation between the statutory and effective income tax rates for the years ended December 31, 2017, 2016 and 2015 follows:

	2017	2016 (As restated)	2015
Statutory income tax rate	₱36,611,833	₱113,731,470	₱99,330,192
Adjustments resulting from:			
Nondeductible expenses	2,898,489	9,141,201	1,155,041
Changes in unrecognized deferred tax assets	16,090,335	469,205	(759,227)
Nondeductible loss from investment in associates	11,016,406	10,170,716	2,843,768
Effect of lower income tax rate	4,504,399	(16,136,550)	—
Reversal for allowance for doubtful accounts	674,258	597,433	—
Expired MCIT	674,502	431,519	—
Effect of tax rebate	—	(695,487)	—
Effect of income tax exemption	—	(901,525)	—
Interest income subjected to final tax	(62,104)	(327,157)	(1,087,235)
Effect of capital allowance utilized	(17,689,124)	(2,212,058)	—
Nontaxable income (Note 18)	(35,251,895)	—	—
Provision for income tax	₱19,467,099	₱114,268,767	₱101,482,539

22. Retirement and Other Long-term Employee Benefits

The Group, except for Yondu, does not have an established retirement plan and only conforms to the minimum regulatory benefit under the Retirement Pay Law (Republic Act No. 7641) which is of the defined benefit type and provides a retirement benefit equal to 22.5 days' pay for every year of credited service. The regulatory benefit is paid in a lump sum upon retirement.

Yondu has a noncontributory, defined benefit pension plan (the Plan) covering all of its regular full-time employees. The benefits are based on years of service and compensation on the last year of employment.



The funds of the Plan are administered by a trustee bank, BPI Asset Management and Trust Group, under the supervision of the Board of Trustee (BOT) of the Plan. The BOT is responsible for the investment strategy of the Plan.

The principal actuarial assumptions used to determine the cost of pension benefits with respect to the discount rate and salary increase rate were based on historical and projected rates. Annual cost is determined using the projected unit credit actuarial valuation method.

The components of net pension expense in the consolidated statements of comprehensive income are as follows:

	2017	2016	2015
Current service cost	₱10,959,802	₱9,083,236	₱5,571,898
Net interest cost on benefit obligation	1,201,518	2,066,825	1,387,566
Past service cost - curtailment	(3,307,689)	(7,618,102)	—
	₱8,853,631	₱3,531,959	₱6,959,464

The Group recognized pension expense amounting to ₱11.78 million, ₱9.30 million and ₱6.96 million included in “Salaries, wages and employee benefits” under “General and administrative expenses” in the consolidated statements of comprehensive income in 2017, 2016 and 2015, respectively.

The Group undertook restructuring in 2017 and 2016 which caused a significant reduction in the headcount. Specifically, the decline in the number of employees covered by the Group’s plan included 19 and 3 officers with 16 years tenure as at December 31, 2017 and 2016, respectively. Accordingly, curtailment recognition, net of pension expense, amounting to ₱2.92 million and ₱5.77 million was recognized under “Other income” in the consolidated statements of comprehensive income in 2017 and 2016, respectively.

The accrued pension of the Group is as follows:

	2017	2016
Present value of benefit obligation	₱45,535,913	₱40,651,835
Fair value of plan assets	(14,544,029)	(14,131,399)
Net pension liability position	₱30,991,884	₱26,520,436

As of December 31, 2017 and 2016, pension asset amounted to ₱0.31 million and ₱2.39 million, respectively, and pension liabilities amounted to ₱31.30 million and ₱28.91 million, respectively.



The following table presents the changes in the present value of defined benefit obligation and fair value of plan assets.

Present value of defined benefit obligation

	2017	2016
Balance at beginning of year	₱40,651,835	₱45,913,242
Current service cost	10,959,802	9,083,236
Interest cost on benefit obligation	2,269,241	2,325,370
Past service cost - curtailment	(3,307,689)	(7,618,102)
Net actuarial gains	(5,037,276)	(9,051,911)
	₱45,535,913	₱40,651,835

Fair value of plan assets

	2017	2016
Balance at beginning of year	₱14,131,399	₱5,039,304
Interest income	1,067,723	258,545
Actual return excluding amount included in net interest cost	(655,093)	(142,861)
Actual contributions	—	8,976,411
Balance at end of year	₱14,544,029	₱14,131,399
Actual return on plan assets	₱412,630	₱115,684

The fair value of plan assets by each class as of December 31, 2017 and 2016 is as follows:

	2017	2016
Investment in mutual funds	₱11,087,918	₱10,886,368
Investment in UITF	3,455,792	3,244,561
Cash	319	470
	₱14,544,029	₱14,131,399

The Group does not currently employ any asset-liability matching.

Remeasurement gain on defined benefit plan under consolidated statements of comprehensive income follow:

	2017	2016	2015
Actuarial gain on defined benefit obligation	₱5,037,276	₱9,051,911	₱5,426,044
Actual return excluding amount included in net interest cost	(655,093)	(142,861)	(217,491)
Tax effect relating to actuarial gain	(1,314,655)	(2,672,715)	(1,562,566)
	₱3,067,528	₱6,236,335	₱3,645,987



Actuarial loss on defined benefit pension plan recorded under “Retirement benefit reserve” in the consolidated statements of changes in equity follow:

	2017	2016	2015
Balance at beginning of year	₱5,663,543	₱11,899,877	₱12,099,282
Acquired through business combination	—	—	3,446,581
Actuarial gain on defined benefit obligation	(5,037,276)	(9,051,911)	(5,426,044)
Actual return excluding amount included in net interest cost	655,093	142,861	217,491
Tax effect relating to actuarial gain	1,314,655	2,672,715	1,562,566
	₱2,596,015	₱5,663,542	₱11,899,876
Attributable to:			
Equity holders of Xurpas Inc.	₱3,478,395	₱5,229,023	₱9,822,524
Noncontrolling interests	(882,380)	434,519	2,077,352
	₱2,596,015	₱5,663,542	₱11,899,876

The assumptions used to determine pension benefits of the Group are as follows:

	2017	2016	2015
Discount rate	5.77 - 6.80%	5.00 - 5.86%	4.86 - 5.77%
Salary projection rate	5.00 - 7.00%	5.00 - 8.00%	5.00 - 8.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption of the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

		Effect on DBO	
		2017	2016
Discount rate	(+) 1.0%	(₱4,022,294)	(₱6,919,243)
	(-) 1.0%	5,421,780	8,417,387
Salary increase rate	(+) 1.0%	5,550,551	10,072,753
	(-) 1.0%	(4,092,782)	(8,280,480)

The weighted average duration of defined benefit obligation at the end of the reporting period is 17.70 to 31.30 years and 20.40 to 23.34 years in 2017 and 2016, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2017 and 2016:

	2017	2016
Within 1 year	₱1,120,389	₱79,125
More than 1 year to 5 years	1,201,789	1,080,312
More than 5 years	895,381,553	275,796,856
	₱897,703,731	₱276,956,293



The Group expects to contribute ₱7.86 million to the retirement fund in 2018.

Other Long-Term Employee Benefits

In 2017, the Group recognized other long-term benefits expense amounting to ₱35.67 million for an employee of a subsidiary. This is included in “Salaries, wages and employee benefits” under “General and administrative expenses” in the consolidated statements of comprehensive income. As of December 31, 2017, outstanding payable amounting to ₱18.33 million is recognized as “Others” under “Accounts and other payables” in the consolidated statements of financial position.

23. Business Combinations and Acquisition of Noncontrolling Interests

Business Combinations

Art of Click Pte. Ltd.

On October 6, 2016, the Parent Company executed a Share Purchase Agreement for the acquisition of 100% shares of Art of Click Pte. Ltd. for an aggregate consideration of ₱1.40 billion in cash and in Parent Company’s shares. AOC is a Singaporean start-up firm established in 2011 that specializes on mobile marketing solutions for advertisers, publishers, app developers, and other operators. Its key markets include Japan, Korea, Hong Kong, Taiwan, Southeast Asia, North America and Europe.

The Group considers the acquisition as an opportunity to grow its mobile consumer services by increasing its content offering.

The cash consideration consists of (1) an Upfront Payment to the Sellers amounting to US\$2,797,106 (₱135,379,930) and (2) cancellation of employee stockholder options through Parent Company’s subscription to one ordinary share in the capital of AOC for US\$2,202,894 (₱106,620,070). This was used to pay the AOC’s Employee Stock Ownership Plan (“ESOP”) shareholders.

The Xurpas shares to be issued to the Sellers consist of (1) an Upfront Payment amounting to US\$19,451,739 payable in Xurpas shares to the Sellers on the acquisition date, (2) Installment Payment payable to the Sellers in Xurpas shares one year after the closing date and every year thereafter until three years after the closing date, and (3) a Deferred Purchase Consideration which shall be subject to a net income after tax floor per year that AOC has to meet as a condition precedent to the entitlement of the Sellers to the Deferred Purchase Consideration and payable in three (3) tranches. The aggregate amount of Deferred Payment Consideration for a three year deferred payment period shall in no case be greater than US\$13,962,725. In the finalization of the purchase price, the parties have clarified that the Deferred Purchase Consideration shall be fixed at US\$13,962,725 and shall not be subject to the performance metrics of AOC, and such is intentionally part of the original consideration. Accordingly, the Deferred Purchase Consideration was considered as part of the acquisition cost in the final purchase price.

The number of Xurpas shares to be issued at each tranche shall be determined using the average market value of Xurpas common shares fifteen (15) days before and fifteen (15) days after the closing date or each commitment date, as applicable, agreed to by the parties.

The Installment Payment payable and Deferred Purchase Consideration in the next three years amounting to ₱760.69 million was initially recognized under “Payable to former shareholders of a subsidiary” in the consolidated statements of financial position. These were measured at its fair value as at acquisition date using an assumed discount rate of 11.55%. In 2016, interest expense and foreign exchange loss amounting to ₱21.96 million and ₱22.78 million, respectively, were recognized in “Other income (charges)” in the consolidated statements of comprehensive income and is reflected



in the net income attributable to the equity holders of the Parent Company (see Note 18). As of December 31, 2016, the outstanding payable to former shareholders of a subsidiary amounted to ₱805.43 million.

Included in the Share Purchase Agreement is a call option granting the Sellers an option exercisable within fifty one (51) months following the Closing Date and only upon the occurrence of a Call Option event to purchase from the Parent Company their respective proportionate share in the Sale Shares. This was subsequently waived.

In June 2017, the Parent Company entered into an agreement to reacquire the 53,298,242 common shares Upfront Payment issued at acquisition date to Emmanuel Michel Jean Allix (“Allix”), a former shareholder of AOC, for a consideration of US\$532,983 or ₱26.65 million (see Note 24). On the same date, amendments were made to the share purchase agreement with Allix which (a) resulted in the payment of US\$7.24 million or ₱358.50 million, (b) changed the manner of payment of the Installment Payment payable and Deferred Purchase Consideration from being partly in cash and Xurpas shares to solely in cash, and (c) changed the term of the Installment Payment payable from being payable in three years after the closing date to being payable within the year. The additional payment and the buyback of the common shares are linked transactions and in substance is accounted for as an equity transaction for accounting purposes. Based on the agreement, only the ₱26.65 million is presented as treasury shares while the remaining amount of ₱358.50 million is presented under equity reserve in the consolidated statements of financial position. The change from being payable in three years to being payable within the year resulted in the acceleration of the accretion of unamortized interest expense amounting to ₱26.00 million (see Note 18).

In October 2017, the Parent Company entered into an agreement to amend the share purchase agreement with Wavemaker Labs Pte. Ltd. (“Wavemaker”), a former shareholder of AOC, which provides for (a) the adjusted purchase price, (b) the change in manner of payment for the Installment Payment and Deferred Consideration pertaining to Wavemaker from being payable in Xurpas shares to cash, and (c) changed the term of the Installment Payment payable from being payable in three years after the closing date to being payable within the year. To implement these amendments, there will be a placement and subscription transaction involving 67,285,706 Xurpas listed shares of existing shareholders by way of a block sale through the facilities of the PSE in 2018. The amendments resulted in an additional payable to Wavemaker amounting to US\$3.01 million or ₱153.96 million which was recognized as a loss under “Other income (charges)” in the consolidated statements of comprehensive income (see Note 18). The change in the timing of the payment resulted in an acceleration of the accretion of unamortized interest expense amounting to ₱4.92 million (see Note 18). The amendments were ratified by the BOD on February 22, 2018.

The 16,641,244 common shares initially issued to Wavemaker representing the Upfront Payment shall be placed by Wavemaker in an escrow agent who is authorized to sell these shares after these are listed. The allocation of the proceeds from the sale of these shares will be determined in the future subject to certain conditions.

In October 2017, Allix and Wavemaker executed a waiver of the second and third tranches of the Deferred Purchase Consideration. Since the waiver is not considered as a measurement period adjustment as allowed under PFRS 3 to adjust the recorded acquisition cost of the Parent Company’s investment, the extinguishment of the liability amounting to US\$7.11 million or ₱364.01 million is recognized as a gain under “Other income (charges)” in the consolidated statements of comprehensive income (see Note 18). The Sellers also waived their call option on the shares.



In 2017, interest expense and foreign exchange losses amounting to ₱61.63 million and ₱26.59 million, respectively, were recognized in “Other income (charges)” in the consolidated statements of comprehensive income and is reflected in the net income attributable to the equity holders of the Parent Company. As of December 31, 2017, the remaining payable to former shareholders of a subsidiary amounted to ₱244.43 million.

The net assets recognized in the December 31, 2016 financial statements were based on a provisional assessment of their fair value while the Group sought an independent valuation for the intangible assets owned by AOC which was done by an appraiser accredited by the SEC.

The following are the fair values of the identifiable assets and liabilities assumed after the finalization of the purchase price allocation in 2017:

Assets	
Cash	₱205,580,070
Receivables	125,285,313
Property and equipment	634,945
Intangible asset	61,508,895
Other assets	2,197,610
	<hr/> 395,206,833
Liabilities	
Accounts and other payables	270,986,228
Income tax payable	20,099,967
Deferred tax liability	18,452,669
	<hr/> 309,538,864
Total net assets acquired	85,667,969
Goodwill	1,856,808,730
Acquisition cost	<hr/> ₱1,942,476,699

In October 2017, the valuation was completed and the acquisition date fair value of the total net assets acquired was determined to be ₱85.67 million, an increase of ₱43.06 million over the provisional value of ₱42.61 million. The 2016 comparative information was restated to reflect the adjustments to the provisional amounts. As a result, an intangible asset for AOC’s developed software amounting to ₱61.51 million was recognized. The Deferred Purchase Consideration amounting ₱544.29 million was included as acquisition cost. Total goodwill arising from the acquisition amounted to ₱1,856.81 million. The 2016 comparative income statements were also restated to reflect the increase in amortization expense, additional accretion and interest and foreign exchange adjustments, with a net effect of ₱40.06 million decrease in the 2016 consolidated net income and net income attributable to equity holders of the Parent Company.

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected. The deferred tax liability represents the tax effect of the fair value adjustments on the intangible asset.

The fair value of the intangible asset was based on net present value of future cash flows using the “Relief from Royalty” method. The valuation has not been completed by the date the 2016 consolidated financial statements were approved for issue by the BOD.

The consideration for the acquisition amounting to ₱1.94 billion partly involves cash and Xurpas shares payable to the Sellers.

From the date of acquisition on October 6, 2016, the Group’s share in the revenue and net income of AOC amounted to ₱477.95 million and ₱120.34 million, respectively. If the combination had taken



place at the beginning of 2016, the Group's total revenue and total net income would have been ₱2,120.93 million and ₱334.01 million, respectively.

Cash outflow related to the acquisition follows:

Cash acquired from AOC	₱205,580,070
Cash paid	242,000,000
Net cash outflow	₱36,419,930

Storm Technologies, Inc.

On February 26, 2015, the Parent Company and Storm signed a deal that will give the Parent Company 37,565 common shares or a 51% stake in Storm and other rights through primary and secondary issuances, for a total consideration of US\$4.30 million or ₱190.89 million.

Storm is a human resource consultancy firm which has developed a proprietary platform called the "flex benefits system" that allows employees to convert their employee benefits to other benefits such as gadgets, dining and other merchandise or service.

The acquisition of Storm will enable the Group to expand its distribution network to beyond telecommunication networks. The Group will be able to reach more customers and provide them with physical products and services through Storm's "flex benefits system."

In 2015, the Parent Company finalized its purchase price allocation.

The following are fair values of the identifiable assets and liabilities assumed:

Assets	
Cash	₱110,123,616
Receivables	14,389,114
Inventories	978,648
Other current assets	5,788,668
Property and equipment	1,435,871
Intangible assets	4,096,106
Deferred tax asset	2,731,642
Other noncurrent asset	382,769
	139,926,434
Liabilities	
Accounts and other payables	20,965,139
Deferred tax liability	1,228,832
Loans payable	6,628,000
	28,821,971
Net assets	111,104,463
Noncontrolling interests in Storm	54,376,599
Total net assets acquired	56,727,864
Goodwill	134,161,689
Acquisition cost	₱190,889,553

The fair value of the trade and other receivables approximate their carrying amounts. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. The deferred tax liability represents the tax effect of the fair value adjustments on the intangible asset.



The noncontrolling interests have been measured at the proportionate share of the fair value of the net identifiable assets acquired and liabilities assumed.

Cash outflow related to the acquisition follows:

Cash acquired from Storm	₱110,123,616
Cash paid	135,366,761
Net cash outflow	₱25,243,145

From February 26 to December 31, 2015, the Group's share in revenue and net loss of Storm amounted to ₱80.27 million and ₱28.81 million, respectively. If the combination had taken place at the beginning of 2015, the Group's total revenue would have been ₱927.83 million, while the Group's net income would have been ₱226.47 million.

Seer Technologies, Inc. and subsidiary

On June 25, 2015, the Parent Company acquired 70,000 shares representing 70.00% stake holdings in Seer at a price of ₱18.00 million. Codesignate is a 75.00% owned subsidiary of Seer, wherein Group's effective ownership over Codesignate is 52.50%.

The Parent Company is also due to pay an earn-out amount corresponding to a fixed percentage of Seer's net income after tax for the years 2015 to 2017 based on its Audited Financial Statements, as an incentive for Seer's management to continue to improve Seer's financial performance in the immediately succeeding years after the acquisition.

Seer is a company in the mobile platform development space, with a human resource base composed primarily of software engineers. Its acquisition will enhance the ability of the Group to provide mobile solutions such as applications and mobile marketing solutions to its enterprise clients.

In 2015, the Parent Company finalized its purchase price allocation.

The following are the fair values of the identifiable assets and liabilities assumed:

Assets	
Cash	₱3,706,340
Receivables	29,735,813
Other current assets	7,297,243
Property and equipment	3,381,984
Intangible assets	1,054,205
Deferred tax asset	5,562,638
Other noncurrent asset	2,886,447
	53,624,670
Liabilities	
Accounts and other payables	22,014,409
Loans payable	13,998,370
Pension liability	6,959,000
Finance lease liability	3,906,890
Deferred tax liability	316,262
	47,194,931
Net assets	6,429,739
Noncontrolling interests in Seer	1,928,922
Total net assets acquired	4,500,817
Goodwill	13,499,183
Acquisition cost	₱18,000,000



The fair value of the trade and other receivables approximate their carrying amounts. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. The deferred tax liability represents the tax effect of the fair value adjustments on the intangible asset.

The noncontrolling interests have been measured at the proportionate share of the fair value of the net identifiable assets acquired and liabilities assumed.

Cash outflow related to the acquisition follows:

Cash acquired from Seer	₱3,706,340
Cash paid	18,000,000
Net cash outflow	₱14,293,660

From June 26 to December 31, 2015, the Group's share in revenue and net income of Seer amounted to ₱41.02 million and ₱5.27 million, respectively. If the combination had taken place at the beginning of 2015, the Group's total revenue would have been ₱954.25 million, while the Group's net income would have been ₱223.72 million.

Yondu, Inc. ("Yondu")

On September 16, 2015, the Parent Company acquired 22,950 shares of common stock in Yondu, a content developer and provider of mobile value-added services and information technology services for a total consideration of ₱900.00 million. The 5,000 shares out of the 22,950 shares were from unissued shares of Yondu while 17,950 shares were purchased from GTI. Purchase price of unissued shares and shares previously held by GTI amounted to ₱230.00 million and ₱670.00 million, respectively. The purchase resulted in a 51% ownership by the Parent Company in Yondu.

Included in the Shareholders' Agreement are a call and put option granting the Parent Company the right to require GTI to sell and granting GTI the right to require the Parent Company to purchase all, but not part only, of the 49% shareholding of GTI in Yondu at ₱39,215.69 per company share, respectively. The options have an exercise date starting September 16, 2016 and will expire after two years therefrom. The put option and call option shall be exercised by a share swap of Xurpas shares for shares held by GTI or a combination of share swap and cash, at the mutual agreement of both parties.

A financial liability amounting to ₱848.50 million was initially recognized in the consolidated statements of financial position for the redemption obligation related to the written put option over the shares held by GTI. The liability was initially recognized at the present value of the redemption price at acquisition date. For the years ended December 31, 2017, 2016 and 2015, interest expense amounting to nil, ₱11.52 million and ₱4.68 million, respectively, was recognized in the consolidated statements of comprehensive income in "Other income (charges)" and is reflected in the net income attributable to the equity holders of the Parent Company. As of December 31, 2017 and 2016, the carrying value of the financial liability amounted to ₱864.71 million.

In 2015, the Parent Company finalized its purchase price allocation.



The following are fair values of the identifiable assets and liabilities assumed:

Assets	
Cash	₱175,110,666
Receivables	598,921,607
Other current assets	38,071,606
Property and equipment	39,638,479
Intangible assets	1,187,626,747
Deferred tax asset	6,652,819
Other noncurrent asset	10,431,165
	<u>2,056,453,089</u>
Liabilities	
Accounts and other payables	582,669,211
Income tax payable	41,541,943
Pension liability	6,514,740
Deferred tax liability	355,471,170
Other long-term liabilities	3,900,000
	<u>990,097,064</u>
Net assets	1,066,356,025
Noncontrolling interests in Yondu	706,503,943
Total net assets acquired	359,852,082
Goodwill	540,147,918
Acquisition cost	<u>₱900,000,000</u>

The fair value of the trade and other receivables approximate their carrying amounts. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. The deferred tax liability represents the tax effect of the fair value adjustments on the intangible assets.

The Group elected to measure the noncontrolling interests in the acquiree at fair value.

The fair value of the noncontrolling interest has been estimated by determining the present value of discounted cash flow. The fair value measurements are based on significant inputs that are not observable in the market. The fair value estimate is based on:

- An assumed discount rate of 13.46%; and
- A terminal value, calculated based on long-term sustainable growth rates for the industry ranging from 2.00% to 4.00% which has been used to determine income for the future years.

Cash outflow related to the acquisition follows:

Cash acquired from Yondu	₱175,110,666
Cash paid	900,000,000
Net cash outflow	<u>₱724,889,334</u>

From September 15 to December 31, 2015, the Group's share in revenue and net income of Yondu amounted to ₱235.89 million and ₱35.87 million, respectively. If the combination had taken place at the beginning of 2015, the Group's total revenue would have been ₱1,498.37 million, while the Group's net income would have been ₱312.98 million.



Acquisition of Noncontrolling Interests

Xeleb Technologies Inc.

On August 22, 2016, Deeds of Absolute Sale were executed for the acquisition by the Parent Company of the remaining 35.00% interest in Xeleb Technologies. The acquisition of the 35.00% interest in Xeleb Technologies made it a wholly-owned subsidiary of the Parent Company. The acquisition resulted in the recognition of equity reserves amounting to ₱41.49 million (see Note 24).

Xeleb Inc.

On August 22, 2016, Xeleb Technologies Inc. acquired 3,349,996 shares or 67.00% majority stake in Xeleb from the Parent Company at ₱1.00 per share or ₱3.35 million. On the same date, Xeleb Technologies acquired the remaining 33.00% stake in Xeleb Inc. from various individuals for a total consideration of ₱1.65 million. This resulted in 100.00% ownership interest of Xeleb Technologies, Inc. in Xeleb Inc.

Xeleb Technologies and Xeleb are entities under common control of Xurpas before and after the restructuring. As a result, the acquisition was accounted for using the pooling of interests method. This transaction has no effect on the carrying amounts of the Group's assets and liabilities, but has resulted to consolidation of Xeleb's assets and liabilities into Xeleb Technologies. This resulted in the recognition of equity reserves amounting to ₱5.39 million (see Note 24).

Storm Technologies, Inc.

On October 27, 2016, the Parent Company acquired additional 3,735 common shares of Storm for ₱10.00 million. This brought the Parent Company's ownership from 51.52% to 56.60% of the outstanding capital stock of Storm and there was no change in control. This resulted in the recognition of equity reserves amounting to ₱7.62 million (see Note 24).

24. Equity

The details of the Parent Company's capital stock follow:

	2017	2016
Authorized shares	5,000,000,000	5,000,000,000
Par value per share	₱0.10	₱0.10
Issued shares	1,867,640,146	1,867,640,146
Treasury shares	63,985,642	8,532,900
Value of shares issued	₱186,764,015	₱186,764,015
Value of treasury shares	(₱115,464,275)	(₱71,510,352)

The Parent Company is a corporation having a renewable term of 50 years. As of December 31, 2017, the Parent Company's remaining corporate life is 34 years.

Initial Public Offering (IPO)

On November 12, 2014, the PSE approved the 344.00 million common shares at an offer price of ₱3.97 per share (₱1,365.68 million) for the IPO of the Parent Company.

On November 13, 2014, the SEC granted the Parent Company permit to sell or offer its securities which consists of 1,720.00 million common shares.

The Parent Company was publicly listed on December 2, 2014.



As at December 31, 2014, ₱172.00 million of the ₱500.00 million authorized capital stock has been subscribed and issued, ₱122.55 million of which was issued through stock dividend declaration and the rest was paid in cash. The excess of subscription price over paid-up capital was recognized as APIC. The Parent Company incurred transaction costs incidental to the IPO amounting to ₱111.56 million and ₱7.35 million which were charged to “Additional paid-in capital” in the consolidated statements of financial position and “General and administrative expense” in the consolidated statements of comprehensive income, respectively.

Overnight Top-Up Placement

On April 29, 2016, the Parent Company issued and subscribed 77.70 million shares with par value of ₱0.10 for a total consideration of ₱1,243.20 million or ₱16.00 per share. The excess of subscription price over paid-up capital was recognized as APIC. The Parent Company incurred transaction costs incidental to the share issuance amounting to ₱44.82 million which were charged to “Additional paid-in capital” in the consolidated statements of financial position.

Installment Payment in Shares

On November 11, 2016, the Parent Company issued 69,939,486 common shares to the Sellers of AOC as payment of the upfront consideration in relation to the acquisition of 100% stakeholding in AOC (see Note 23). The excess of subscription price over paid-up capital amounting to ₱932.79 million was recognized as APIC.

The Parent Company has 23 and 20 existing shareholders as of December 31, 2017 and 2016, respectively.

Retained Earnings

Appropriations

On December 29, 2015, the Parent Company’s BOD approved the appropriation of unrestricted retained earnings for cash dividend declaration amounting to ₱65.82 million. On November 10, 2017, such was released from appropriation.

On November 9, 2016, the BOD of the Parent Company approved the appropriation of unrestricted retained earnings for the buyback of its common shares up to the extent of the total allotment amounting to ₱170.00 million subject to the prevailing market price at the time of the share buyback.

On March 27, 2017, the BOD of the Parent Company approved the termination of the buyback program adopted in 2016. A total of ₱88.82 million has been used under the said program. Accordingly, the balance of ₱81.18 million previously allocated for the buyback program was released from such appropriation.

On July 18, 2017, the BOD of the Parent Company approved the appropriation of unrestricted retained earnings for the buyback of its common shares amounting to ₱26.65 million.

Appropriated retained earnings amounted to ₱115.46 million and ₱235.82 million as of December 31, 2017 and 2016, respectively.

Dividends declaration

On April 29, 2015, the Parent Company’s BOD approved the declaration of cash dividends of approximately ₱0.04 per share, or the aggregate amount of ₱68.80 million out of the Parent Company’s unrestricted retained earnings for distribution to its stockholders of record as at May 14, 2015 and payable to stockholders on June 2, 2015.



On May 10, 2016, the Parent Company's BOD approved the declaration of cash dividends of approximately ₱0.048 per share, or the aggregate amount of ₱86.29 million out of the Parent Company's unrestricted retained earnings for distribution to its stockholders of record as at May 31, 2016 and payable to stockholders on June 23, 2016.

On May 8, 2017, the Parent Company's BOD approved the declaration of cash dividends in the amount of ₱92.85 million or ₱0.05 per share in favor of the Parent Company's common stockholders of record as of May 23, 2017, payable on or before June 15, 2017.

The Parent Company has no outstanding dividends payable as of December 31, 2017 and 2016.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2017 and 2016 amounted to ₱93.43 million and ₱13.16 million, respectively. Retained earnings also include undistributed net earnings amounting to ₱211.36 million and ₱142.06 million as of December 31, 2017 and 2016, respectively, representing accumulated equity in the net earnings of subsidiaries and associates. These are not available for dividend distribution unless declared by subsidiaries and associates.

Equity Reserve

In 2015, a reserve amounting to ₱848.50 million was set up in relation to a recognized financial liability for the written put option over the ownership interest of GTI in Yondu. This will be subsequently reversed once the option is exercised or has expired.

In 2016, the Parent Company purchased additional shares from noncontrolling interests of Xeleb, Xeleb Technologies and Storm. The transactions were accounted as an equity transaction since there was no change in control. The movements within equity are accounted for as follows:

	Consideration paid	Carrying value of noncontrolling interests	Difference recognized within Equity
Xeleb Technologies Inc.	₱45,000,000	₱3,506,647	(₱41,493,353)
Storm Technologies Inc.	10,002,330	2,382,396	(7,619,934)
Xeleb Inc.	1,650,000	7,038,398	5,388,398
	₱56,652,330	₱12,927,441	(₱43,724,889)

In 2017, a reserve amounting to ₱358.50 million was recognized for the payment resulting from amendments in the Share Purchase Agreement with Allix and the acquisition of the Parent Company's own shares (see Note 23).

Treasury Stock

On November 9, 2016, the BOD of the Parent Company approved the buyback of its common shares up to the extent of the total allotment amounting to ₱170.00 million subject to the prevailing market price at the time of the buyback. The Parent Company commenced the program on November 14, 2016 and will end upon full usage of the approved allotment, or as otherwise may be directed by the BOD, subject to an appropriate disclosure to the SEC and PSE. As at December 31, 2016, treasury stocks acquired totaled to 8,532,900 shares which amounted to ₱71.51 million.

In January and February 2017, the Parent Company acquired 2,154,500 shares for ₱17.30 million.

On March 27, 2017, the BOD of the Parent Company approved the termination of the buyback program adopted in 2016. Treasury stocks acquired under this program totaled to 10,687,400 shares amounting to ₱88.82 million.



On July 18, 2017, the Parent Company reacquired 53,298,242 common shares from Allix for a total amount US\$532,983 or ₱26.65 million (see Note 23).

Employee Stock Option Plan

The Parent Company's BOD, on January 20, 2016, and the stockholders, on May 11, 2016, approved the Employee Stock Option Plan (the Plan) of the Parent Company. Full time and regular employees of the Parent Company and those deemed qualified by the Compensation and Remuneration Committee from the names recommended by the Executive Committee are eligible to participate in the Plan. As at December 31, 2017, the Plan has been filed with and is pending approval of the SEC and PSE.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The Group's sources of capital follow:

	2017	2016 (As restated)
Capital stock	₱186,764,015	₱186,764,015
Additional paid-in capital	3,343,119,550	3,343,119,550
Retained earnings	322,730,858	379,812,719
	₱3,852,614,423	₱3,909,696,284

The Group is not subject to externally-imposed capital requirements. The Group regards its equity as its primary source of capital. No changes were made in the capital management policies as at December 31, 2017 and 2016.

25. **Subsidiary with Material Noncontrolling Interests**

Noncontrolling interests pertain to the following percentage interests in subsidiaries that the Parent Company does not own. The summarized financial information is provided below for the subsidiary with material noncontrolling interest. This information is based on the amounts before intercompany eliminations.

The Parent Company considers a subsidiary with material noncontrolling interests if its net assets exceed 5.00% of its total consolidated net assets of the Group as of reporting period and considers the relevance of the nature of activities of the entity compared to other operations of the Group. There are no significant restrictions on the Parent Company's ability to use assets and settle liabilities of the Group.



Yondu, Inc.

	2017	2016
Proportion of equity interests held by noncontrolling interests	49.00%	49.00%
Accumulated balances of noncontrolling interests	₱790,397,620	₱780,266,530
Profit allocated to noncontrolling interests	52,481,168	51,421,922
Other comprehensive income allocated to noncontrolling interests	386,684	1,580,307
Total comprehensive income allocated to noncontrolling interests	52,867,852	53,002,229

	2017	2016
Statements of financial position		
Current assets	₱595,104,760	₱501,983,966
Noncurrent assets	1,767,964,968	1,799,996,225
Current liabilities	261,628,359	207,609,373
Noncurrent liabilities	345,947,571	350,029,114
Total equity	1,755,493,798	1,744,341,704
Attributable to:		
Equity holders of Xurpas Inc.	965,096,178	964,075,174
Noncontrolling interests	790,397,620	780,266,530

For the years ended December 31

	2017	2016
Statements of comprehensive income		
Revenue	₱886,038,834	₱822,415,340
Cost and expenses	732,141,984	672,758,255
Income before income tax	153,896,850	149,657,085
Provision for income tax	46,792,427	44,714,387
Income from operations	107,104,423	104,942,698
Other comprehensive income	789,152	3,225,116
Total comprehensive income	107,893,575	108,167,814
Attributable to:		
Equity holders of Xurpas Inc.	55,025,723	55,165,585
Noncontrolling interests	52,867,852	53,002,229

For the years ended December 31

	2017	2016
Statements of cash flows		
Net cash provided by operating activities	₱75,671,108	(₱101,415,296)
Net cash used in investing activities	(2,412,735)	(42,666,060)
Net cash used in financing activities	(112,609,730)	115,000,000
Effect of exchange rate changes	781,446	463,256



26. Earnings Per Share

The Group's earnings per share for the years ended December 31, 2017, 2016 and 2015 were computed as follow:

	2017	2016 (As restated)	2015
Net income attributable to the equity holders of the Parent Company	₱35,765,776	₱215,304,020	₱221,059,181
Weighted average number of outstanding shares	1,840,345,403	1,788,554,700	1,720,000,660
Dilutive shares arising from payable to former shareholders of a subsidiary	—	28,209,155	—
Adjusted weighted average number of common shares for diluted earnings per share	1,840,345,403	1,816,763,855	1,720,000,660
Basic earnings per share	₱0.02	₱0.12	₱0.13
Diluted earnings per share	₱0.02	₱0.12	₱0.13

Earnings per share is calculated using the consolidated net income attributable to the equity holders of the Parent Company divided by weighted average number of shares.

In 2016, future issuance of shares in relation to the consideration for the acquisition of 100.00% ownership in AOC has a dilutive effect on the computation of earnings per share.

27. Financial Instruments

Fair Value Information

The methods and assumptions used by the Group in estimating fair value of the financial instruments are as follows:

- Cash, accounts and other receivables, refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding "Taxes payable", "Deferred output VAT", and statutory payables included as "Others"), loans payable, liability on written put option, payable to former shareholders of a subsidiary, dividends payable and finance lease liability under other current liabilities - Carrying amounts approximate fair values due to the relatively short-term maturities of these instruments.
- Financial assets at FVPL - These pertain to investment in UITF. Fair value of investment in UITF is based on NAV as at reporting dates.
- AFS quoted equity security - Fair value is based on quoted prices published in the market and debt securities.



- AFS unquoted equity security and AFS unquoted debt investments - For unquoted equity and debt investments with recent sales at arm's length transaction, fair values were determined using prices in such transaction.

The fair values and carrying values of financial assets at FVPL and AFS financial assets are as follows:

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets at FVPL	₱—	₱—	₱335,915,489	₱335,915,489
AFS financial assets				
Quoted equity security	380,000	380,000	300,000	300,000
Unquoted equity security	44,244,956	44,244,956	44,244,956	44,244,956
Unquoted debt investments	114,428,123	114,428,123	108,428,123	108,428,123

Fair Value Hierarchy

The Group uses the following three-level hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Cash, accounts and other receivables, refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding "Taxes payable", "Deferred output VAT", and statutory payables included as "Others"), loans payable, liability on written put option, payable to former shareholders of a subsidiary, dividends payable and finance lease liability under other current liabilities were classified under Level 3. The fair value of these financial instruments is determined by discounting future cash flows using the applicable rates of similar types of instruments plus certain spread.

Financial assets at FVPL amounting to ₱335.92 million as of December 31, 2016 were classified under Level 2 (see Note 5).

Quoted AFS financial assets amounting to ₱0.38 million and ₱0.30 million as of December 31, 2017 and 2016 were classified under Level 2 (see Note 7).

Unquoted AFS financial assets amounting to ₱158.67 million as of December 31, 2017 and 2016 were classified under Level 3 (see Note 7).

As at December 31, 2017 and 2016, there have been no reclassifications from Level 1 to Level 2 or 3 categories.

Financial Risk Management and Objectives and Policies

The Group's financial instruments comprise cash, financial assets at FVPL, accounts and other receivables, AFS financial assets, refundable deposits under other current assets, cash bond under other noncurrent assets, accounts and other payables (excluding taxes payable, deferred output VAT, and statutory payables), loans payable, liability on written put option, payable to former shareholders of a subsidiary, dividends payable and finance lease liability under other current liabilities, which arise directly from operations. The main purpose of these financial instruments is to finance the Group's operations and to earn additional income on excess funds.



Exposure to credit risk, liquidity risk and foreign currency risk arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

There were no changes in the Group's risk management objectives and policies in 2017 and 2016.

The Group's risk management policies are summarized below:

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation.

The Group's credit risk is primarily attributable to cash in bank and accounts and other receivables. Credit risk management involves monitoring its exposure to credit risk on a continuous basis.

The Group entered into an agreement with GTI, wherein the Group will provide mobile content services and mobile application development services to GTI in accordance with the service order and description specified in the service level agreement among the parties involved. The mobile content services include creation and development of mobile electronic content for delivery to GTI and distribution to GTI's mobile phone subscribers. Mobile application development, on the other hand, includes development and maintenance of its own platforms which host and enable mobile subscribers to access or use GTI's mobile content products.

The Group has concentration of credit risk with receivable from GTI, its largest customer, representing 58% and 43% of its total trade receivables as at December 31, 2017 and 2016, respectively (see Note 6). Recent economic condition and market segment of GTI shows its continuing growth and success.

The Group's maximum exposure to credit risk is equal to the carrying values of its financial assets as of December 31, 2017 and 2016.

The aging analysis of accounts and other receivables presented per class follows:

December 31, 2017

	Neither Past Due nor Impaired	Past Due but Not Impaired			Total	Individually Impaired	Total
		<30 days	30 to <90 days	>90 days			
Trade receivables	₱460,414,835	₱49,120,055	₱92,662,663	₱217,369,719	₱359,152,437	₱113,794,109	₱933,361,381
Receivable from related parties	7,490,000	—	—	—	—	—	7,490,000
Others	13,449,238	—	—	—	—	—	13,449,238
	₱481,354,073	₱49,120,055	₱92,662,663	₱217,369,719	₱359,152,437	₱113,794,109	₱954,300,619



December 31, 2016

	Neither Past Due nor Impaired	Past Due but Not Impaired			Total	Individually Impaired	Total
		<30 days	30 to <90 days	>90 days			
Trade receivables	₱385,590,181	₱163,681,537	₱227,498,338	₱155,009,743	₱546,189,618	₱1,883,443	₱933,663,242
Receivable from related parties	43,990	—	—	—	—	—	43,990
Others	17,126,242	—	—	—	—	—	17,126,242
	₱402,760,413	₱163,681,537	₱227,498,338	₱155,009,743	₱546,189,618	₱1,883,443	₱950,833,474

The tables show the credit quality by class of the Group's financial assets as at December 31, 2017 and 2016:

December 31, 2017

	Neither Past Due nor Impaired			Past due but not Impaired	Individually Impaired	Total
	High Grade	Medium Grade	Low Grade			
Cash in banks	₱214,868,915	₱—	₱—	₱—	₱—	₱214,868,915
Accounts and other receivables:						
Trade receivable	338,642,596	—	—	481,500,177	113,794,109	933,936,882
Receivable from related parties	7,490,000	—	—	—	—	7,490,000
Others	19,449,238	—	—	—	—	19,449,238
AFS financial assets						
Unquoted debt investments	6,000,000	—	—	108,428,123	—	114,428,123
Other current assets						
Refundable deposits	8,149,786	—	—	—	—	8,149,786
Other noncurrent assets						
Cash bond	—	—	—	65,485	—	65,485
	₱594,600,535	₱—	₱—	₱589,993,785	₱113,794,109	₱1,298,388,429

December 31, 2016

	Neither Past Due nor Impaired			Past due but not Impaired	Individually Impaired	Total
	High Grade	Medium Grade	Low Grade			
Cash in banks	₱420,404,602	₱—	₱—	₱—	₱—	₱420,404,602
Financial asset at FVPL	335,915,489	—	—	—	—	335,915,489
Accounts and other receivables:						
Trade receivable	385,590,181	—	—	546,189,618	1,883,443	933,663,242
Receivable from related parties	43,990	—	—	—	—	43,990
Others	17,126,242	—	—	—	—	17,126,242
AFS financial assets						
Unquoted debt investments	108,428,123	—	—	—	—	108,428,123
Other current assets						
Refundable deposits	4,339,029	—	—	—	—	4,339,029
Other noncurrent assets						
Cash bond	—	—	—	65,485	—	65,485
	₱1,271,847,656	₱—	₱—	₱571,220,103	₱1,883,443	₱1,819,986,202

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

Cash in banks, financial assets at FVPL, quoted AFS financial assets and other assets - based on the nature of the counterparty and the Group's rating procedure. These are held by counterparty banks with minimal risk of bankruptcy and are therefore classified as high grade.



Accounts and other receivables - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to three defaults in payment; and low grade pertains to receivables with more than three defaults in payment.

Unquoted AFS financial assets are unrated.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirement, finance capital expenditures and service maturing debts. To cover its short-term funding requirements, the Group intends to use internally generated funds and available short-term credit facilities. Credit lines are obtained from BOD-designated banks at amounts based on financial forecast approved by the BOD. The Group can also obtain additional advances from its stockholders, refinance its short-term loans, renew its credit lines and negotiate for longer payment terms for its payables to manage liquidity.

The table summarizes the maturity profile of the Group's financial assets and liabilities as at December 31, 2017 and 2016 based on contractual undiscounted payments:

December 31, 2017

	<1 year	>1 to <5 years	>5 years	Total
Financial Assets				
Cash	₱215,254,510	₱—	₱—	₱215,254,510
Accounts and other receivables				
Trade receivables	933,361,381	—	—	933,361,381
Receivable from related parties	7,490,000	—	—	7,490,000
Others	13,449,238	—	—	13,449,238
AFS financial assets	—	159,053,079	—	159,053,079
Other current assets				
Refundable deposits	8,149,786	—	—	8,149,786
Other noncurrent assets				
Cash bond	—	65,485	—	65,485
Total undiscounted financial assets	1,177,704,915	159,118,564	—	1,336,823,479
Financial Liabilities				
Loans payable	377,419,000	—	—	377,419,000
Finance lease liability	1,188,930	605,713	—	1,794,643
Liability for written put option	864,705,965	—	—	864,705,965
Payable to former shareholders of a subsidiary	244,426,311	—	—	244,426,311
Total undiscounted financial liabilities	1,487,740,206	605,713	—	1,488,345,919
Liquidity gap	(₱310,035,291)	₱158,512,851	₱—	(₱151,522,440)



December 31, 2016

	<1 year	>1 to <5 years	>5 years	Total
Financial Assets				
Cash	₱428,517,653	₱—	₱—	₱428,517,653
Financial assets at FVPL	335,915,489	—	—	335,915,489
Accounts and other receivables				
Trade receivables	933,663,242	—	—	933,663,242
Receivable from related parties	43,990	—	—	43,990
Others	17,126,242	—	—	17,126,242
AFS financial assets	108,428,123	44,544,956	—	152,973,079
Other current assets				
Refundable deposits	4,339,029	—	—	4,339,029
Other noncurrent assets				
Cash bond	—	65,485	—	65,485
Total undiscounted financial assets	1,828,033,768	44,610,441	—	1,872,644,209
Financial Liabilities				
Loans payable	3,000,000	13,998,370	—	16,998,370
Finance lease liability	1,575,804	1,185,880	—	2,761,684
Liability for written put option	864,705,965	—	—	864,705,965
Payable to former shareholders of a subsidiary	314,133,411	491,292,825	—	805,426,236
Total undiscounted financial liabilities	1,183,415,180	506,477,075	—	1,689,892,255
Liquidity gap	₱644,618,588	(₱461,866,634)	₱—	₱182,751,954

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with the corresponding nominal amounts and carrying values are shown in the following table:

December 31, 2017

	Interest Terms (p.a.)	Rate Fixing Period	Nominal Amount	<1 year	1 to 6 years	>6 years	Carrying Value
Cash in banks	Fixed at the date of investment	Various	₱214,868,915	₱214,868,915	₱—	₱—	₱214,868,915
AFS financial assets							
Floating							
SGD	Variable at 3.5% to 4.5%	Annually	3,602,123	—	3,602,123	—	3,602,123
Fixed							
USD	Fixed at 5%	n/a	52,495,000	38,440,000	14,055,000	—	52,495,000
USD	Fixed at 3% and 3.75%	n/a	28,856,000	28,856,000	—	—	28,856,000
USD	Fixed at 3%	n/a	23,475,000	—	23,475,000	—	23,475,000
Loans payable	Variable at 4.00% to 5.8125%	Monthly	377,419,000	377,419,000	—	—	377,419,000
Finance lease liability	Variable at 0.9% to 1.4%	Monthly	1,794,643	1,188,930	605,713	—	1,794,643
Payable to shareholders	Fixed at 5%	n/a	99,151,697	99,151,697	—	—	99,151,697
			₱801,662,378	₱759,924,542	₱41,737,836	₱—	₱801,662,378



December 31, 2016

	Interest Terms (p.a.)	Rate Fixing Period	Nominal Amount	<1 year	1 to 6 years	>6 years	Carrying Value
	Fixed at the date of investment	Various	₱420,404,602	₱420,404,602	₱–	₱–	₱420,404,602
Cash in banks AFS financial assets							
<i>Floating</i>							
SGD	Variable at 3.5% to 4.5%	Annually	3,602,123	–	3,602,123	–	3,602,123
<i>Fixed</i>							
USD	Fixed at 5%	n/a	52,495,000	38,440,000	14,055,000	–	52,495,000
USD	Fixed at 3% and 3.75%	n/a	28,856,000	28,856,000	–	–	28,856,000
USD	Fixed at 3%	n/a	23,475,000	–	23,475,000	–	23,475,000
Loans payable	Fixed at 6.75%	n/a	16,998,370	3,000,000	13,998,370	–	16,998,370
Finance lease liability	Variable at 0.9% to 1.4%	Monthly	2,761,684	1,575,804	1,185,880	–	2,761,684
Payable to shareholders	Fixed at 5%	n/a	–	–	–	–	–
			₱548,592,779	₱492,276,406	₱56,316,373	₱–	₱548,592,779

Foreign Currency Risk

The Group's exposure to foreign exchange rate is minimal as concentration of business is denominated in Philippine peso.

The following table shows the outstanding foreign currency-denominated monetary assets and their respective Philippine peso equivalent as of December 31, 2017 and 2016.

	2017		2016	
	Original currency	Peso equivalent	Original currency	Peso equivalent
Cash in bank				
US Dollar (USD)	873,869	₱43,632,270	100,401	₱4,991,929
Singapore Dollar (SGD)	121,464	4,533,375	3,746,076	128,342,100
Indonesian Rupiah (IDR)	8,901,826	32,937	–	–
Trade receivables				
US Dollar (USD)	6,714,902	335,275,070	–	–
Singapore Dollar (SGD)	241,325	9,006,931	10,777,270	369,233,699
Saudi Arabia Rial (SAR)	334,825	4,457,227	327,205	4,326,439
Euro (EUR)	31,654	1,792,039	21,103	1,100,916
U.A.E. Dirham (AED)	23,447	318,763	23,447	316,770
Hong Kong Dollar (HKD)	422	2,693	26,870	171,763
Taiwan Dollar (TWD)	351	589	11,177	17,094
Malaysian Ringgit (MYR)	–	–	2,065	22,828
Total foreign currency denominated assets		399,051,894		508,523,538
Trade Payables				
US Dollar (USD)	2,213,370	110,513,564	199,139	9,901,180
Singapore Dollar (SGD)	251,014	9,368,527	5,502,012	188,501,178
Indonesian Rupiah (IDR)	5,000,000	18,500	–	–
Total foreign currency denominated liabilities		119,900,591		198,402,358
Net foreign currency denominated financial instruments		₱279,151,303		₱310,121,180



In translating the foreign currency-denominated monetary assets into Peso amounts, the exchange rates used were as follows:

	2017	2016
USD to ₱	₱49.93	₱49.72
SGD to ₱	37.32	34.26
IDR to ₱	0.004	—
SAR to ₱	13.31	13.22
EUR to ₱	59.61	52.17
AED to ₱	13.59	13.51
HKD to ₱	6.39	6.39
TWD to ₱	1.68	1.53
MYR to ₱	12.28	11.05

Equity Price Risk

Equity price risk is the risk that the financial assets whose values will fluctuate as a result of changes in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in market. As of December 31, 2017 and 2016, the Group has minimal exposure in equity price risk since the Group's quoted AFS amounted only to nil and ₱0.30 million, respectively. Moreover, the Group's investments in AFS are generally perceived as not highly susceptible to the equity price risk since the shares are issued by stable company and are not subjected to other than temporary decline

Quoted financial assets at FVPL pertain to investment in UITF (Fund). The Fund, which is structured as a money market UITF, aims to generate liquidity and stable income by investing in a diversified portfolio of primarily short-term fixed income instruments.

In 2016, the sensitivity of the Group's income before income tax depicting +/-2% change in market indexes of financial assets at FVPL amounted to ₱5.62 million. In 2017, all financial assets at FVPL were redeemed.

There is no impact on the Group's equity other than those already affecting net income.

28. Segment Reporting

The industry segments where the Group operates follow:

- Mobile consumer services - includes airtime management, content development and management and marketing and advertising solutions
- Enterprise services - includes platform development and customization, system integration, mobile platform consultancy services, management of off-the-shelf application and social media related services. This also includes IT staff augmentation and various enterprise solutions-based services to telecommunication companies and other companies for network and applications development
- Other services - includes consultancy services in the field of human resource management, trading in general, sourcing for and supplying of goods to import and export goods



The following tables regarding business segment revenue and profit information for the years ended December 31, 2017, 2016 and 2015:

2017

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
INCOME					
Service income	₱1,599,595,564	₱721,362,136	₱5,674,500	(₱317,081,184)	₱2,009,551,016
Sale of goods	—	—	94,018,662	—	94,018,662
	1,599,595,564	721,362,136	99,693,162	(317,081,184)	2,103,569,678
COST AND EXPENSES	(1,424,342,213)	(721,942,502)	(169,432,118)	288,679,607	(2,027,037,226)
Equity in net losses of associates	—	—	—	(36,721,355)	(36,721,355)
Other income (expenses)	207,175,098	5,088,295	(1,306,424)	(128,728,618)	82,228,351
	382,428,449	4,507,929	(71,045,380)	(193,851,550)	122,039,448
Provision for (benefit from) income tax	(64,630,265)	(27,491,072)	7,224,690	65,429,549	(19,467,098)
Net income (loss)	₱317,798,184	(₱22,983,143)	(₱63,820,690)	(₱128,422,001)	₱102,572,350
Net income attributable to:					
Equity holders of Xurpas Inc.					₱36,349,951
Noncontrolling interests					66,222,399
					₱102,572,350

2016 (As restated)

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
INCOME					
Service income	₱1,324,582,926	₱660,589,609	₱3,392,600	(₱92,105,104)	₱1,896,460,031
Sale of goods	—	—	50,678,833	—	50,678,833
	1,324,582,926	660,589,609	54,071,433	(92,105,104)	1,947,138,864
COST AND EXPENSES	(909,880,547)	(564,009,746)	(102,495,482)	77,944,682	(1,498,441,093)
Equity in net losses of associates	—	—	—	(33,902,387)	(33,902,387)
Other income	(19,198,855)	6,216,357	46,286	(22,754,270)	(35,690,482)
	395,503,524	102,796,220	(48,377,763)	(70,817,079)	379,104,902
Provision for (benefit from) income tax	(107,023,187)	(26,859,251)	11,890,178	7,723,493	(114,268,767)
Net income (loss)	₱288,480,337	₱75,936,969	(₱36,487,585)	(₱63,093,586)	₱264,836,135
Net income attributable to:					
Equity holders of Xurpas Inc.					₱215,304,022
Noncontrolling interests					49,532,113
					₱264,836,135



2015

	Mobile consumer services	Enterprise Services	Other services	Intersegment adjustments	Consolidated
INCOME					
Service income	₱583,198,529	₱243,455,830	₱4,516,466	(₱7,148,184)	₱824,022,641
Sale of goods	—	—	74,351,659	—	74,351,659
	583,198,529	243,455,830	78,868,125	(7,148,184)	898,374,300
COST AND EXPENSES	(276,341,921)	(189,656,647)	(117,235,241)	8,207,475	(575,026,334)
Equity in net losses of associates	—	—	—	(9,479,226)	(9,479,226)
Other income	33,253,503	4,184,481	728,334	(20,934,417)	17,231,901
Operating profit (loss)	340,110,111	57,983,664	(37,638,782)	(29,354,352)	331,100,641
Provision for (benefit from) income tax	96,780,054	16,470,714	(8,833,511)	(2,934,718)	101,482,539
Net income (loss)	₱243,330,057	₱41,512,950	(₱28,805,271)	(₱26,419,634)	₱229,618,102
Net income attributable to:					
Equity holders of Xurpas Inc.					₱221,059,181
Noncontrolling interests					8,558,921
					₱229,618,102

The following tables present business segment assets and liabilities as at December 31, 2017 and 2016:

2017

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
Other information					
Segment assets	₱5,338,888,976	₱451,357,473	₱70,325,713	(₱165,918,968)	₱5,694,653,194
Deferred tax assets	50,768,130	15,617,556	29,959,092	19,182,307	115,527,085
Total assets	5,389,657,106	466,975,029	100,284,805	(146,736,661)	5,810,180,279
Segment liabilities	1,562,816,025	263,449,084	123,857,976	148,698,843	2,098,821,928
Deferred tax liabilities	—	—	—	355,859,101	355,859,101
Segment liabilities	₱1,562,816,025	₱263,449,084	₱123,857,976	₱504,557,944	₱2,454,681,029

2016 (As restated)

	Mobile consumer services	Enterprise services	Other services	Intersegment adjustments	Consolidated
Other information					
Segment assets	₱4,482,402,205	₱369,948,861	₱66,521,158	₱1,492,386,712	₱6,411,258,936
Deferred tax assets	28,825,521	10,823,750	22,441,558	184,703	62,275,532
Total assets	4,511,227,726	380,772,611	88,962,716	1,492,571,415	6,473,534,468
Segment liabilities	1,310,684,803	172,676,879	46,665,740	793,050,247	2,323,077,669
Deferred tax liabilities	17,530,035	—	—	346,321,870	363,851,905
Segment liabilities	₱1,328,214,838	₱172,676,879	₱46,665,740	₱1,139,372,117	₱2,686,929,574



29. Notes to Consolidated Statement of Cash Flows

Disclosed below is the rollforward of liabilities under financing activities:

	January 1, 2017	Cash flows	Non-cash changes	Foreign exchange movement	December 31, 2017
Current loans payable	₱3,000,000	₱374,419,000	₱—	₱—	₱377,419,000
Noncurrent loans payable	13,998,370	(13,998,370)	—	—	—
Dividends payable	116,486,508	(231,078,267)	115,768,748	—	1,176,989
Finance lease liability	2,589,692	(1,863,531)	1,068,482	—	1,794,643
Total liabilities from financing activities	₱136,074,570	(₱127,478,832)	(₱116,837,230)	₱—	₱380,390,632

The noncash investing and financing activities of the Group are as follows:

- Unrealized gain on available-for-sale financial assets amounted to nil and ₱60,000 in 2017 and 2016, respectively.
- Cumulative translation adjustments recognized under “Investments in associates” amounted to ₱2.53 million and ₱4.16 million for 2017 and 2016, respectively.
- As of December 31, 2017 and 2016, outstanding dividends payable pertaining to dividends declared to noncontrolling interests amounted to ₱38.15 million and ₱4.40 million, respectively, under “Other current liabilities”.
- As of December 31, 2017 and 2016, additions to property and equipment has outstanding finance lease liability amounting to ₱1.11 million and ₱1.79 million, respectively.
- As a result of the business combinations in 2016, the Group acquired receivables, other current assets, property and equipment, accounts and other payables, income tax payable, other current liabilities, loans payable, net deferred tax liabilities and pension liability. See Note 23 for acquisition-date assets and liabilities acquired through business combination. Also, goodwill and intangible assets acquired through business combination amounted to ₱1,856.81 million and ₱61.51 million, respectively, in 2016.

30. Provisions and Contingencies

The Group is currently involved in assessments for national taxes and the outcome of these assessments is not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these assessments, if any, will not have a material effect on the Group’s financial position and results of operations. The information usually required under PAS 37 is not disclosed on the ground that it may prejudice the outcome of the assessments.

31. Events After Reporting Date

On February 22, 2018, Wavemaker acquired through a block sale, 67,285,706 shares of the Parent Company from its existing shareholders. On the same date, these shareholders also subscribed to the same number of shares which were issued on March 2, 2018. This was offset against the Parent Company’s payable to Wavemaker.

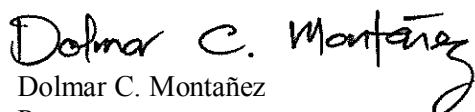


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and Board of Directors
Xurpas Inc.
7th Floor Cambridge Centre
108 Tordesillas St.
Salcedo Village, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Xurpas Inc. and its subsidiaries (the Group) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, and have issued our report thereon dated April 13, 2018. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules A to K listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Dolmar C. Montañez

Partner

CPA Certificate No. 112004

SEC Accreditation No. 1561-A (Group A),

April 21, 2016, valid until April 21, 2019

Tax Identification No. 925-713-249

BIR Accreditation No. 08-001998-119-2016,

February 15, 2016, valid until February 14, 2019

PTR No. 6621303, January 9, 2018, Makati City

April 13, 2018



XURPAS INC. AND SUBSIDIARIES

**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES**

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SCHEDULE A

XURPAS INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received or accrued
Loans and receivables			
Cash			
Cash on hand	₱—	₱385,595	₱—
Cash in banks			
Bank of the Philippine Islands			
Current Account	—	10,594,003	107,881
Savings Account	—	72,868,925	210,460
US Dollar Account	—	444,878	4,677
Robinsons Bank			
Savings Account	—	15,225	—
Security Bank			
Savings Account	—	15,286,252	178,482
US Dollar Account	—	1,103,913	4,434
Unionbank			
Current Account	—	11,313,511	—
Savings Account	—	29,430,027	39,944
US Dollar Account	—	1,683,454	3,744
China Bank			
Savings Account	—	20,818,373	30,358
US Dollar Account	—	536,402	2,727
Metrobank			
Savings Account	—	64,134	19
Asia United Bank			
Current Account	—	92,617	—
Banco De Oro			
Current Account	—	5,609,634	36,231
Savings Account	—	50,596	—
CIMB Niaga Bank	—	32,937	—
CIMB Bank			
US Dollar Account	—	21,396,145	836,801
SG Dollar Account	—	3,977,086	132,677
OCBC Bank			
US Dollar Account	—	18,520,640	—
SG Dollar Account	—	556,289	—
Paypal	—	473,874	—
Accounts and other receivables			
Trade	—	933,361,381	—
Receivable from related parties	—	7,490,000	—
Others	—	13,449,238	—
	—	1,169,555,131	1,588,435
AFS financial assets			
Unquoted debt investments	108,428,123	114,428,123	—
Unquoted equity investment	—	44,244,956	—
Quoted equity investment	—	380,000	—
	108,428,123	159,053,079	—
	₱108,428,123	₱1,328,608,210	₱1,588,435

SCHEDULE B**XURPAS INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM
DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND
PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

Name and designation of debtor	Balance at beginning of year	Additions	Amounts collected	Current	Noncurrent	Balance at the end of the year
Advances to employees	₱7,952,381	₱16,188,362	₱18,980,799	₱5,159,944		₱– ₱5,159,944
Accounts receivable from directors, officers, KMP and employees	43,990	5,600,427	3,144,417	2,500,000		– 2,500,000
	₱7,996,371	₱21,788,789	₱22,125,216	₱7,659,944		₱– ₱7,659,944

SCHEDULE C

XURPAS INC. AND SUBSIDIARIES

**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM
RELATED PARTIES WHICH ARE ELIMINATED DURING THE
CONSOLIDATION OF FINANCIAL STATEMENTS**

	Amount owed by Xurpas Parent to Xurpas Subsidiaries			
	Receivable balance per Xurpas Parent	Payable balance per Xurpas Subsidiaries	Current	Noncurrent
Storm Technologies, Inc.	₱66,751,197	₱66,751,197	₱66,751,197	₱—
Yondu Inc.	33,360,839	33,360,839	33,360,839	—
Xurpas Enterprise Inc.	25,273,153	25,273,153	25,273,153	—
Seer Technologies, Inc.	24,025,092	24,025,092	24,025,092	—
Xeleb Technologies Inc.	8,694,577	8,694,577	8,694,577	—
Art of Click Pte. Ltd.	215,414	215,414	215,414	—
<i>Subtotal</i>	₱158,320,272	₱158,320,272	₱158,320,272	₱—

	Amount owed by Xurpas Subsidiaries to Xurpas Parent			
	Receivable balance per Xurpas Subsidiaries	Payable balance per Xurpas Parent	Current	Noncurrent
Xeleb Technologies Inc. and subsidiary	₱185,505,169	₱185,505,169	₱185,505,169	₱—
Art of Click Pte. Ltd.	67,421,716	67,421,716	67,421,716	—
Yondu Inc.	713,328	713,328	713,328	—
Xurpas Enterprise Inc.	381,024	381,024	381,024	—
<i>Subtotal</i>	₱254,021,237	₱254,021,237	₱254,021,237	₱—

Receivable to	Amount owed to Xurpas Subsidiary to Xurpas Subsidiary		
	Payable from	Current	Noncurrent
Xeleb Technologies Inc.	Xurpas Enterprise Inc.	₱11,297,433	₱—
Seer Technologies Inc.	Xurpas Enterprise Inc.	7,255,111	—
Yondu, Inc.	Seer Technologies, Inc.	7,081,776	—
Yondu, Inc.	Xurpas Enterprise Inc.	3,429,982	—
Xurpas Enterprise Inc.	Art of Click Pte. Ltd.	1,580,384	—
Yondu, Inc.	Art of Click Pte. Ltd.	959,844	—
Yondu, Inc.	Storm Technologies, Inc.	448,000	—
Xurpas Enterprise Inc.	Storm Technologies, Inc.	440,149	—
Storm Technologies Inc.	Seer Technologies, Inc.	54,067	—
Storm Technologies Inc.	Xurpas Enterprise Inc.	28,006	—
<i>Subtotal</i>		₱32,574,752	₱—
Total eliminated receivables		₱444,916,261	₱—

SCHEDULE D**XURPAS INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS**

Description	Beginning balance	Acquired through business combination	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Goodwill	₱2,544,617,520	₱—	₱—	₱—	₱—	₱—	₱2,544,617,520
Customer relationship	1,077,809,700	—	—	—	—	—	1,077,809,700
Developed software	162,511,069	—	10,571,807	32,898,186	—	—	140,184,690
Leasehold rights	13,750,883	—	—	2,482,687	—	—	11,268,196
	₱3,798,689,172	₱—	₱10,571,807	₱35,380,873	₱—	₱—	₱3,773,880,106

SCHEDULE E**XURPAS INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT**

			Long-term Debt
Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption “current portion of long-term” in related balance sheet	Amount shown under caption “long-term debt” in related balance sheet
<i>The Group does not have long-term loans.</i>			

SCHEDULE F

XURPAS INC. AND SUBSIDIARIES

**SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES
(LONG-TERM LOANS FROM RELATED COMPANIES)**

Indebtedness to Related Parties (Long-term Loans from Related Companies)		
Name of related party	Balance at beginning of period	Balance at end of period
<i>The Group does not have long-term loans from related companies in its consolidated statements of financial position.</i>		

XURPAS INC. AND SUBSIDIARIES**SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS**

Guarantees of Securities of Other Issuers				
Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee
Not Applicable				
<i>The Group does not have any guarantees of securities of other issuing entities by the issuer for which the consolidated financial statements is filed.</i>				

SCHEDULE H**XURPAS INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK**

Capital Stock						
Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common shares	5,000,000,000	1,803,654,504*	—	—	348,202,170	1,455,452,334

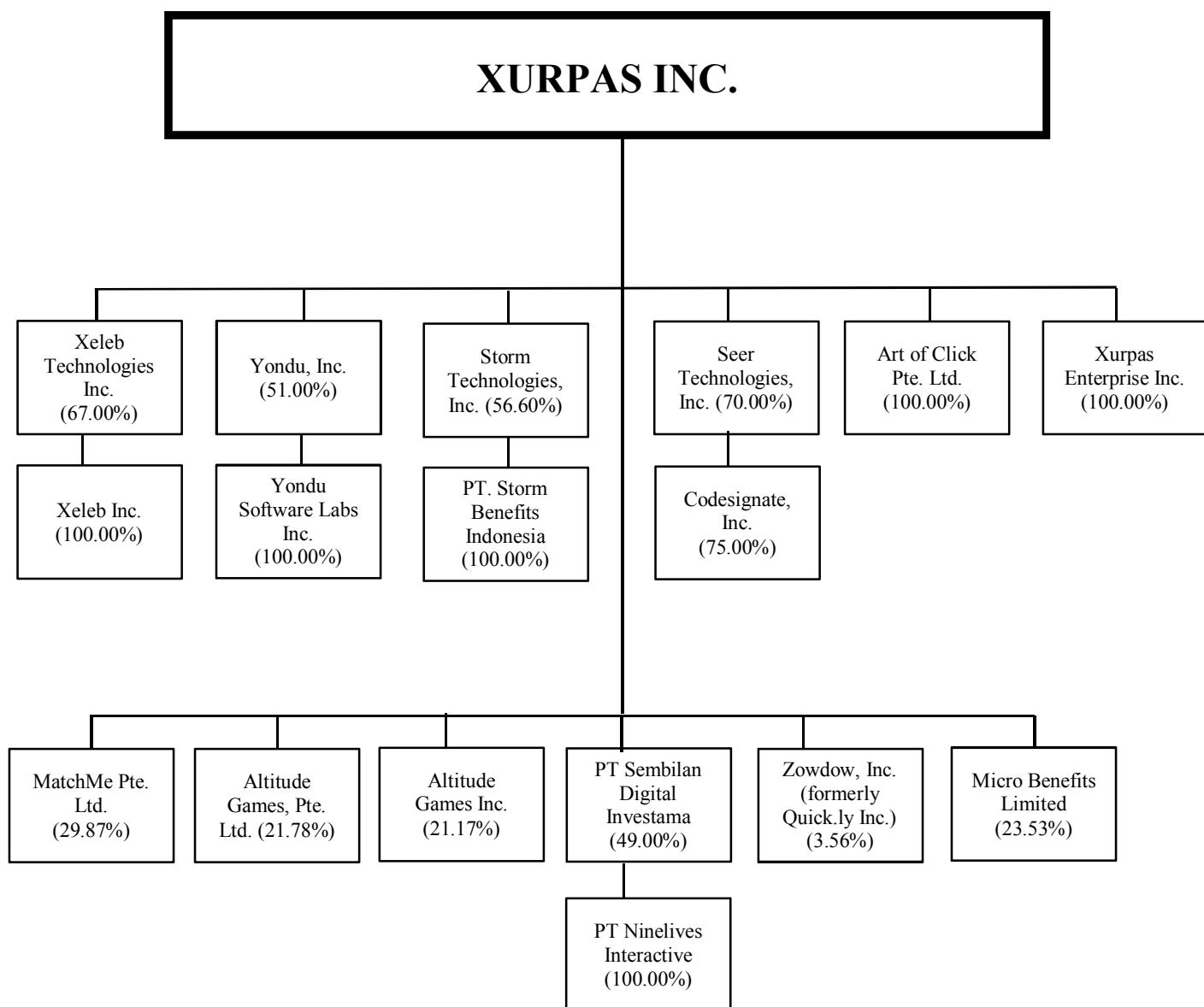
**Net of treasury shares.*

SCHEDULE I**XURPAS INC. AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE
FOR DIVIDEND DECLARATION**

Unappropriated Retained Earnings, beginning, as restated	₱58,813,388
Less adjustments:	
Deferred tax assets	(20,740,915)
Fair value adjustments	(57,327,386)
Unappropriated Retained Earnings, as adjusted, beginning	(19,254,913)
Net Income based on the face of AFS	217,305,450
Less: Non-actual/unrealized income net of tax	
Amount of provision for deferred tax during the year	(36,470,114)
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	(4,566,096)
Fair value adjustment (M2M gains)	(91,091,193)
Net Income Actual/Realized	85,178,047
Less: Other adjustments	
Dividend declarations during the period	(92,847,637)
Reversal of appropriation for share buy-back transactions	81,184,846
Reversal of appropriation for dividend declaration	65,819,709
Appropriations during the year	(26,649,121)
	27,507,797
Unappropriated retained earnings, end available for dividend distribution	₱93,430,931

XURPAS INC. AND SUBSIDIARIES

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES



XURPAS INC. AND SUBSIDIARIES

**SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS
UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS
DECEMBER 31, 2017**

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule (SRC) Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II”, respectively. It also prescribed the additional schedule requirements for large entities showing a list of all effective standards and interpretations under Philippine Financial Reporting Standards (PFRS).

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2017:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs			✓
	Amendments to PFRS 1: Meaning of ‘Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Condition			
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓		
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures - Servicing Contracts			✓
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			
PFRS 9	Financial Instruments: Classification and Movement (2010 version)	Not early adopted		
	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)	Not early adopted		
	Financial Instruments (2014 or final version)	Not early adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not early adopted		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation	Not early adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendment to PFRS 12: Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014-2016 Cycle)			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables	✓		
	Amendments to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	Not early adopted		
PFRS 16	Leases	Not early adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12-Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of servicing equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investment in Associate and Joint Venture	✓		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures			✓
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014-2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities	✓		
	Amendments to PAS 34: - Disclosure of information 'elsewhere in the interim financial report	✓		
PAS 36	Impairment of Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
	Transfer of Investment Property			✓
PAS 40 (Amended)	Investment Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in <i>Hyperinflationary Economies</i>			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
IFRIC 23	Uncertainty over Income Tax Treatments			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

** Effectivity has been deferred by the Securities and Exchange Commission.*

Standards tagged as “Not Applicable” have been adopted by the Group but have no significant covered transactions for the year ended December 31, 2017.

Standards tagged as “Not early adopted” are standards issued but not yet effective as of December 31, 2017. The Group will adopt the Standards and Interpretations when these become effective.

SCHEDULE L**XURPAS INC. AND SUBSIDIARIES****FINANCIAL RATIOS**

Financial Ratios	2017	2016
A. Current ratios		
Current ratios	54%	105%
Quick ratios	51%	102%
B. Debt-to-equity ratios	97%	91%
C. Asset-to-equity ratios	231%	219%
D. Interest rate coverage ratios	281%	1,184%
E. Profitability ratios		
Net income margin	2%	11%
Gross margin	31%	41%
Operating margin	12%	24%
Return on total assets	1%	7%
Return on equity	1%	14%