

SEC Number AS095-006755  
File Number \_\_\_\_\_

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**TRANSPACIFIC BROADBAND GROUP  
INTERNATIONAL, INC.**

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(Company)

9th Floor Summit One Tower  
530 Shaw Boulevard, Mandaluyong City

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(Address)

**717-0523**

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(Telephone Number)

**DECEMBER 31**

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(Fiscal Year Ending)  
(month & day)

**SEC Form 17Q**

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(Form Type)

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Amendment Designation (if applicable)

**September 30, 2016**

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(Period Ended Date)

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(Secondary License Type and File Number)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

1. For the quarterly period ended September 30, 2016
2. Commission identification no. AS095-006755                      3.BIR Tax Identification No. 004-513-153
4. TRANSPACIFIC BROADBAND GROUP INT'L., INC.
5. Philippines
6. Industry Classification Code:
7. 9th Floor, Summit One Tower, 530 Shaw Blvd., 1550 Mandaluyong City  
Bldg. 1751 Chico St. Clark Special Economic Zone, Angeles, Pampanga  
(Satellite Center)
8. Telephone No. (0632) 717-0523
9. The Company did not change its name, address or fiscal year during the period covered by this report.
10. Securities registered pursuant to Sections 4 and 8 of the RSA

| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding |
|---------------------|-----------------------------------------------------------------------------|
| Common              | 222,019,330                                                                 |

11. These securities are listed on the Philippine Stock Exchange.
  - (a) The company has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
  - (b) The company has been subject to such filing requirements for the past ninety (90) days.

I. Financial Statements.

**TRANSPACIFIC BROADBAND GROUP INTERNATIONAL, INC.**  
**STATEMENT OF FINANCIAL POSITION**

| Notes                                 | (Unaudited)<br>30-Sep<br>2016 | (Audited)<br>31-Dec<br>2015 |
|---------------------------------------|-------------------------------|-----------------------------|
| <b>ASSETS</b>                         |                               |                             |
| <b>Current Assets</b>                 |                               |                             |
| Cash and cash equivalents             | 8 P 4,490,612 P               | 1,390,132                   |
| Trade receivables                     | 9 18,993,378                  | 14,142,354                  |
| Other current assets                  | 10 2,695,349                  | 4,128,973                   |
| Total Current Assets                  | 26,179,340                    | 19,661,459                  |
| <b>Noncurrent Assets</b>              |                               |                             |
| Advances for projects                 | 11 5,329,758                  | 5,329,758                   |
| Property and equipment - net          | 15 107,042,403                | 119,935,693                 |
| Investment properties                 | 16 45,287,800                 | 45,287,800                  |
| Investment in an associate            | 12 114,657,994                | 108,957,973                 |
| Franchise - net                       | 13 4,492,405                  | 4,942,405                   |
| Deferred tax assets                   | 805,094                       | 805,094                     |
| Other non-current assets              | 14 4,074,020                  | 3,810,638                   |
| Total Noncurrent Assets               | 281,689,474                   | 289,069,361                 |
| Total Assets                          | P 307,868,814 P               | 308,730,820                 |
| <b>Current Liabilities</b>            |                               |                             |
| Accounts payable and accrued expenses | 17 P 603,604 P                | 1,274,114                   |
| Interest-bearing liabilities          | 18 5,900,000                  | 5,565,588                   |
| Income tax payable                    | -                             | 130,490                     |
| Total Current Liabilities             | 6,503,604                     | 6,970,192                   |
| <b>Noncurrent Liabilities</b>         |                               |                             |
| Pension liability                     | 775,435                       | 775,435                     |
| Total Noncurrent Liabilities          | 775,435                       | 775,435                     |
| Total Liabilities                     | 7,279,039                     | 7,745,627                   |
| <b>Equity</b>                         |                               |                             |
| Share Capital                         | 19 222,019,330                | 222,019,330                 |
| Share premium                         | 29,428,022                    | 29,428,022                  |
| Share options outstanding             | 8,921,814                     | 8,921,814                   |
| Retained earnings                     | 40,658,408                    | 41,053,827                  |
| Treasury shares                       | (437,800)                     | (437,800)                   |
| Total Equity                          | 300,589,774                   | 300,985,193                 |
| Total Liabilities and Equity          | P 307,868,814 P               | 308,730,820                 |

See Notes to Financial Statements

**TRANSPACIFIC BROADBAND GROUP INTERNATIONAL, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**

|                                           |      | Quarter Ending   |                  | Nine (9) month ending |                   |
|-------------------------------------------|------|------------------|------------------|-----------------------|-------------------|
|                                           | Note | 30-Sep-16        | 30-Sep-15        | 30-Sep-16             | 30-Sep-15         |
| <b>REVENUES</b>                           |      |                  |                  |                       |                   |
| Service income                            |      | 8,843,525        | 8,306,361 P      | 26,430,143 P          | 25,320,125        |
| Other income                              | 21   | 603,104          | 625,552          | 1,824,054             | 1,846,702         |
|                                           |      | <b>9,446,629</b> | <b>8,931,913</b> | <b>28,254,197</b>     | <b>27,166,827</b> |
| <b>COST AND EXPENSES</b>                  |      |                  |                  |                       |                   |
| Direct cost                               | 20   | 9,775,847        | 8,461,681        | 27,100,740            | 26,217,178        |
| Administrative expenses                   | 22   | 72,850           | 30,001           | 542,891               | 489,455           |
| Finance cost                              |      | 74,847           | 43,863           | 235,951               | 119,575           |
|                                           |      | <b>9,923,543</b> | <b>8,535,545</b> | <b>27,879,581</b>     | <b>26,826,208</b> |
| <b>INCOME (LOSS) FROM OPERATION</b>       |      | <b>(476,914)</b> | <b>396,368</b>   | <b>374,616</b>        | <b>340,619</b>    |
| <b>EQUITY IN NET LOSS OF AN ASSOCIATE</b> |      | <b>221,112</b>   | <b>307,607</b>   | <b>712,362</b>        | <b>725,104</b>    |
| <b>PROFIT (LOSS) BEFORE INCOME TAX</b>    |      | <b>(698,026)</b> | <b>88,761</b>    | <b>(337,746)</b>      | <b>(384,485)</b>  |
| <b>INCOME TAX EXPENSE</b>                 |      | <b>(16,397)</b>  | <b>(1,330)</b>   | <b>57,673</b>         | <b>104,256</b>    |
| <b>PROFIT (LOSS) FOR THE PERIOD</b>       |      | <b>(681,629)</b> | <b>90,091</b>    | <b>(395,419)</b>      | <b>(488,741)</b>  |
| <b>OTHER COMPREHENSIVE INCOME</b>         |      | <b>-</b>         | <b>-</b>         | <b>-</b>              | <b>-</b>          |
| <b>TOTAL COMPREHENSIVE INCOME</b>         |      | <b>(681,629)</b> | <b>90,091 P</b>  | <b>(395,419) P</b>    | <b>(488,741)</b>  |
| <b>EARNINGS PER SHARE</b>                 |      |                  |                  | <b>(0.0018)</b>       | <b>(0.0022)</b>   |

See Notes to Financial Statements

**TRANSPACIFIC BROADBAND GROUP INTERNATIONAL, INC**  
**STATEMENT OF CHANGES IN EQUITY**

|                                                                             | <b>Nine (9) months ending</b> |                    |
|-----------------------------------------------------------------------------|-------------------------------|--------------------|
|                                                                             | <b>30-Sep-16</b>              | <b>30-Sep-15</b>   |
| <b>SHARE CAPITAL</b>                                                        | <b>P 222,019,330 P</b>        | <b>222,019,330</b> |
| <b>SHARE PREMIUMS</b>                                                       | <b>29,428,020</b>             | <b>29,428,022</b>  |
| <b>SHARE OPTIONS OUTSTANDING</b>                                            |                               |                    |
| Balance, January 1                                                          | <b>8,921,814</b>              | <b>8,921,814</b>   |
| Options granted                                                             | -                             | -                  |
| Balance, Sept 30                                                            | <b>8,921,814</b>              | <b>8,921,814</b>   |
| <b>REVALUATION INCREMENT ON PROPERTY AND<br/>AND EQUIPMENT - NET OF TAX</b> |                               |                    |
| Balance, January 1                                                          | -                             | <b>1,075,684</b>   |
| Revaluation increment absorbed through depreciation                         | -                             | <b>(1,075,684)</b> |
| Balance, Sept 30                                                            | -                             | -                  |
| <b>RETAINED EARNINGS (DEFICIT)</b>                                          |                               |                    |
| Balance, January 1                                                          | <b>41,053,827</b>             | <b>38,718,482</b>  |
| Revaluation increment absorbed through depreciation                         | -                             | <b>1,132,299</b>   |
| Profit (loss)                                                               | <b>(395,419)</b>              | <b>(488,741)</b>   |
| Balance, Sept 30                                                            | <b>40,658,408</b>             | <b>39,362,040</b>  |
| <b>TREASURY SHARES</b>                                                      | <b>(437,800)</b>              | <b>(437,800)</b>   |
|                                                                             | <b>P 300,589,772 P</b>        | <b>299,293,406</b> |

See Notes to Financial Statements

**TRANSPACIFIC BROADBAND GROUP INTERNATIONAL, INC**  
**STATEMENT OF CASH FLOWS**

|                                              | Quarter Ending   |                    | Nine (9) month ending |                    |
|----------------------------------------------|------------------|--------------------|-----------------------|--------------------|
|                                              | 30-Sep-16        | 30-Sep-15          | 30-Sep-16             | 30-Sep-15          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                  |                    |                       |                    |
| Profit (Loss) after income tax               | P (681,631) P    | (18,159) P         | (395,419) P           | (488,741)          |
| Adjustments for:                             |                  |                    |                       |                    |
| Depreciation and amortization                | 4,297,763        | 3,952,461          | 12,893,290            | 11,857,383         |
| Amortization of franchise                    | 150,000          | 150,000            | 450,000               | 450,000            |
| Foreign exchange loss                        | -                | -                  | 434,412               | -                  |
| Equity in net loss of an associate           | 221,112          | 307,607            | 712,362               | 725,104            |
| Interest expense                             | 74,847           | 38,295             | 235,951               | 116,434            |
| Interest income                              | (119)            | (753)              | (1,399)               | (3,180)            |
| Operating income before working capital ch   | 4,061,972        | 4,429,451          | 14,329,197            | 12,657,000         |
| Decrease (increase) in Operating Assets:     |                  |                    |                       |                    |
| Trade receivables - net                      | (1,943,554)      | (4,055,779)        | (4,851,024)           | (4,419,498)        |
| Decrease (increase) in Other non-current a:  | (759,541)        | (1,503,355)        | (263,382)             | 2,043,980          |
| Increase/(decrease) in Operating liabilities |                  |                    |                       |                    |
| Accounts payable and accrued expens          | (49,223)         | (351,337)          | (801,000)             | (419,222)          |
| Net Cash Provided by/(Used in) Operating Ac  | 1,309,654        | (1,481,020)        | 8,413,791             | 9,862,260          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                  |                    |                       |                    |
| Proceeds from:                               |                  |                    |                       |                    |
| Sale of communication device                 | 486,835          |                    | 1,433,624             |                    |
| Short-term investment                        | -                | -                  |                       | 2,700,000          |
| Excess from advances for projects            | -                | -                  | -                     | 4,300,000          |
| Investment and advances in an associ         | (167,920)        | -                  | (6,412,383)           | -                  |
| Payment of subscription                      | -                | -                  | -                     | (19,000,000)       |
| Interest received                            | 119              | 753                | 1,399                 | 3,180              |
| Net Cash Used in Investing Activities        | 319,034          | 753                | (4,977,360)           | (11,996,820)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                  |                    |                       |                    |
| Proceeds from bank loans                     |                  |                    |                       |                    |
| Principal                                    | (100,000)        | 470,947            | (100,000)             | -                  |
| Interest                                     | (74,847)         | (38,295)           | (235,951)             | (116,434)          |
| Net Cash Provided by(used in) Financing Act  | (174,847)        | 432,652            | (335,951)             | (116,434)          |
| <b>NET INCREASE (DECREASE) IN CASH EQUI</b>  | <b>1,453,841</b> | <b>(1,047,615)</b> | <b>3,100,480</b>      | <b>(2,250,994)</b> |
| <b>CASH AT THE BEGINNING OF THE YEAR</b>     |                  |                    | <b>1,390,132</b>      | <b>4,148,114</b>   |
| <b>CASH AT END OF YEAR</b>                   |                  |                    | <b>P 4,490,612 P</b>  | <b>1,897,120</b>   |

See Notes to Financial Statements

**TRANSPACIFIC BROADBAND GROUP INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2016 and December 31, 2015**

**1. Corporate Information**

Transpacific Broadband Group International, Inc. (TBGI or the Company), a corporation duly organized and existing under the laws of Republic of the Philippines, was incorporated and registered with Securities and Exchange Commission ("SEC") on July 14, 1995, primarily to engage in the business of public commercial radio, terrestrial, cable, and satellite broadcast. The Company is 9.57% owned by Unipage Management Inc.

The Company holds a 25-year Congressional Franchise to construct, establish, install, maintain, and operate communications systems for the reception and transmission of messages within the Philippines. It also has an approved Provisional Authority to transmit radio signals to satellites granted by the National Telecommunications Commission (NTC) on April 7, 1999.

In 2007, the Company received from NTC its Certificate of Registration as a value added services provider and offer Voice Over Internet Protocol (VOIP) service. In the same year, NTC granted Frequency Supportability to the Company.

The Company is a duly registered Clark Special Economic Zone (CSEZ) enterprise and has committed to operate, manage, and maintain a satellite earth station with broadcast production and postproduction facilities and other related activities, located at Clark Field, Philippines. Pursuant to its registration with CSEZ, the Company is subject to a special tax rate of 5% of gross income on registered activities.

The Company's registered office is located at the 9th Floor of Summit One Tower, 530 Shaw Boulevard, Mandaluyong City. Its satellite center is located at Bldg. 1751, Chico St., Clark Special Economic Zone, Angeles City, Pampanga.

**2. Basis of Preparation and Presentation**

*Statement of Compliance*

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS) and interpretations thereof. PFRS are adopted standards by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

*Basis of Financial Statement Preparation and Presentation*

The accompanying financial statements have been prepared on a historical cost basis except for certain property and equipment and investment properties that are carried at revalued amounts.

The financial statements are presented in Philippine Peso, the Company's functional currency and all values represent absolute amount except when otherwise indicated.

**3. Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

*Current versus non-current classification*

The Company presents assets and liabilities in the statements of financial position based on current/non-current classification. An asset is current when it is:

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

The Company classifies all other assets as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the end of the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the end of the reporting period.

The Company classifies all other liabilities as non-current.

### Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

### Financial Instruments

#### *Date of Recognition*

Financial assets and financial liabilities are recognized in the statements of financial position of the Company when it becomes a party to the contractual provisions of the instrument.

#### *Initial Recognition*

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of these financial instruments includes transaction costs.

#### *Determination of Fair Value*

The fair value for instruments traded in active market at the reporting date is based on their quoted market price. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate techniques or comparison to similar instruments for which market observable prices exists.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instruments or based on a valuation technique, the Company recognizes the difference between the transaction price and fair value in the statement of comprehensive income unless it qualifies for recognition as some other type of asset.

#### *Classification of Financial Instruments*

The Company classifies financial assets into the following categories, (i) At fair value through profit or loss (FVPL), (ii) Available-for-sale, (iii) Held-to-maturity and (iv) Loans and receivable. The Company 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 or liabilities incurred 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 reporting date.

#### (i) Financial Assets and Financial Liabilities at FVPL

Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL. After initial recognition, financial assets and financial liabilities at FVPL are carried at fair value.

A financial asset and financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is part of an identified portfolio of financial instruments that the Company manages together and has recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVPL upon initial recognition if:



- Such designation eliminates or significantly reduces a measurement or recognition inconsistently that would otherwise arise; or
- The financial asset forms part of a group of financial assets that is managed and its performance is evaluated on a fair value basis.
- It forms part of a contract containing one or more embedded derivatives.

As of September 30, 2016 and December 31, 2015, there are no financial assets under this category.

(ii) Available-for-sale (AFS)

AFS are non-derivative financial assets that are either designated on this category or not classified in any of the other categories. Subsequent to initial recognition, AFS assets are carried at fair value in the statement of financial position. Changes in the fair value are recognized directly in equity account as "*Revaluation reserve on AFS financial assets*". Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period.

As of September 30, 2016 and December 31, 2015, there are no financial assets under this category.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate.

Included under this category are the company's cash and cash equivalents, trade receivables, security deposits and other receivables.

(iv) Held-to-maturity (HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. After initial measurement, HTM assets are carried at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Any changes to the carrying amount of the investment are recognized in statements of income.

As of September 30, 2016 and December 31, 2015, there are no financial assets under this category.

(v) Other Financial Liabilities

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral parts of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of comprehensive income.

Included under this category are accounts payable and accrued expenses and long term loans payable.

#### *Reclassification of Financial Assets*

A financial asset is reclassified out of the FVPL category when the following conditions are met (i) the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and (ii) there is a rare situation.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statements of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

#### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

#### *Impairment of Financial Assets*

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

##### *(i) Assets carried at amortized cost*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognized in the profit and loss accounts.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to 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 the profit and loss accounts, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

##### *(ii) Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

##### *(iii) Available-for-sale financial assets*

Available-for-sale financial assets are subject to impairment review at each end of the reporting period. Impairment loss is recognized when there is objective evidence such as significant financial difficulty of the issuer/obligor, significant or prolonged decline in market prices and adverse economic indicators that the recoverable amount of an asset is below its carrying amount.

#### *Derecognition of Financial Instruments*

##### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party.

- the Company has transferred its rights 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 substantially all the risks and rewards of the asset, but has transferred the control of the asset.

Where the Company 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 of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 de-recognition 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.

#### Prepaid Expenses

Prepaid expenses are measured at amounts paid and subsequently recognized as expense over which the repayments apply.

#### Spare Parts Inventory

Spare parts inventory is stated at the lower of cost and net realizable value (NRV). Cost is determined using the first-in first-out method. NRV is the selling price less the estimated cost to sell.

#### Property and Equipment

Transportation equipment, furniture, and fixtures are carried at cost less accumulated depreciation and impairment in value, if any. Buildings and improvements, uplink/data equipment and leasehold improvements are carried at revalued amounts less accumulated depreciation and impairment losses, if any. Appraisal was made by an independent firm appraiser with sufficient regularity to ensure that the carrying amounts of these assets do not differ materially from their fair values. Subsequent acquisitions are stated at cost less accumulated depreciation and impairment losses, if any.

Any increase in revaluation is credited to the "Revaluation Increment" account shown under equity unless it offsets a previous decrease in value of the same asset recognized in the statements of income. A decrease in value is recognized in profit or loss where it exceeds the increase previously recognized in the "Revaluation Increment" account. The amount of revaluation increment absorbed through depreciation is transferred from revaluation increment to retained earnings. Upon disposal of the asset, the related revaluation increment is transferred to retained earnings and is taken into account in arriving at the gain or loss on disposal.

The initial cost of property and equipment consist of its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the properties have been put into operation, such as repairs and maintenance, are normally recognized in profit or loss in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the property and equipment.

Depreciation is computed on a straight-line method over the estimated useful lives of the depreciable assets as follows:

|                          |                                               |
|--------------------------|-----------------------------------------------|
| Buiding and improvements | 20 yrs                                        |
| Uplink/data equipment    | 10-20 years                                   |
| Furniture and fixtures   | 10 years                                      |
| Transportation equipment | 5 years                                       |
| Lease improvement        | 6 years or lease term<br>whichever is shorter |

An asset's residual value, useful life, and depreciation method are reviewed periodically to ensure that the period, residual value, and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are sold, retired, or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

When the carrying amount of an asset is greater than its estimated recoverable amount, the cost is written down immediately to its recoverable amount. Fully depreciated assets are retained in the accounts until they are no longer in use.

#### Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both and that is not occupied by the company. Investment properties are initially measured at cost, including transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The Company reviews these valuations annually. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

Investment property is derecognized when either it has been disposed of, or when the investment property is permanently withdrawn or sold and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

#### Investment in Associate

An associate is an entity in which the investor has a significant influence and which is neither a subsidiary nor a joint venture.

Investment in associate is accounted for using the equity method of accounting and initially recognized at cost, and is subsequently adjusted to reflect the investor's share of the net profit or loss of the associate.

#### Franchise

Franchise, which consists of directly attributable expenses, is carried at cost less accumulated amortization.

Franchise is amortized over its term of 25 years. When the carrying amount of the franchise is greater than its estimated recoverable amount, the cost is written down immediately to its recoverable amount. Franchise is derecognized either upon disposal or the right to use expired.

#### Other non-current assets

Other non-current assets of the Company include advances to affiliates, security deposit, other receivable, rent receivable and other asset.

#### Equity

Share capital is determined using the par value of shares that have been issued.

Share premium represents the excess of the par value over the subscription price. Retained earnings include all current and prior period results as disclosed in the Statements of Income.

Revaluation increment represents appraisal increase on revaluation of certain property and equipment.

Share options is measured based on the fair value of the stock option on the date of grant. If the fair value of the stock option cannot be estimated reliably, the intrinsic value method is used. The intrinsic value is the excess of the market value of the share over the option price.

Treasury shares are recorded at cost, which is equal to the cash payment or for noncash consideration. It is shown in the statements of financial position as a deduction from the equity.

#### Revenue and Costs Recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

##### *Subscription fees*

Revenues from uplink services and bandwidth subscriptions are recognized when services are rendered and billed.

##### *Rent income*

Rent income is recognized on a straight line basis over the lease term.

##### *Interest income*

Interest income from bank deposits is recognized as interest accrues taking into account the effective yield on the related asset.

##### *Dividend income*

Dividend income is recognized when the right to receive dividends is established.

Cost is recognized in the statement of comprehensive income when the related revenue is earned (e.g. when goods are sold or services have been performed). Expenses are recognized upon utilization of the service or when they are incurred.

#### Income Taxes

Current tax liabilities are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted as at the end of reporting period.

Deferred tax asset is recognized for all temporary differences that are expected to reduce taxable profit in the future, and for the carry forward of unused tax losses and unused tax credits. Deferred tax liability is recognized for all temporary differences that are expected to increase the taxable profit in the future. Deferred tax assets and liabilities are measured using the tax rates and laws substantively enacted at the end of the reporting period.

The carrying amount of deferred tax asset is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statements of income. Only changes in deferred tax assets or liabilities that relate to a change in value of asset or liabilities are charged or credited directly to equity.

#### Employee Benefits

##### (i) Retirement Benefit Cost

The Company provides for estimated retirement benefits costs required to be paid under RA 7641 to qualifying employees. The cost of defined retirement benefits, including those mandated under RA 7641 is determined using the accrued benefits valuation method or projected benefit valuation

method. Both methods require an actuarial valuation which the Company has not undertaken. Management believes, however, that the effect on the financial statements of the difference between the retirement cost determined under the current method used by the Company and an acceptable actuarial valuation method is not significant.

(ii) **Compensated absences**

Compensated absences are recognized for the number of paid leaves days (including holiday entitlement) remaining at reporting date. They are included as part of Accounts payable and accrued expenses account at the undiscounted amount the Company expects to pay as a result of the unused entitlement.

Leases

Leases where the lessor retains substantially all the risk and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as expense on a straight line basis over the lease term.

Finance lease, which transfer to the company substantially all the risks and benefits incidental to the ownership of the leased asset, are capitalized at the lower of fair value of the leased asset or the present value of the minimum lease payments at the inception of the lease. Lease payments are apportioned between the finance charges and reduction of the lease liability. Finance charges are recognized in the statement of comprehensive income.

Foreign Currency Transactions and Translations

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (*the functional currency*). The financial statements are presented in Philippine Peso, the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency at exchange rates prevailing at the time of transaction. Foreign currency gains and losses resulting from settlement of such transaction and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

*Impairment of Non-Financial Assets*

The Company's property and equipment, investment properties, investment in associate, and franchise are subject to impairment testing. All other individual assets' or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less cost to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Related Party Transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The related party transactions are recognized based on transfer of resources or obligations between related parties, regardless of whether a price is charged.

### Provisions

Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example legal disputes for onerous contract.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at end of reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. In addition, long term provisions are discounted at their present values, where time value of money is material.

Provisions are reviewed at each end of reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent asset, hence, are not recognized in the financial statements.

### Contingencies

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

### Events after End of reporting period

Post year-end events that provide additional information about the Company's financial position at the end of reporting period (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

### Earnings (Loss) Per Share

Basic earnings per share is computed by dividing profit for the period by the weighted average number of shares issued and outstanding during the year.

## **4. Changes in Accounting Standards**

### *New Accounting Standards and Amendments to Existing Standards Effective as of January 1, 2015*

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to PFRS effective beginning January 1, 2015. The adoption however did not result to any material changes in the financial statements.

#### *Amendments to PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions*

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. The amendment does not have any significant impact on the Company's financial position or performance.

#### Annual Improvements to PFRS (2010 to 2012 cycle)

The Annual Improvements to PFRSs (2010 to 2012 cycle) contain non-urgent but necessary amendments to the following standards. These are effective for annual periods beginning on or after July 1, 2014. Except as otherwise stated, the amendments do not have a significant impact on the financial statements.

- **PFRS 2, *Share-based Payment - Definition of Vesting Condition***  
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
  
- **PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination***  
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39. This amendment is not relevant to the Company.
  
- **PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets***  
The amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
  
- **PAS 16, *Property, Plant and Equipment: Revaluation Method - Proportionate Restatement of Accumulated Depreciation*, and PAS 38, *Intangible Assets: Revaluation Method - Proportionate Restatement of Accumulated Amortization***  
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
  
- **PAS 24, *Related Party Disclosures - Key Management Personnel***  
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

#### Annual Improvements to PFRS (2011 to 2013 cycle)

The Annual Improvements to PFRSs (2011 to 2013 cycle) contain non-urgent but necessary amendments to the following standards. These are effective for annual periods beginning on or after January 1, 2015. Except as otherwise stated, the amendments have no significant impact on the financial statements.



- **PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements***  
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
  
- **PFRS 13, *Fair Value Measurement - Portfolio Exception***  
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.
  
- **PAS 40, *Investment Property***  
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

*New Accounting Standard, Amendments to Existing Standards and Interpretations Effective Subsequent to December 31, 2015*

Standards issued but not yet effective up to date of issuance of the Company's financial statements are listed below. The listing consists of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. The Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

*Effective 2016*

*Amendments to PAS 1, **Presentation of Financial Statements – Disclosure Initiative***

The amendments include narrow-focus improvements in five areas; namely, materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. The amendments are effective on or after January 1, 2016. The amendment will not have any significant impact on the Company's financial position or performance.

*Amendments to PAS 16, **Property, Plant and Equipment**, and PAS 38, **Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization***

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendment will not have any significant impact on the Company's financial position or performance.

*Amendments to PAS 16, **Property, Plant and Equipment**, and PAS 41, **Agriculture - Bearer Plants***

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

*Amendments to PAS 27, Separate Financial Statements - Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendment will not have any significant impact on the Company's financial position or performance.

*Amendments to PFRS 10, Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities, and PAS 28, Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception.*

The amendments address certain issues that have arisen in applying the investment entities exception under PFRS 10. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company's financial statements.

*Amendments to PFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendment will not have any significant impact on the Company's financial position or performance.

*PFRS 14, Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. The Standard will not have any significant impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact to the Company's financial statements. They include:

▪ *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

▪ *PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An

entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

▪ *PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

▪ *PAS 19, Employee Benefits - Regional Market Issue Regarding Discount Rate*

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

▪ *PAS 34, Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

*Effective 2018*

*PFRS 9, Financial Instruments - Hedge Accounting and Amendments to PFRS 9, PFRS 7 and PAS 39*

PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

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

The adoption of the third phase of the project is not expected to have any significant impact on the Company's financial statements.

*PFRS 9, Financial Instruments*

In July 2014, the final version of PFRS 9 was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

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

The adoption of the other phases of the project is not expected to have any significant impact on the Company's financial statements.

The following new standard issued by the IASB has not yet been adopted by the FRSC.

- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer. The principles in IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017, with early adoption permitted. This mandatory adoption date was moved to January 1, 2018.

The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

#### *Deferred*

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are originally effective from annual periods beginning on or after January 1, 2016. This mandatory adoption date was later on deferred indefinitely.

## **5. Summary of Significant Accounting Judgments and Estimates**

The Company makes estimates and assumptions that affect the reported amounts of the assets and liabilities within the next financial year. Estimates and judgments 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.

### *(i) Judgments*

The following judgments were applied which have the most significant effect on the amounts recognized in the financial statements.

#### *Determination of functional currency*

The Company has determined that its functional currency is the Philippine peso which is the currency of the primary economic environment in which the Company operates.

#### *Classifying financial instruments*

The Company classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of the financial instrument, rather than its legal form, governs its classification in the statements of financial position.

#### *Classification of leases*

Judgment is exercised in determining whether substantially all the significant risk and rewards of ownership of the leased asset is transferred to the Company. Leases where the lessor transfer all the risk and rewards incidental to the ownership of the leased asset are taken up as finance

leases. Leases where the lessor retains all the risk and rewards to assets are taken up as operating leases.

*Determination of fair value of assets and liabilities*

The Company measures fair value of assets and liabilities using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1

Included in the Level 1 category are assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. Assets and liabilities are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Fair value measurement is disclosed in Note 6.

*(ii) Estimates*

The key assumptions concerning the future and other key sources of estimation of uncertainty at end of reporting period, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Estimating Allowance for probable losses on receivables*

The Company estimates the allowance for probable losses related to its trade receivable based on assessment of specific accounts when the Company has information that certain customers are unable to meet their financial obligation. In these cases, management uses the best available facts and circumstances including but not limited to third party credit reports and known market factors.

No allowance for probable loss was recognized for the quarter ending September 30, 2016. The Company recognized an allowance of P193,623 in 2015.

*Estimating NRV of inventories*

The carrying value of inventories is carried at lower of cost and NRV. The estimates used in determining NRV is dependent on the recoverability of its cost with reference to existing market prices, location or the recent market transactions. The amount and timing of recorded cost for any period would differ if different estimates were used.

*Estimating Useful Lives of Property and Equipment*

The Company reviews annually the estimated useful lives of property and equipment, based on the period on which the assets are expected to be available for use. It is possible that future results of operation could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and decrease the related asset account.

During the year, the Company reviewed the useful life of leasehold improvement. It was determined that the leasehold improvements still have a remaining useful life of 6 years which approximates the years at the end of the lease term.

During 2014, the Company assessed that fully depreciated items of transportation equipment have aggregate recoverable value amounting to P1 million when retired and/or sold to interested party. Accordingly, same amount was reversed from accumulated depreciation of property and

equipment. The assessment was based on sales and listings of comparable items of the same type and condition.

The carrying value of property and equipment as at September 30, 2016 and December 31, 2015 amounted to P107,042,403 and P119,935,693, respectively.

#### *Deferred tax assets*

The Company reviews the carrying amounts of deferred tax asset at each end of reporting period and reduces the deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

#### *Estimating Retirement Benefits*

The determination of the Company's obligation and cost for retirement and other retirement benefits which is based on RA 7641 is dependent on the length of stay of the qualifying employees and reaching the age of 60 upon retirement. Annually, retirement benefits are computed based on existing employees and there is no assurance that the employee will still be with the Company at the age of retirement.

Retirement benefit cost recognized in the financial statements amounted to P123,228 in 2015.

#### *Impairment of financial assets*

The company follows the guidance of PAS 39 on determining when the investment is other than temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

#### *Impairment of non-financial asset*

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Several factors are considered which could trigger that impairment has occurred. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have material adverse effect on the results of operations.

As at September 30, 2016 and December 31, 2015, management believes that no provision for impairment losses is necessary.

#### *Measurement of stock options*

The compensation resulting from stock options is measured based on the fair market value of the stock option on the date of grant. If the fair value of the stock option cannot be estimated reliably, the intrinsic value method is used. The intrinsic value is the excess of the market value of the share over the option price.

During 2010, the TBGI Remuneration Committee met to discuss the request of the Chief Financial Officer to indefinitely defer the Stock Option plan for the CEO. The Stock Options Plan for the CEO may be restored only upon the recommendation of the Remuneration Committee and subject to the approval of the Board of Directors.

As at September 30, 2016 and December 31, 2015, share options outstanding amounted to P8,921,814.

## **6. Fair Value Measurement**

The fair value for instruments traded in active market at the reporting date is based on their quoted market price. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate techniques or comparison to similar instruments for which market observable price exists.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instruments or based on a valuation technique, the Company recognizes the difference between the transaction price and the fair value in the statements of income unless it qualifies for recognition as some other type of asset.

The table below analyzes assets and liabilities measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

| <b>September 30, 2016</b>                    | <b>Level 1</b>     | <b>Level 2</b>     | <b>Level 3</b>   | <b>Total</b>       |
|----------------------------------------------|--------------------|--------------------|------------------|--------------------|
| <b>Cash and cash equivalents</b>             | <b>P4,490,612</b>  |                    |                  | <b>P4,490,612</b>  |
| <b>Trade receivables</b>                     | <b>18,993,378</b>  |                    |                  | <b>18,993,378</b>  |
| <b>Other current assets</b>                  |                    | <b>2,695,349</b>   |                  | <b>2,695,349</b>   |
| <b>Other non-current assets</b>              | <b>4,074,020</b>   |                    |                  | <b>4,074,020</b>   |
| <b>Advances for projects</b>                 | <b>5,329,758</b>   |                    |                  | <b>5,329,758</b>   |
| <b>Property and equipment - net</b>          |                    | <b>107,042,403</b> |                  | <b>107,042,403</b> |
| <b>Investment properties</b>                 |                    | <b>38,368,800</b>  | <b>6,919,000</b> | <b>45,287,800</b>  |
| <b>Accounts payable and accrued expenses</b> |                    | <b>(603,604)</b>   |                  | <b>(603,604)</b>   |
| <b>Interest-bearing liabilities</b>          | <b>(5,900,000)</b> |                    |                  | <b>(5,900,000)</b> |
| <b>December 31, 2015</b>                     | <b>Level 1</b>     | <b>Level 2</b>     | <b>Level 3</b>   | <b>Total</b>       |
| Cash and cash equivalents                    | P1,390,132         |                    |                  | P1,390,132         |
| Trade receivables                            | 14,142,354         |                    |                  | 14,142,354         |
| Other current assets                         |                    | 4,128,973          |                  | 4,128,973          |
| Other non-current assets                     | 3,810,638          |                    |                  | 3,810,638          |
| Advances for projects                        | 5,329,758          |                    |                  | 5,329,758          |
| Property and equipment - net                 |                    | 119,935,693        |                  | 119,935,693        |
| Investment properties                        |                    | 38,368,800         | 6,919,000        | 45,287,800         |
| Accounts payable and accrued expenses        |                    | (1,274,114)        |                  | (1,274,114)        |
| Interest-bearing liabilities                 | (5,565,588)        |                    |                  | (5,565,588)        |

Fair values were determined as follows:

- *Cash and cash equivalents, short-term investments, receivables and other financial liabilities* – the fair values are approximately the carrying amounts at initial recognition due to their short-term nature.
- *Property and equipment*– fair value was based on appraiser’s report. It is estimated using Market Data Approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as locations, size and shape of the properties.
- *Investment properties* – the valuation approach used in the independent appraiser’s report was Sales Comparison Approach, which estimates the value of asset by comparing similar or substitute properties and related market data.

## 7. Financial Risk Management Objectives and Policies

### Financial Risk

The Company’s activities expose it to a variety of financial risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Company’s overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. The policies for managing specific risks are summarized below:

- **Credit Risk**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties, and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The table below shows the gross maximum exposure to credit risk of the Company as at September 30, 2016 and December 31, 2015.

|                             | Gross maximum Exposure |            |   |            |
|-----------------------------|------------------------|------------|---|------------|
|                             |                        | 30-Sep-16  |   | 31-Dec-15  |
| Cash and cash equivalents * | P                      | 4,477,612  | P | 1,377,132  |
| Trade receivables           |                        | 26,142,359 |   | 21,291,335 |
| Other current assets        |                        | 2,695,349  |   | 1,929,639  |
| Advances for projects       |                        | 5,329,758  |   | 5,329,758  |
| Other non-current assets    |                        | 4,074,020  |   | 3,678,693  |
|                             | P                      | 42,719,098 | P | 33,606,557 |

\* excludes cash on hand

The credit risk on cash and cash equivalents are limited since funds are invested in financial institutions with high credit ratings.

Trade receivables are accounts with CBCP World Corporation and Peachtree Investment Ltd. where appropriate trade relations have been established including billings and collections processes.

Other current asset is the current portion of receivables from Summit One Condominium Corporation on the sale of a communication tower bearing an interest rate of 7.5% per annum.

Other non-current assets consists of receivables from affiliated companies, security deposits on lease contracts where the Company is the lessee and receivable from sale of a communication tower, which is broken down as follows:

|                                    |   | 30-Sep-16 |   | 31-Dec-15 |
|------------------------------------|---|-----------|---|-----------|
| Security deposits                  | P | 1,375,242 | P | 1,375,242 |
| Receivable from sale of Rohn Tower |   | 1,368,951 |   | 1,368,951 |
| Prepaid rent                       |   | 131,945   |   | 131,945   |
| Affiliated companies               |   | 1,197,882 |   | 934,500   |
|                                    | P | 4,074,020 | P | 3,810,638 |

Receivable from affiliated companies and security deposits do not bear interest, while receivable from sale of Rohn Tower earns an interest of 7.5% per annum.

The credit quality of the Company's assets as at September 30, 2016 and December 31, 2015 is as follows:

|                           | September 30, 2016 |                               |                |                           |                       |               |
|---------------------------|--------------------|-------------------------------|----------------|---------------------------|-----------------------|---------------|
|                           |                    | Neither past due nor impaired |                | Past due but not impaired | Past due and impaired | Total         |
|                           |                    | High grade                    | Standard grade |                           |                       |               |
| Cash and cash equivalents | P                  | 4,490,612                     |                |                           |                       | P 4,490,612   |
| Trade receivables         |                    |                               | 16,799,732     | 9,342,627                 | 7,148,981             | 33,291,340.00 |
| Other current assets      |                    |                               | 2,695,349      |                           |                       | 2,695,349.34  |
| Advances for projects     |                    |                               | 5,329,758      |                           |                       | 5,329,758.00  |
| Other non-current assets  |                    |                               | 4,074,020      |                           |                       | 4,074,019.84  |
|                           | P                  | 4,490,612                     | P 28,898,859   | P 9,342,627               | P 7,148,981           | P 49,881,079  |

High-grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in banks belonging to the top banks in the Philippines in terms of resources and profitability.

Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.



The aging analysis of past due but not impaired trade receivables is as follows:

|              | 30-Sep-16          |   | 31-Dec-15 |           |
|--------------|--------------------|---|-----------|-----------|
| 61-90 days   |                    | P |           | 2,358,300 |
| Over 90 days | <b>9,342,627</b>   |   |           | 6,373,954 |
|              | <b>P 9,342,627</b> | P |           | 8,732,254 |

#### Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Either liquidity risk may result from the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The Company manages its liquidity profile to (i) ensure that adequate funding is available at all times; (ii) meet commitments as they arise without incurring unnecessary costs; (iii) to be able to access funding when needed at the least possible cost, and (iv) maintain an adequate time spread of financing maturities.

The table below summarizes the maturity profile of the Company's financial liabilities at September 30, 2016 and December 31, 2015.

|                                       | September 30, 2016 |                      |                      |                     |   | Total            |
|---------------------------------------|--------------------|----------------------|----------------------|---------------------|---|------------------|
|                                       | < 1 month          | >1 month<br>3 months | >3 months<br><1 year | >1 year &<br><3 yrs |   |                  |
| Accounts payable and accrued expenses | 603,604            |                      | -                    | P                   |   | 603,604          |
| Interest-bearing liabilities          |                    |                      | 8,921,814            |                     |   | 8,921,814        |
|                                       | <b>603,604</b>     | -                    | <b>P 8,921,814</b>   | -                   | P | <b>9,525,418</b> |

#### Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Company would lose from price volatilities. Market risk can be measured as the potential gain or loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

##### i. Currency risk

The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to the US Dollar. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the company's functional currency. Significant fluctuations in the exchanges rates could significantly affect the Company's financial position.

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities at reporting date are as follows:

|                           | September 30, 2016 |                |          |                  | December 31, 2015 |                |          |                |
|---------------------------|--------------------|----------------|----------|------------------|-------------------|----------------|----------|----------------|
|                           | US Dollar          |                | Peso     |                  | US Dollar         |                | Peso     |                |
| Cash and cash equivalents | \$                 | 60,629         | P        | 2,895,639        | \$                | 1,818          | P        | 81,109         |
| Advances for projects     |                    | 113,000        |          | 5,329,758        |                   | 113,000        |          | 5,329,758      |
| Bank loans                |                    | -              |          | -                |                   | (118,000)      |          | (5,264,806)    |
|                           | <b>\$</b>          | <b>173,629</b> | <b>P</b> | <b>8,225,397</b> | <b>\$</b>         | <b>(3,182)</b> | <b>P</b> | <b>146,061</b> |

The following table demonstrates the sensitivity to a reasonable change in the US\$ exchange rate, with all other variables held constant, the Company's income before tax for the quarter ending September 30, 2016 year ended December 31, 2015:

| Increase/decrease in peso to US Dollar Rate | Effect on Income before taxes |               |
|---------------------------------------------|-------------------------------|---------------|
|                                             | Sept 30, 2016                 | Dec. 31, 2016 |
| +P5%                                        | 411,270                       | 7,305         |
| -P5%                                        | (411,270)                     | (7,305)       |

There is no other impact on the Company's equity other than those affecting profit and loss.

#### ii. Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating interest rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The Company's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

Exposure to interest rate risk is due to a foreign currency denominated bank loan with interest of 1-month LIBOR + 2.5% with principal amounting to USD118,000. On February 16, 2016, the company settled the bank loan amounting to US\$118,000.

The sensitivity analyses have been determined based on the exposure to interest rates for foreign currency loans that are subject to repricing. If interest rates had been 200 basis points higher/lower and all other variables were held constant, the Company's profit before taxes would decrease/ increase by P421,869 in 2016. This is mainly attributable to the Company's exposure to interest rates on its variable rate financial assets.

#### Operational risk

Operational risk is the risk of loss from system failure, human error, fraud, or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risk but initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education, and assessment processes. Business risk such as changes in environment, technology, and industry are monitored through the Company's strategic planning and budgeting processes.

#### Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The capital structure of the Company consists of issued capital, share premium, revaluation increment and retained earnings.

The financial ratio at the year-end, which is within the acceptable range of the Company, is as follows:

|              | 30-Sep-16 |             | 31-Dec-15 |             |
|--------------|-----------|-------------|-----------|-------------|
| Equity       | P         | 300,589,774 | P         | 300,985,193 |
| Total Assets |           | 307,868,814 |           | 308,730,820 |
| Ratio        |           | 0.976       |           | 0.975       |

## 8. Cash and cash equivalents

As at September 30, 2016 and December 31, 2015, cash and cash equivalents represent cash on hand and cash in banks of P4,490,612 and P1,390,132, respectively.

Cash in bank represents current accounts and US dollar account that earn interests at prevailing bank interest rates.

## 9. Trade receivables

The composition of this account is as follows:

|                                     | 30-Sep-16 |                    | 31-Dec-15 |             |
|-------------------------------------|-----------|--------------------|-----------|-------------|
| Trade                               |           |                    |           |             |
| In local currency                   | P         | 9,342,627          | P         | 9,629,727   |
| In foreign currency                 |           | 16,799,732         |           | 11,661,608  |
|                                     |           | <b>26,142,359</b>  |           | 21,291,335  |
| Less: Allowance for probable losses |           | <b>(7,148,981)</b> |           | (7,148,981) |
|                                     | P         | <b>18,993,378</b>  | P         | 14,142,354  |

Receivable in foreign currency represents subscription on uplink services from a customer based in Hong Kong. Unrealized foreign exchange gain on this account amounted to P155,529 in 2015.

Breakdown of allowance for probable losses is as follows:

|                    | 30-Sep-16 |                  | 31-Dec-15 |           |
|--------------------|-----------|------------------|-----------|-----------|
| Balance, beginning | P         | 7,148,981        | P         | 6,955,358 |
| Provision          |           | -                |           | 193,623   |
| Balance, end       | P         | <b>7,148,981</b> | P         | 7,148,981 |

## 10. Other current assets

This account consists of the following:

|                       | 30-Sep-16 |                  | 31-Dec-15 |           |
|-----------------------|-----------|------------------|-----------|-----------|
| Spare parts inventory | P         | 2,199,334        | P         | 2,199,334 |
| Other receivables     |           | 496,015          |           | 1,929,639 |
|                       | P         | <b>2,695,349</b> | P         | 4,128,973 |

Spare parts inventory consists of communication supplies and materials that are normally provided to customers in the delivery of services. Spare parts inventory amounting to P2,199,334 on September 30, 2016 and December 31, 2015 are carried at cost which approximates its net realizable value.

Spare parts inventory costing P442,060 was transferred to property and equipment in 2015.

Other receivables represents current portion of receivable from sale of Rohn Tower.

## 11. Advances for projects

In accordance with the Memorandum of Agreement (MOA) entered between certain member of the Board of Directors (BOD) and the Company dated November 5, 2008, the latter made an investment in e-commerce including media, telecoms, internet and education technology services.

As of September 30, 2016 and December 31, 2015 the balance of this account is P5,329,758.

## 12. Investment in an Associate

The composition of this account is as follows:

|                    | 30-Sep-16 |                    | 31-Dec-15 |             |
|--------------------|-----------|--------------------|-----------|-------------|
| Cost               |           |                    |           |             |
| Beginning          | P         | 112,500,000        | P         | 112,500,000 |
| Advances           |           | 6,412,383          |           | -           |
| Ending             |           | <b>118,912,383</b> |           | 112,500,000 |
| Equity in net loss |           |                    |           |             |
| Beginning          |           | (3,542,027)        |           | (2,336,424) |
| Share in net loss  |           | (712,362)          |           | (1,205,603) |
| Ending             |           | <b>(4,254,389)</b> |           | (3,542,027) |
|                    | P         | <b>114,657,994</b> | P         | 108,957,973 |

Investment in an Associate pertains to a 30% equity interest in ATN Philippines Solar Energy Group, Inc. (ATN Solar). The subscription of P 82.5 million (82.5 million shares at P1 par value per share) was made in 2014 following the increase in authorized share capital of ATN Solar, of which P28.25 million was paid during 2014 and the remaining P54.25 million was paid on various dates during 2015. Management asserts that its equity interest it held in the associate qualifies it to exercise significant influence on ATN Solar.

ATN Solar is a grantee of Solar Energy Service Contract with the Philippine Government through the Department of Energy to develop, own and operate a 30MW solar power plant in Rodriguez, Rizal. As of December 31, 2015, ATN Solar is still in pre-operating stage.

The financial information of ATN Solar as of September 30, 2016 and December 31, 2015 is as follows:

|                   | <b>30-Sep-16</b>     |   | 31-Dec-15   |
|-------------------|----------------------|---|-------------|
| Total assets      | <b>P 694,571,204</b> | P | 573,479,323 |
| Total liabilities | <b>243,924,536</b>   |   | 210,458,117 |
| Net loss          | <b>(2,374,539)</b>   |   | (4,018,678) |

### 13. Franchise-net

The Company holds a 25-year Congressional Franchise to construct, establish, install, maintain, and operate communication systems for the reception and transmission of messages within the Philippines with a cost of P15M.

The movement in this account is as follows:

|                    | <b>30-Sep-16</b>   |   | 31-Dec-15 |
|--------------------|--------------------|---|-----------|
| Balance, beginning | <b>P 4,942,405</b> | P | 5,542,405 |
| Amortization       | <b>(300,000)</b>   |   | (600,000) |
| Balance, end       | <b>P 4,642,405</b> | P | 4,942,405 |

### 14. Other non-current assets

This account consists of:

|                           | <b>30-Sep-16</b>   |   | 31-Dec-15 |
|---------------------------|--------------------|---|-----------|
| Advances to:              |                    |   |           |
| Managed Care Phils., Inc. | <b>P 259,259</b>   | P | -         |
| Palladian Land Dev. Inc.  | <b>938,623</b>     |   | 910,483   |
| ATN Phils. Solar          | -                  |   | 24,017    |
| Security deposits         | <b>1,375,242</b>   |   | 1,375,242 |
| Other receivables         | <b>1,368,951</b>   |   | 1,368,951 |
| Prepaid rent              | <b>131,945</b>     |   | 131,945   |
|                           | <b>P 4,074,020</b> | P | 3,810,638 |

Details of these accounts are as follows:

- Security deposits are made to secure leasing arrangement on transponders. These deposits are refundable at the expiration of lease term.
- Other receivable arose from the sale of Rohn Tower (described below). The term of the sale is a 2-year period subject to 7.5% interest per annum. The amount due within 1 year is P1.9 million presented as part of *Other current asset*.
- Rent receivable pertains to the difference of applying straight-line method of PAS17 and the payment schedule of the lease contract. The difference will be applied to the last month of the lease term.
- Other asset represents the face value of a communication equipment (Rohn Tower) acquired through exchange for the face value of receivable owed by a certain trade debtor. The Rohn Tower was eventually sold to a third party in 2015 for P4.8 million.

Management believes that the carrying value of *Security deposits* and *Other receivable* approximates its fair values.

## 15. Property and equipment – net

The movement in this account is as follows:

| September 30, 2016                        | Building and<br>improvements | Uplink/Data<br>Equipment | Furniture and<br>Fixtures | Leasehold<br>improvements | Transportation<br>Equipment | TOTAL         |
|-------------------------------------------|------------------------------|--------------------------|---------------------------|---------------------------|-----------------------------|---------------|
| Measurement basis                         | Revalued                     | Revalued                 | Cost                      | Revalued                  | Cost                        |               |
| Gross carrying amount:                    |                              |                          |                           |                           |                             |               |
| Balance beg                               | P 23,893,402                 | P 252,901,102            | P 5,180,726               | P 19,145,709              | P 14,675,284                | P 315,796,223 |
| Balance, end                              | 23,893,402                   | 252,901,102              | 5,180,726                 | 19,145,709                | 14,675,284                  | 315,796,223   |
| Accumulated depreciation and amortization |                              |                          |                           |                           |                             |               |
| Balance, beg                              | 18,309,408                   | 151,044,240              | 2,779,543                 | 11,848,102                | 11,879,237                  | 195,860,530   |
| Provisions                                | 896,002                      | 8,884,685                | 586,375                   | 1,610,994                 | 915,235                     | 12,893,290    |
| Transfers/sold                            |                              |                          |                           |                           |                             |               |
| Balance, end                              | 19,205,410                   | 159,928,925              | 3,365,918                 | 13,459,096                | 12,794,472                  | 208,753,820   |
| Net Book Value                            | P 4,687,992                  | P 92,972,178             | P 1,814,808               | P 5,686,613               | P 1,880,812                 | P 107,042,403 |

| December 31, 2015                         | Building and<br>Improvements | Uplink/Data<br>Equipment | Furniture and<br>Fixtures | Leasehold<br>Improvements | Transportation<br>Equipment | TOTAL         |
|-------------------------------------------|------------------------------|--------------------------|---------------------------|---------------------------|-----------------------------|---------------|
| Measurement basis                         | Revalued                     | Revalued                 | Cost                      | Revalued                  | Cost                        |               |
| Gross carrying amount:                    |                              |                          |                           |                           |                             |               |
| Balance beg                               | P 23,893,402                 | P 252,459,042            | P 5,180,726               | P 19,145,709              | P 14,675,284                | P 315,354,163 |
| Additions                                 | -                            | 442,060                  |                           |                           |                             | 442,060       |
| Balance, end                              | 23,893,402                   | 252,901,102              | 5,180,726                 | 19,145,709                | 14,675,284                  | 315,796,223   |
| Accumulated depreciation and amortization |                              |                          |                           |                           |                             |               |
| Balance, beg                              | 17,114,739                   | 139,197,994              | 1,997,710                 | 9,700,110                 | 10,658,924                  | 178,669,477   |
| Provisions                                | 1,194,669                    | 11,846,246               | 781,833                   | 2,147,992                 | 1,220,313                   | 17,191,053    |
| Transfers/sold                            |                              |                          |                           |                           |                             |               |
| Balance, end                              | 18,309,408                   | 151,044,240              | 2,779,543                 | 11,848,102                | 11,879,237                  | 195,860,530   |
| Net Book Value                            | P 5,583,994                  | P 101,856,862            | P 2,401,183               | P 7,297,607               | P 2,796,047                 | P 119,935,693 |

Building and improvements, uplink equipment, leasehold improvements and data equipment were revalued on October 28, 2002 by a firm of independent appraisers at market prices. The net appraisal increment resulting from the revaluation is credited to the "Revaluation Increment" account shown under equity. The amount of revaluation increment absorbed through depreciation is transferred from the revaluation increment to retained earnings. Management believes that fair value has not significantly changed since date of initial valuation.

## 16. Investment properties

The movements of this accounts is as follows:

|                       | 30-Sep-16    | 31-Dec-15    |
|-----------------------|--------------|--------------|
| Balance, beginning    | P 45,287,800 | P 45,287,800 |
| Fair value adjustment | -            | -            |
| Balance, end          | P 45,287,800 | P 45,287,800 |

Investment property consists of the following:

|                       | 30-Sep-16    | 31-Dec-15    |
|-----------------------|--------------|--------------|
| Condominium units     | P 38,368,800 | P 38,368,800 |
| Land and improvements | 6,919,000    | 6,919,000    |
|                       | P 45,287,800 | P 45,287,800 |

Condominium units represent the beneficial ownership of commercial units held at Summit One Office Tower in Mandaluyong City. The fair market value is determined by a firm of independent appraiser on March 4, 2014 using the Sales Comparison Approach, a comparative approach valuation that considers the sales of similar or substitute properties and related market data and

establishes a value estimate by processes involving comparison. Accordingly, the Company categorized these condominium units under Level 2 of the fair value hierarchy. Management believes that there are no present material factors that would significantly increase or decrease the fair value of these properties as of December 31, 2015.

Land and improvements represents a parcel of residential lot located in Paliparan 1, Dasmariñas, Cavite. Certain developer is currently selling a mass housing project within its close vicinity. The pricing model of the said developer was used by management as a guide in determining fair value of its own property. The fair value amounted to P7 million. The property is valued in terms of its highest and best use which is categorized under Level 3 of the fair value hierarchy.

## 17. Accounts payable and accrued expenses

This account consists of:

|                               | 30-Sep-16 |         | 31-Dec-15 |            |
|-------------------------------|-----------|---------|-----------|------------|
| Deposits                      | P         | 603,604 | P         | 620,000    |
| Trade payables                |           | -       |           | 491,997.00 |
| Accrued and other liabilities |           | -       |           | 162,117    |
|                               | P         | 603,604 | P         | 1,274,114  |

Trade payables which include transponder lease and internet services are settled on a 1-3 months term. Accrued expenses are settled on a 30-day term. Other liabilities include statutory liabilities payable in subsequent month.

Deposits are amounts paid by clients as guarantee to agreements entered into by the Company. The amount is expected to be settled upon the termination of the contract.

The management believes that the carrying value of *Trade payables*, *Accrued and other liabilities* and *Deposits* approximates its fair values

## 18. Interest-bearing liabilities

In 2013, the Company obtained a US Dollar loan from China Banking Corporation with principal amount of US\$118,000 payable in full after three (3) years. The loan is subject to (i) floating interest rate of 1M LIBOR + 2.5% payable monthly in arrears and (ii) collateralized by a real estate mortgages owned and executed by a related party, namely, Palladian Land Development, Inc. Loan proceeds were used for working capital requirements. On February 16, 2016, the company settled the maturing bank loan amounting to US\$118,000.

On February 15, 2016, the company obtained a peso loan of P6,000,000 from China Banking Corporation payable on February 9, 2017 with interest rate to 5% payable monthly in arrears.

The movement of this account is as follows:

|                            | 30-Sep-16 |             | 31-Dec-15 |           |
|----------------------------|-----------|-------------|-----------|-----------|
| Balance, beginning         | P         | 5,565,588   | P         | 5,264,806 |
| Peso loan                  |           | 5,900,000   |           | -         |
| Payment of USD loan        |           | (5,622,700) |           | -         |
| Effect of foreign exchange |           | 57,112      |           | 300,782   |
|                            | P         | 5,900,000   | P         | 5,565,588 |

## 19. Equity

### *Share capital*

The Company's capital structure is as follows:

|                                     | 30-Sep-16 |             | 31-Dec-15 |             |
|-------------------------------------|-----------|-------------|-----------|-------------|
| Authorized - P1 par value per share | P         | 380,000,000 | P         | 380,000,000 |
| Issued and outstanding              |           | 222,019,330 |           | 222,019,330 |
| Shares held in treasury             |           | 437,800     |           | 437,800     |

Issued capital held in treasury totaled 437,800 shares.

The Company's shares are listed and traded at the Philippine Stock exchange ("PSE"). The listing of the offer shares was approved by the Board of Directors of the PSE on October 22, 2003. The listing date is on December 12, 2003.

The Company has committed to issue to ATN Holdings Inc., a related party, 13,000,000 common shares in consideration for the acquisition of investment property and the payment of loan to ATN amounting to P2.5 million in 2007. These shares were to become available after the listing of 170,980,670 unissued common shares. The additional listing of subject shares has not been carried out as of December 31, 2015.

Documentary requirements are still being collated for the Company's application for exemption from the registration of new shares with the Securities and Exchange Commission.

### *Share options*

On May 28, 2008, the Company's BOD approved the grant of share option to its Chief Executive Officer (CEO). The CEO has been largely responsible for bringing the Company to its present financial condition. Furthermore, the CEO has not been compensated since his assumption of management in 2000. Hence, the grant of share option to the CEO will be in order.

The share option comprises the following:

- (i) 35 million shares of TBGI at par value of P1.00 per share as compensation for services rendered as CEO of the Company during the period 2001 to 2007, and;
- (ii) 5 million shares of TBGI at par value of P1.00 per share as compensation for services rendered as CEO of the Company during 2008 and onwards, provided, that the subject shares will not be sold in quantities exceeding 20% of the trading volume of Philippine Stock Exchange in any single business day.

The stock options were measured using the intrinsic value method since the fair value of the options cannot be measured reliably.

On April 23, 2009 in a special meeting of the BOD, additional terms of conditions was agreed defining the vesting schedule of the options as management believes that a one-time recognition of the options cannot be afforded in 2008 alone. The vesting period was stretched up to 2023 of which 500,000 shares may be exercised starting 2013 up to 2022. Another 5.5 million shares in 2022 and finally, 30 million shares in 2023

During 2010, the Company's BOD through the Remuneration Committee approved the indefinite deferment of the aforementioned stock options of the CEO. No options were exercised prior to the said deferment.

As of September 30, 2016 and December 31, 2015, the stock options has a carrying value of P8,921,814.

## **20. Direct costs**

This account consists of:

|                                    | <b>30-Sep-16</b>    | 30-Sep-15    |
|------------------------------------|---------------------|--------------|
| Depreciation                       | <b>P 12,893,290</b> | P 11,857,383 |
| Transponder lease                  | <b>8,479,051</b>    | 8,439,991    |
| Rent expense                       | <b>2,149,231</b>    | 1,923,283    |
| Salaries, wages and other benefits | <b>1,000,718</b>    | 1,280,266    |
| Utilities and communication        | <b>886,586</b>      | 615,445      |
| Taxes and licenses                 | <b>810,466</b>      | 810,466      |
| Amortization of franchise fee      | <b>450,000</b>      | 450,000      |
| Transportation and travel          | <b>223,456</b>      | 326,466      |
| Office supplies                    | <b>44,101</b>       | 148,512      |
| Miscellaneous                      | <b>163,841</b>      | 365,366      |
|                                    | <b>P 27,100,740</b> | P 26,217,178 |

## 21. Other Income

The composition of this account is as follows:

|                           |          | <b>30-Sep-16</b> |          | 30-Sep-15 |
|---------------------------|----------|------------------|----------|-----------|
| Rent income               | <b>P</b> | <b>1,672,698</b> | <b>P</b> | 1,843,522 |
| Interest and other income |          | <b>151,356</b>   |          | 3,180     |
|                           | <b>P</b> | <b>1,824,054</b> | <b>P</b> | 1,846,702 |

## 22. Administrative expenses

This account consists of:

|                                |          | <b>30-Sep-16</b> |          | 30-Sep-15 |
|--------------------------------|----------|------------------|----------|-----------|
| Permits, taxes and licenses    | <b>P</b> | <b>337,929</b>   | <b>P</b> | 340,677   |
| Professional fees              |          | <b>90,000</b>    |          | 90,000    |
| Realized foreign exchange loss |          | <b>57,112</b>    |          | -         |
| Miscellaneous                  |          | <b>57,850</b>    |          | 58,746    |
|                                | <b>P</b> | <b>542,891</b>   | <b>P</b> | 489,423   |

## 23. Related party transactions

The following related party transactions occurred during 2016 and 2015:

| Category                        | Nature of Transactions     | Amount of Transaction |              | End Balances |              | Terms and conditions                       |
|---------------------------------|----------------------------|-----------------------|--------------|--------------|--------------|--------------------------------------------|
|                                 |                            | 9/30/2016             | CY12/31/2015 | 9/30/2016    | CY12/31/2015 |                                            |
| <b>Associates</b>               |                            |                       |              |              |              |                                            |
| ATN Solar                       | Share capital subscription |                       | (54,250,000) | -            | -            | No payment terms                           |
|                                 | Advances                   | 6,388,366             | 1,524,017    |              |              |                                            |
|                                 | Collection of advances     | -                     | (1,500,000)  | 6,412,383    | 24,017       |                                            |
| <b>Affiliated companies</b>     |                            |                       |              |              |              |                                            |
| Palladian Land Dev. Inc. (PLDI) | Rent income                | 1,665,990             | 2,152,840    |              |              |                                            |
|                                 | Advances                   | 362,150               | 472,606      |              |              |                                            |
|                                 | Collection of advances     | (2,000,000)           | (5,253,000)  | 938,623      | 910,483      | Unsecured, unimpaired and no payment terms |
| ATN Holdings, Inc. (ATN)        | Collection of advances     | -                     | (1,062,074)  | -            | -            | Unsecured, unimpaired and no payment terms |
| Managed Care Phils., Inc.       | Advances                   | 259,259               |              | 259,259      | -            | Unsecured, unimpaired and no payment terms |
| <b>Related party</b>            |                            |                       |              |              |              |                                            |
| Certain member of the BOD       | Return of funds            | -                     | (9,483,059)  | 5,329,785    | 5,329,785    | Unsecured, unimpaired and no payment terms |



Details of significant related party transactions are as follows:

- The Company is a beneficial owner of certain condominium units registered under the name of PLDI. Title to the properties has not been released to the Company as the Company intends to sell the properties through the sales network of PLDI. These properties are leased out to third party also through PLDI. Proceeds of the rent are remitted to the Company by the latter. Rent income collected by PLDI on these properties amounted to P1,665,990 for the quarter ending September 30, 2016.
- Pursuant to *Teaming Agreements* executed in January 2013 and 2015 between the Company and certain related parties operating within Summit One Condominium Tower, a cost and expense sharing scheme related to technical operations was implemented. All other cost including, but not limited to salaries, utilities, and dues shall be borne by PLDI. Accordingly, certain cost and expenses maybe advanced by a party and to be reimbursed from another party on the proportionate share or usage between the related parties involved.
- The Company did not provide compensation to its key management personnel.

#### 24. Earnings (loss) per share

Earnings (loss) per share is computed by dividing the profit (loss) for the year by the weighted average number of common shares outstanding during the year as follows:

|                                   | <b>30-Sep-16</b>    | 30-Sep-15    |
|-----------------------------------|---------------------|--------------|
| Profit (loss) for the period      | <b>(395,418.52)</b> | (488,741.00) |
| Weighted average number of shares | <b>222,019,330</b>  | 222,019,330  |
|                                   | <b>(0.002)</b>      | (0.002)      |

## Management Discussion and Analysis of Operation

The earnings per share (EPS) are computed based on the following number of outstanding shares:

|                              | September 30, 2016 | September 30, 2015 |
|------------------------------|--------------------|--------------------|
| Profit (Loss) for the period | (P395,419)         | (P488,741)         |
| Number of Outstanding Shares | 222,019,330        | 222,019,330        |
| Earnings per Share           | (P0.0018)          | (P0.0022)          |

Disclosures on the issuer's interim financial report, in compliance with Philippine Financial Reporting Standards:

1. The same accounting policies and methods of computation are followed in the interim financial statements as compared to the most recent and previous financial statements.
2. There is no seasonality or cyclicity of interim operations.
3. There is no item that has unusual effect on asset, liabilities, equity, net income and cash flows.
4. There is no change in the nature and amounts reported in prior interim periods of the current financial year or prior financial year.
5. There is no issuance, repurchase nor repayment of debt and equity securities during the interim period.
6. There is no dividend paid for ordinary or other shares.
7. Disclosure on segment revenue is not required.
8. There is no material event subsequent to the end of the interim period that has not been reflected in the financial statements.
9. There is no change in the composition of the issuer such as business combination, acquisition, disposal of subsidiary and long-term investment, and restructuring during the interim period.
10. There is no change in contingent assets or contingent liabilities since the last annual balance sheet date.
11. There is no seasonal effect that had material effect on financial condition or result of operation.

Disclosure on material events and uncertainties

1. There is no known trend, demands, commitments, events or uncertainties that will have material impact on the issuer's liquidity
2. There is no event that will trigger direct or contingent financial obligation that is material to the company.
3. There is no material off-balance sheet transaction, arrangement, obligations and other relationships of the company.
4. There is no material commitment for capital expenditures.
5. There is no known unfavorable trend, events, or uncertainties that have material impact on net sales.
6. There is no significant element of income that did not arise from the issuer's operations.

### Vertical and Horizontal Analysis

Total corporate assets almost remain the same from Php308.73 million in December 31, 2015 compared to Php307.868 million as of September 30, 2016. The net decrease of Php0.862 million (0%) in total assets arose from the following items:

1. Increase in cash by Php3.1 million (223%).
2. Increase in trade receivables by Php4.8 million (34%) due to slower in collection.
3. Decrease in other current assets by Php0.947 million (-23%).
4. Decrease in other non-current assets by Php1.43 million (-35%) due to collection from an affiliate.
5. Increase in Investment and advances in an associate by Php5.7 million (5%) due to advances made.

Total liabilities decreased by Php0.466 million (-6%) from Php7.745 million in December 2015 to Php7.279 million in September 30, 2016. The net decrease in liabilities resulted from the following significant items:

1. Decrease in accounts payable and accrued expenses by Php670 thousand (-53%) due to payment.
2. Increase in interest bearing liabilities by Php0.334 (6%).
3. Decrease in income tax payable by Php130 thousand (100%)

Stockholders' equity remains the same as of September 30, 2016 and December 31, 2015.

Total revenue increased by Php1.087 million (4%) from Php27.166 million as of September 30, 2015 to Php28.254 million as of September 30, 2016.

Direct costs almost remain the same from Php26.217 million in the 3rd quarter ending September 2015 to Php27.100 million (3%) in the 3rd quarter ending September 30, 2016. The net increase arose from the following accounts:

1. Depreciation increased by Php1.035 million (9%) from Php11.857 million to Php12.893 million.
2. Rent expense increased by Php226 thousand (12%) from Php1.923 million to Php2.149 million due to increase in monthly rent.
3. Utilities and communication increased by Php271 thousand (44%) from Php615 thousand to Php886 thousand.
4. Salaries, wages and other benefits decreased by Php279 thousand (-22%) from Php1.280 million to Php1 million due to decrease in number of employees.
5. Transportation and travel decreased by Php103 thousand (-32%) from Php326 thousand to Php223 thousand.
6. Office supplies decreased by Php104 thousand (-70%) from Php148 thousand to Php44 thousand.

Administrative expenses increased from Php489 thousand for the 3rd quarter ending September 30, 2015, to Php543 thousand (11%) in the 3rd quarter ending September 30, 2016. The net decrease arose from the following accounts:

- 1 Increase in realized foreign exchange loss of Php57 thousand (100%).
- 2 Decrease in miscellaneous expenses of Php896 thousand (-2%).

The following are 7 (seven) key performance and financial soundness indicators of the company:

|                                                   |                                                                                                                                                                                                                                                              |
|---------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current Ratio                                     | Calculated ratio of current assets into current liabilities. Indicates the ability of the company to finance current operations without need for long term capital                                                                                           |
| Debt-to Equity Ratio                              | Calculated ratio of total debt into total equity. Indicates the level of indebtedness of the company in relation to buffer funds provided by equity against any operating losses. Also indicates the capacity of the company to absorb or take in more debt. |
| Asset-to-Equity Ratio                             | Calculated ratio of total asset into total equity. Indicates the long-term or future solvency position or general financial strength of the company.                                                                                                         |
| Interest Rate Coverage Ratio                      | Calculated ratio of earnings before interest and taxes into interest expenses. Indicates the ability to meet its interest payments.                                                                                                                          |
| Gross profit Margin                               | Calculated ratio expressed in percentage of the gross margin into total revenues. Indicates the ability of the company to generate margin sufficient to cover administrative charges, financing charges and provide income for the stockholders.             |
| EBITDA                                            | Calculated earnings before income tax, and non-cash charges. Indicates the efficiency of the company in generating revenues in excess of cash operating expenses.                                                                                            |
| Net Income to Sales Ratio, and Earnings per Share | Calculated ratio of net income into total revenues. Indicates the efficiency of the company in generating revenues in excess of cash operating expenses and non-cash charges, and the ability of the company to declare dividends for stockholders.          |

Computed performance indicators are as follows:

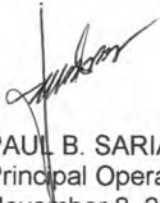
|                              | September 30, 2016 | September 30, 2015 |
|------------------------------|--------------------|--------------------|
| Current Ratio                | 4                  | 51                 |
| Debt-to-Equity Ratio         | 0.024              | 0.142              |
| Asset-to-Equity Ratio        | 1.024              | 1.142              |
| Interest Rate Coverage Ratio | 2.6                | 3.8                |
| Gross Profit Margin          | 4.08%              | 3.5%               |
| EBITDA                       | P11,555,544        | P11,472,898        |
| Net Income to Sales Ratio    | -1.50%             | -1.93%             |
| Earnings per share           | -0.0018            | (0.0022)           |


### SIGNATURES

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

COMPANY : TRANSPACIFIC BROADBAND GROUP INTERNATIONAL INC.

Signature and Title:

  
PAUL B. SARIA  
Principal Operating Officer  
November 8, 2016

  
CELINIA FAELMOCA  
Principal Accounting Officer  
November 8, 2016