

COVER SHEET

for
AUDITED CONSOLIDATED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

M	A	N	I	L	A		B	R	O	A	D	C	A	S	T	I	N	G		C	O	M	P	A	N	Y		A	N
D		S	U	B	S	I	D	I	A	R	I	E	S																

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

M	B	C		B	u	i	l	d	i	n	g	,		V	.		S	o	t	t	o		S	t	r	e	e	t	,
C	C	P		C	o	m	p	l	e	x	,		P	a	s	a	y		C	i	t	y							

Form Type
A A F S

Department requiring the report
C R M D

Secondary License Type, If Applicable
N / A

COMPANY INFORMATION

Company's Email Address N/A	Company's Telephone Number 832-6127	Mobile Number -
No. of Stockholders 605	Annual Meeting (Month / Day) 10/23	Fiscal Year (Month / Day) 12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person Eduardo G. Cordova	Email Address edcor@mbradio.net	Telephone Number/s 832-6149	Mobile Number -
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CONTACT PERSON'S ADDRESS

MBC Building, V. Sotto Street, CCP Complex, Pasay City

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

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



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Manila Broadcasting Company and Subsidiaries
MBC Building, V. Sotto Street
CCP Complex, Pasay City

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Manila Broadcasting Company and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters.

Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue Recognition of Broadcasting Fees

The Company's revenue is composed of broadcasting fees. Broadcasting fees are recognized when the programs are broadcasted or advertisements are aired by various radio stations nationwide. This matter is significant to our audit because, in addition to the magnitude of the amount, the determination of the timing of the recognition of the broadcasting fees depends on when the programs are broadcasted or advertisements are aired by various radio stations nationwide as evidenced by signed certificates of performance.

The Company's policy on revenue recognition of broadcasting fees is disclosed in Note 2 to the consolidated financial statements.

Audit response

We updated our understanding of the Company's processes and related controls over the revenue process on broadcasting fees and tested the relevant controls. We performed an analysis of the broadcasting fees recognized during the year. For the selected sample billing invoices, we inspected the signed certificates of performance which provide evidence that the programs are broadcasted and advertisements are aired during their scheduled timeslots.

Valuation of Investments in Unquoted Shares of Stock

The Company has investments in Elizalde Holdings Corporation (EHC) and Philippine International Corporation (PIC) representing 5% and 6% ownership interest, respectively, which are classified as financial assets at fair value through other comprehensive income (FVOCI). The Company determined the fair value of these investments in unquoted shares of stock using the adjusted net asset value approach, which considers the fair value of the underlying assets and liabilities of the investee companies. The underlying assets primarily consist of investments in quoted shares and other financial assets.

As of December 31, 2019, the fair value of these investments was determined to be ₱166.1 million, representing 6.6% of consolidated total assets as of that date. This resulted in recognizing fair value gain of ₱1.7 million in other comprehensive income in 2019. This matter is significant to our audit because in addition to the magnitude of the amount, the determination of the fair values of investments in unquoted shares of stock requires significant judgment and estimates, specifically in determining the discounts on marketability and lack of control.

The Company's disclosures about financial assets at FVOCI are included in Notes 2 and 10 to the consolidated financial statements.



Audit Response

We obtained an understanding of the investee companies, their group structures, principal activities, sources of cash flows and composition of its underlying net assets. We involved our internal specialist in the review of the methodologies and assumptions used by the management for the valuation of the unquoted equity securities.

We also assessed and reviewed the methodology adopted and discounts on marketability and lack of control applied by referencing to common valuation methodologies and convention. We also traced the other data used in the adjusted net asset value approach to accounting records.

Adequacy of Expected Credit Losses on Trade Receivables

The Company's application of the expected credit loss (ECL) model on trade receivables is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Company's credit risk exposures; defining default; determining assumptions to be used in the ECL model such as timing and amounts of expected net recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating the ECL.

The application of the ECL model increased the allowance for credit losses by ₱0.6 million as of December 31, 2019. The Company's disclosure and details of the allowance for credit losses using the ECL model are discussed in Notes 2, 3 and 7 of the consolidated financial statements.

Audit response

We obtained an understanding of the methodologies and models used for the Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, the time value of money, and the best available forward-looking information.

We (a) assessed the Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (c) tested historical loss rates by inspecting historical recoveries and write-offs; (d) checked the classification of outstanding exposures to their corresponding aging buckets; and (e) checked the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Company's receivable portfolios and industry practices.

Further, we checked the data used in the ECL models, such as the historical aging analysis and default and recovery data, by examining the supporting documents and their subsequent settlements. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.



Valuation of Land

The Company accounts for its land under property and equipment using the revaluation model. These properties represent 11.5% of the consolidated assets as at December 31, 2019. The determination of the fair values of these properties involves significant management judgment and estimations. The valuation also requires the assistance of external appraisers whose calculations also depend on certain assumptions, such as sales and listing of comparable properties registered within the vicinity and adjustments to sales price based on internal and external factors. Thus, we considered the valuation of land as a key audit matter.

The disclosures relating to property and equipment are included in Note 11 of the consolidated financial statements.

Audit Response

We evaluated the competence, capabilities and qualifications of the external appraiser by considering their qualifications, experience and reporting responsibilities. We performed the review of the methodology and assumptions used in the valuation of the land. We assessed the methodology adopted by referencing common valuation models and reviewed the relevant information supporting the sales and listings of comparable properties. We also inquired from the external appraiser the basis of adjustments made to the sales price.

Recoverability of Goodwill

Under PFRSs, the Company is required to annually test the amount of goodwill for impairment. As at December 31, 2019, the Company's goodwill attributable to the acquisition of DWRK station in 2008 amounted to ₱38.0 million which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically revenue growth rate, discount rate and the long-term growth rate.

See Note 13 to the consolidated financial statements for the Company's disclosure about goodwill.

Audit Response

We involved our internal specialist in evaluating the methodology and the assumptions used for impairment testing analysis. These assumptions include the discount rate, revenue growth rate and the long-term growth rate. We tested the parameters used in the determination of the discount rate against market data. We inquired from management the rationale for the forecasted revenue and we also compared the revenue growth rate against the historical performance of the DWRK station and against industry/market outlook. We compared the long-term growth rate used in the impairment calculation against industry/market outlook and other relevant external data. We also reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of goodwill.



Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities of the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



The engagement partner on the audit resulting in this independent auditor's report is Christine G. Vallejo.

SYCIP GORRES VELAYO & CO.


Christine G. Vallejo

Partner

CPA Certificate No. 99857

SEC Accreditation No. 1402-AR-2 (Group A),
November 11, 2019, valid until November 10, 2022

Tax Identification No. 206-384-906

BIR Accreditation No. 08-001998-105-2019,
November 7, 2019, valid until November 6, 2022

PTR No. 8125313, January 7, 2020, Makati City

June 19, 2020



MANILA BROADCASTING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash (Notes 6, 25 and 28)	₱262,517,481	₱61,501,006
Receivables (Notes 7, 25, 27 and 28)	441,991,507	347,032,278
Due from related parties (Notes 16, 25, 27 and 28)	140,037,302	313,716,889
Inventories (Note 8)	6,693,753	–
Prepaid expenses and other current assets (Note 9)	93,328,177	81,222,868
Materials and supplies (net of allowance for inventory obsolescence of ₱920,199 in 2019 and ₱976,749 in 2018)	4,600,342	5,244,616
Total Current Assets	949,168,562	808,717,657
Noncurrent Assets		
Financial assets at fair value through other comprehensive income (FVOCI) (Notes 2, 10, 25, and 28)	166,274,441	164,532,562
Property and equipment (Notes 11 and 28)		
At cost	988,388,139	786,700,127
At revalued amount	299,114,400	288,374,500
Investment properties (Note 12)	43,162,500	43,162,500
Goodwill and other intangible assets (Note 13)	58,692,430	70,507,426
Advances to suppliers	57,862,540	67,879,520
Retirement benefits asset - net (Note 22)	7,686,266	7,512,744
Deferred tax assets (Note 23)	6,355,402	10,058,110
Other noncurrent assets	33,215,856	32,492,066
Total Noncurrent Assets	1,660,751,974	1,471,219,555
TOTAL ASSETS	₱2,609,920,536	₱2,279,937,212
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans (Notes 14 and 26)	₱137,000,000	₱48,000,000
Accounts payable and accrued expenses (Notes 15, 16, 25 and 28)	484,257,871	401,563,089
Contract liabilities (Note 19)	34,557,336	20,837,452
Current portion of long-term debt (Notes 14 and 25)	66,234,505	32,853,998
Current portion of lease liabilities (Notes 2, 24, 25 and 28)	15,719,734	–
Income tax payable	18,998,189	7,345,829
Dividends payable (Notes 16, 25 and 28)	8,254,044	22,573,826
Total Current Liabilities	765,021,679	533,174,194
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14 and 25)	249,320,547	315,550,590
Lease liabilities - net of current portion (Notes 2, 24, 25 and 28)	50,473,361	–
Accrued separation cost	29,336,305	29,436,574
Deferred tax liabilities - net (Note 23)	106,974,236	98,712,611
Accrued rent (Note 24)	–	2,022,478
Total Noncurrent Liabilities	436,104,449	445,722,253
Total Liabilities	₱1,201,126,128	₱978,896,447

(Forward)



	December 31	
	2019	2018
Equity Attributable to the Equity Holders of the Parent Company		
Capital stock (Note 17)	₱402,803,777	₱402,803,777
Additional paid-in capital	79,354	79,354
Revaluation increment on land (Note 11)	200,212,744	194,584,814
Reserve for fluctuation in fair value of financial assets at FVOCI (Notes 2 and 10)	126,241,755	124,761,158
Remeasurements on accrued retirement benefits (Note 22)	43,398,974	38,489,661
Retained earnings:		
Unappropriated (Notes 2 and 18)	354,810,636	346,389,469
Appropriated (Notes 2 and 18)	100,000,000	-
Treasury shares - at cost (Note 17)	(120,787)	(120,787)
	1,227,426,453	1,106,987,446
Non-controlling Interest (Note 4)	181,367,955	194,053,319
Total Equity	1,408,794,408	1,301,040,765
TOTAL LIABILITIES AND EQUITY	₱2,609,920,536	₱2,279,937,212

See accompanying Notes to Consolidated Financial Statements.



MANILA BROADCASTING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
REVENUE (Note 19)	₱1,097,738,417	₱1,021,657,991	₱1,066,386,226
COST OF SALES AND SERVICES (Notes 11, 16, 20, 21 and 22)	(597,780,492)	(636,251,625)	(633,213,022)
GROSS PROFIT	499,957,925	385,406,366	433,173,204
OPERATING EXPENSES (Notes 11, 12, 13, 14, 16, 20, 21 and 24)	(312,542,976)	(244,879,300)	(268,105,966)
OTHER INCOME (EXPENSES)			
Casualty losses (Note 11)	(21,436,217)	–	–
Rental income (Note 12)	11,246,028	8,618,155	8,388,450
Interest expense (Notes 14 and 24)	(9,901,357)	(887,757)	–
Interest income (Note 6)	128,266	134,807	254,153
Dividend income (Note 8)	–	–	4,621,033
Other income - net	1,262,352	1,011,149	4,418,357
	(18,700,928)	8,876,354	17,681,993
INCOME BEFORE INCOME TAX	168,714,021	149,403,420	182,749,231
PROVISION FOR INCOME TAX (Note 23)	74,393,953	46,685,932	55,851,465
NET INCOME	94,320,068	102,717,488	126,897,766
OTHER COMPREHENSIVE INCOME (LOSS)			
Not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain on accrued retirement benefits, net of tax (Note 22)	4,909,313	10,628,332	4,077,766
Increase in revaluation increment, net of tax (Note 11)	5,627,930	46,759,020	3,554,390
Change in fair value of financial asset at FVOCI, net of tax	1,480,597	(4,299,038)	–
	12,017,840	53,088,314	7,632,156
TOTAL COMPREHENSIVE INCOME	₱106,337,908	₱155,805,802	₱134,529,922
Net Income Attributable to			
Equity holders of the Parent Company	₱107,005,432	₱105,599,892	₱126,897,766
Non-controlling interests (Notes 1 and 4)	(12,685,364)	(2,882,404)	–
	₱94,320,068	₱102,717,488	₱126,897,766
Total Comprehensive Income Attributable to			
Equity holders of the Parent Company	₱119,023,272	₱158,688,206	₱134,529,922
Non-controlling interests (Notes 1 and 4)	(12,685,364)	(2,882,404)	–
	₱106,337,908	₱155,805,802	₱134,529,922
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 29)	₱0.27	₱0.26	₱0.32

See accompanying Notes to Consolidated Financial Statements.



MANILA BROADCASTING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Equity Attributable to the Equity Holders of the Parent Company											Total
	Capital Stock (Note 17)	Additional Paid-in Capital	Revaluation Increment on Land (Note 11)	Reserve for Fluctuation in AFS Financial Assets (Note 10)	Reserve for Fluctuation in Fair Value of Financial Assets at FVOCI (Notes 2 and 10)	Remeasurements on Accrued Retirement Benefits (Note 22)	Retained Earnings (Notes 2 and 18)		Treasury Stock (Note 17)	Non-controlling Interest (Note 4)	Total	
							Appropriated	Unappropriated				
Balances at December 31, 2016	₱402,803,777	₱79,354	₱144,271,404	₱90,000	₱–	₱23,783,563	₱353,261,206	₱–	(₱120,787)	₱924,168,517	₱–	₱924,168,517
Effect of business combination under common control (Note 4)	–	–	–	–	–	–	(12,457,108)	–	–	(12,457,108)	106,985,723	94,528,615
Net income	–	–	–	–	–	–	126,897,766	–	–	126,897,766	–	126,897,766
Other comprehensive income	–	–	3,554,390	–	–	4,077,766	–	–	–	7,632,156	–	7,632,156
Total comprehensive income	–	–	3,554,390	–	–	4,077,766	126,897,766	–	–	134,529,922	–	134,529,922
Cash dividends, ₱0.30 per share	–	–	–	–	–	–	(120,663,377)	–	–	(120,663,377)	–	(120,663,377)
Balances at December 31, 2017	402,803,777	79,354	147,825,794	90,000	–	27,861,329	347,038,487	–	(120,787)	925,577,954	106,985,723	1,032,563,677
Effect of adoption of PFRS 9	–	–	–	(90,000)	129,060,196	–	14,414,473	–	–	143,384,669	–	143,384,669
Balances at January 1, 2018, as restated	402,803,777	79,354	147,825,794	–	129,060,196	27,861,329	361,452,960	–	(120,787)	1,068,962,623	106,985,723	1,175,948,346
Issuance and subscription of shares of non-controlling interest	–	–	–	–	–	–	–	–	–	–	89,950,000	89,950,000
Net income	–	–	–	–	–	–	105,599,892	–	–	105,599,892	(2,882,404)	102,717,488
Other comprehensive income	–	–	46,759,020	–	(4,299,038)	10,628,332	–	–	–	53,088,314	–	53,088,314
Total comprehensive income	–	–	46,759,020	–	(4,299,038)	10,628,332	105,599,892	–	–	158,688,206	(2,882,404)	155,805,802
Cash dividends, ₱0.30 per share	–	–	–	–	–	–	(120,663,383)	–	–	(120,663,383)	–	(120,663,383)
Balances at December 31, 2018	402,803,777	79,354	194,584,814	–	124,761,158	38,489,661	346,389,469	–	(120,787)	1,106,987,446	194,053,319	1,301,040,765

(Forward)



Equity Attributable to the Equity Holders of the Parent Company												
	Capital Stock (Note 17)	Additional Paid-in Capital	Revaluation Increment on Land (Note 11)	Reserve for Fluctuation in AFS Financial Assets (Note 10)	Reserve for Fluctuation in Fair Value of Financial Assets at FVOCI (Notes 2 and 10)	Remeasurements on Accrued Retirement Benefits (Note 22)	Retained Earnings (Notes 2 and 18)		Treasury Stock (Note 17)	Non-controlling Interest (Note 4)	Total	Total
							Appropriated	Unappropriated				
Balances at December 31, 2018, as previously stated	₱402,803,777	₱79,354	₱194,584,814	₱-	₱124,761,158	₱38,489,661	₱-	₱346,389,469	(₱120,787)	₱1,106,987,446	₱194,053,319	₱1,301,040,765
Effect of adoption of PFRS 16	-	-	-	-	-	-	-	1,415,735	-	1,415,735	-	1,415,735
Balances at January 1, 2019, as restated	402,803,777	79,354	194,584,814	-	124,761,158	38,489,661	-	347,805,204	(120,787)	1,108,403,181	194,053,319	1,302,456,500
Appropriation	-	-	-	-	-	-	100,000,000	(100,000,000)	-	-	-	-
Net income	-	-	-	-	-	-	-	107,005,432	-	107,005,432	(12,685,364)	94,320,068
Other comprehensive income	-	-	5,627,930	-	1,480,597	4,909,313	-	-	-	12,017,840	-	12,017,840
Total comprehensive income	-	-	5,627,930	-	1,480,597	4,909,313	-	107,005,432	-	119,023,272	(12,685,364)	106,337,908
Balances at December 31, 2019	₱402,803,777	₱79,354	₱200,212,744	₱-	₱126,241,755	₱43,398,974	₱100,000,000	₱354,810,636	(₱120,787)	₱1,227,426,453	₱181,367,955	₱1,408,794,408

See accompanying Notes to Consolidated Financial Statements.



MANILA BROADCASTING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱168,714,021	₱149,403,420	₱182,749,231
Adjustments for:			
Depreciation and amortization (Notes 11, 12, 13 and 20)	65,664,757	30,685,569	30,789,542
Casualty losses (Note 11)	21,436,217	-	-
Interest expense (Note 14 and 24)	9,901,357	887,757	-
Movement in accrued retirement benefits (Note 22)	6,839,783	2,851,340	(2,054,749)
Unrealized foreign exchange gain	(297,097)	(243,211)	-
Interest income (Note 6)	(128,266)	(134,807)	(254,153)
Dividend income (Note 9)	-	-	(4,621,033)
Working capital changes			
Decrease (increase) in:			
Receivables (Note 26)	(94,959,229)	36,442,366	(73,859,318)
Due from related parties (Note 4)	173,679,587	(50,697,256)	(46,745,288)
Inventories (Note 8)	(6,693,753)	-	-
Prepaid expenses and other current assets (Notes 4 and 26)	(11,980,654)	(38,889,384)	8,563,863
Materials and supplies	644,274	(1,790,577)	(107,855)
Increase (decrease) in:			
Accounts payable and accrued expenses (Notes 4 and 26)	7,014,016	38,910,664	33,519,705
Contract liabilities	13,719,884	3,105,319	4,561,042
Accrued separation cost	(100,269)	(2,108,733)	4,627,151
Talent fees and commissions payable	-	-	(12,377,274)
Accrued rent	-	-	1,637,480
Cash flows generated from operations	353,454,628	168,422,467	126,428,344
Income taxes paid, including final and creditable withholding tax	(56,161,246)	(47,851,251)	(67,296,021)
Interest received	128,266	134,807	254,153
Net cash flows generated from operating activities	297,421,648	120,706,023	59,386,476
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment (Notes 4, 11 and 26)	(107,999,556)	(369,942,670)	(15,338,818)
Decrease in advances to suppliers	10,016,980	40,053,372	-
Decrease (increase) in other noncurrent assets	(723,790)	(630,861)	183,509
Dividends received	-	-	4,621,033
Net cash flows used in investing activities	(98,706,366)	(330,520,159)	(10,534,276)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term loans (Notes 14 and 26)	89,000,000	50,000,000	-
Long-term loans (Notes 14 and 26)	-	125,000,000	225,000,000
Payments of:			
Long-term loans (Notes 14 and 26)	(33,320,000)	-	-
Short-term loans (Notes 14 and 26)	-	(2,000,000)	-
Interest paid (Note 26)	(25,619,654)	(15,078,995)	(2,798,398)
Dividends paid (Notes 18 and 26)	(14,319,782)	(119,130,845)	(113,784,558)
Payment of lease liabilities (Notes 24 and 26)	(13,452,535)	-	-
Proceeds from issuance and subscription of shares of non-controlling interest	-	89,950,000	-
Payments of debt issuance costs	-	(937,500)	(1,125,000)
Net cash flows from financing activities	2,288,029	127,802,660	107,292,044

(Forward)



	Years Ended December 31		
	2019	2018	2017
EFFECT OF EXCHANGE RATE CHANGES ON CASH	₱13,164	₱243,211	₱-
NET INCREASE (DECREASE) IN CASH	201,016,475	(81,768,265)	156,144,244
EFFECT OF BUSINESS COMBINATION UNDER COMMON CONTROL (Note 4)	-	-	(230,028,799)
CASH AT BEGINNING OF YEAR	61,501,006	143,269,271	217,153,826
CASH AT END OF YEAR (Note 6)	₱262,517,481	₱61,501,006	₱143,269,271

See accompanying Notes to Consolidated Financial Statements.



MANILA BROADCASTING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

a. Corporate Information

Manila Broadcasting Company (the Parent Company) was incorporated in the Philippines on September 30, 1947. The Parent Company is primarily engaged in the business of radio broadcasting. The registered office address of the Parent Company is MBC Building, V. Sotto Street, CCP Complex, Pasay City. On May 20, 1971, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's Articles of Incorporation to extend its corporate term for another period of 50 years from and after June 11, 1971.

The Parent Company is 72%-owned by Elizalde Holdings Corporation (EHC), a Philippine entity, the immediate and ultimate parent company.

b. Subsidiaries of the Parent Company

Elizalde Hotels and Resorts, Inc. (EHRI) and Feliz Hotel Boracay, Inc. (FHBI)

EHRI was incorporated in the Philippines and registered with the SEC on March 18, 2015. FHBI was incorporated in the Philippines and registered with the SEC on April 23, 2015. EHRI and FHBI are engaged in hotel business. EHRI and FHBI started its commercial operations on January 3, 2019 and July 26, 2019, respectively.

The registered office address of the subsidiaries is MBC Bldg., V. Sotto St., CCP Complex Roxas Blvd., Pasay City.

c. Approval of the Consolidated Financial Statements

The accompanying consolidated financial statements of Manila Broadcasting Company and subsidiaries (the Company) were authorized for issuance by the Board of Directors (BOD) on June 19, 2020.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The Company's consolidated financial statements have been prepared using the historical cost basis, except for unquoted equity investments, which have been measured at fair value, and land under property and equipment, which is carried at revalued amount.

The consolidated financial statements are presented in Philippine peso (Peso), which is the Company's functional currency. Amounts are rounded to the nearest Peso unless otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).



Changes in Accounting Policies and Disclosures

The Company applied for the first-time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2019. Adoption of these pronouncements did not have a significant impact on the Company's financial position or performance unless otherwise indicated.

▪ PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC 4.

The effect of adoption of PFRS 16 as at 1 January 2019 is as follows:

	Increase (decrease)
Asset -	
Property and equipment	₱38,741,425
Liabilities:	
Accrued rent	(2,678,056)
Lease liabilities	39,397,003
Deferred tax liabilities - net	606,743
Equity -	
Retained earnings	1,415,735

Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company elected to apply the practical expedient available to PFRS 16 not to reassess whether a contract contains a lease. It applied PFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under PAS 17 and IFRIC 4 were not reassessed for whether there is a lease.



Based on the above, as at January 1, 2019:

- Property and equipment were recognized amounting to ₱38.7 million, representing the amount of right-of-use assets set up on transition date.
- Lease liabilities of ₱39.4 million were recognized.
- Accrued rent of ₱2.7 million related to a previous operating lease arising from straight-lining under PAS 17 was derecognized.
- Deferred tax liabilities increased by ₱0.6 million because of the deferred tax impact of the reversal of accrued rent.
- The net effect of these adjustments had been adjusted to retained earnings amounting to ₱1.4 million.

The lease liabilities at as 1 January 2019 as can be reconciled to the operating lease commitments as at December 31, 2018 follows:

	MBC	EHRI	FHBI	Total
Operating lease commitments at December 31, 2018	₱26,005,131	₱6,786,917	₱19,436,196	₱52,228,244
Incremental borrowing rate at January 1, 2019	7.75%	8.06%	8.06%	
Discounted operating lease commitments at January 1, 2019	24,099,780	4,477,046	12,821,246	41,398,072
Less commitments relating to short-term leases	2,001,069	–	–	2,001,069
Lease liabilities recognized at January 1, 2019	₱22,098,711	₱4,477,046	₱12,821,246	₱39,397,003

Due to the adoption of PFRS 16, the Company's operating profit in 2019 improved while its interest expense increased. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

Disclosure requirements and other details of this lease arrangement which were accounted for under the standard are discussed in Notes 11 and 24.

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

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

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

The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.



Based on the Company's assessment, it has no uncertain tax treatments, accordingly, the adoption of this Interpretation has no impact on the Company's consolidated financial statements.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

Annual Improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2023

- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries.

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

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



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

- the contractual arrangements with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Parent Company's voting rights and potential voting rights.

The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date when the Parent Company ceases to control the subsidiary.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any excess or deficit of consideration paid over the carrying amount of the non-controlling interest is recognized directly in equity.

If the Parent Company loses control over a subsidiary, it:

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

Non-controlling Interests

Non-controlling interests is the equity in the subsidiaries not attributable, directly and indirectly, to the Parent Company. These are measured at their proportionate share of the value of net identifiable assets of the subsidiaries. These are presented in the consolidated financial statements within equity, separately from the equity of the owners of the Parent Company. Profit or loss and each component of OCI are attributed to the owners of the Parent Company and to the non-controlling interests. Attribution of total comprehensive income to the non-controlling interests continues even if it results in a deficit balance.

Business Combination Involving Entities under Common Control

Business combinations in which all the combining entities within the Group are ultimately controlled by the same party before and after the business combination and that the control is not transitory ("business combinations under common control") are accounted under pooling of interests method.



The general requirements of pooling of interests method are as follows:

- The assets and liabilities of the combining entities are reflected at their carrying amounts.
- No adjustments are made to reflect the fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities.
- No 'new' goodwill is recognized as a result of the combination.
- Any difference between the consideration transferred and the net asset acquired is reflected within equity.

The Company applied this method prospectively and thus, the financial information for comparative periods and any financial information prior to the business combination are not restated.

Current versus Noncurrent Classification

The Company presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification.

An asset is current when:

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Cash

Cash includes cash on hand and cash in banks. Cash in banks earn interest at their respective bank deposit rates.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.



Financial Assets

Initial Recognition, Subsequent Measurement and Impairment

Initial recognition and measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest'(SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement. For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost
- FVOCI with recycling of cumulative gains and losses
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at FVPL

a) Financial assets at amortized cost. The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.



The Company's cash in banks, receivables, due from related parties, construction bond (recorded as part of "Prepaid expenses and other current assets" account) and refundable deposits (recorded as part of "Other noncurrent assets" account) are included in this category.

- b) *Financial assets designated at FVOCI.* Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Company's unquoted equity investments and investment in club shares are classified as equity instruments designated at FVOCI.

As at December 31, 2019, the Company has no financial assets at FVPL and debt instruments at FVOCI.

Impairment of financial assets. The Company recognizes an ECL for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash in banks, due from related parties, advances from stations and other receivables, the Company applies a general approach in calculating ECLs. The Company recognizes a loss allowance based on either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk on its cash in banks since initial recognition.

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each financial reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 360 days past due for the customers of Parent Company and 90 days past due for the customers of EHRI and FHBI. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off, in whole or in part, when the asset is considered uncollectible, the Company has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the contractual cash flows.



Financial Liabilities

Initial recognition and measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company has no financial liabilities at FVPL or derivatives designated as hedging instruments.

Subsequent measurement. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in profit or loss.

This category includes accounts payable and accrued expenses (excluding statutory payables), dividends payable, accrued separation costs, short-term and long-term loans, and lease liabilities.

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is 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. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Derecognition of Financial Instruments

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

- the contractual right to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or



- the Company has transferred its right to receive cash from the financial asset and either (a) has transferred substantially all the risks and rewards of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

When the Company has transferred its right to receive cash from a financial asset and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial 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 has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Fair Value Measurement

The Company measures financial instruments, such as financial assets at FVOCI and non-financial assets such as land classified as property and equipment at revalued amount, at fair value at the end of each reporting period.

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.



All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities and the level of the fair value hierarchy. The fair value hierarchy is disclosed in Note 28 to the consolidated financial statements.

Inventories

Inventories are valued at the lower of cost and net realizable value (“NRV”). Cost is determined using the moving average method. NRV is based on estimated selling prices less estimated costs to be incurred on completion and disposal.

Materials and Supplies

Materials and supplies are stated at the lower of cost (determined using the first-in, first-out method) and net realizable value (NRV). Cost includes the invoice price and related charges such as freight, insurance, and taxes, among others. NRV is the current replacement cost.

Advances to Suppliers

Advances to suppliers are down payments to service-providers in relation to the construction of the building. This is recorded as an asset and is realized through recoupment and application against the amount billed by the contractors.

Property and Equipment

The Company’s property and equipment consist of building and leasehold improvements, broadcasting and transmission equipment, furniture, transportation equipment and right-of-use assets that do not qualify as investment properties.

Property and equipment, except land, are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes, and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to profit or loss in the period in which 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 additional cost of property and equipment. When assets are sold or retired, their cost, accumulated depreciation and amortization, and any impairment



in value are eliminated from the accounts. Any gain or loss resulting from the disposal is included in profit or loss.

Land is stated at revalued amount based on the fair market value of the property determined by an independent firm of appraisers as of reporting period. The increase in the valuation of land, net of deferred income tax liability, is credited to "Revaluation increment on land" in the consolidated statement of financial position and recognized as OCI. Upon disposal, the relevant portion of the revaluation increment realized in respect of the previous valuation will be released from the revaluation increment in OCI directly to retained earnings. Decreases that offset previous increases in respect of the same property are charged against the revaluation increment. All other decreases are charged against current operations.

Depreciation commences when an asset is in its location and condition and it is capable of being operated in the manner intended by management. It is computed using the straight-line method, based on the estimated useful lives of the assets as follows:

	<u>Number of Years</u>
Building	7-17
Broadcasting and transmission equipment	8-11
Furniture and equipment	5
Transportation equipment	4

Leasehold improvements are amortized over the term of the lease or life of the building and improvements ranging from seven to seventeen years, whichever is shorter.

Construction in-progress represents properties under construction and is stated at cost, including cost of construction and other direct costs. This includes rent incurred under operating leases during the period of construction. Construction in-progress is not depreciated until such time that the relevant assets are completed and ready for operational use.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use.

Effective January 1, 2019, it is the Company's policy to classify right-of-use assets as part of property and equipment. Prior to that date, all of the Company's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the consolidated statement of financial position. The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, lease payments made at or before the commencement date.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.



Investment Properties

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

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. A change of use occurs if property meets, or ceases to meet, the definition of investment property. These transfers are recorded using the carrying amount of the investment property at the date of change in use.

Building classified as investment property is depreciated on a straight-line basis over its estimated useful life of ten years.

Intangible Assets

Intangible assets consist of frequency license and intellectual property rights. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The Company's intangible assets are assessed as finite and are amortized over the estimated useful life and assessed for impairment whenever there is an indication that these may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization of intangible assets with finite useful lives is recognized in profit or loss.

Amortization commences when the intangible asset is acquired and is capable of being owned and operated in the manner intended by management. It is computed using the straight-line method, based on the estimated useful lives of the assets as follows:

	<u>Number of Years</u>
Frequency license	13
Intellectual property rights	3

Goodwill

Goodwill is initially measured at cost being the excess of the cost of the business combination over the fair value of the acquiree's net identifiable assets. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.



Impairment of Nonfinancial Assets

Property and equipment, investment properties, intangible assets and other assets. The carrying values of property and equipment, investment properties, intangible assets and other nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists, or when annual impairment testing is required, and where the carrying values exceed the estimated recoverable amounts, the assets or the cash-generating units (CGU) are written down to their recoverable amounts. The recoverable amount of the assets is the greater of the fair value less costs to sell and value-in-use. The fair value is the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Any impairment loss is recognized in profit or loss.

Goodwill. Goodwill is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment for goodwill is determined by assessing the recoverable amount of the CGU to which the goodwill relates. An impairment loss is recognized immediately in profit or loss when the recoverable amount of the CGU is less than its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Capital Stock

Capital stock is the portion of the paid in capital representing the total par value of the shares issued.

Additional Paid-in Capital

Additional paid-in capital represents the amount paid in excess of the par value of the shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, net of any dividend declaration and other capital adjustments.

Other Comprehensive Income (OCI)

OCI comprises items of income and expense that are not recognized in profit or loss in accordance with PFRSs. The Company's OCI includes net changes in fair values of financial assets at FVOCI, revaluation increment on land carried at revalued amount and remeasurement gains (losses) on accrued retirement benefits.

Treasury Stock

Treasury stocks are shares of the Company which are reacquired and are measured at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instrument.

Revenue Recognition

Prior to the adoption of PFRS 15, revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has assessed that it is acting as principal in all of its revenue arrangements.



Upon adoption of PFSR 15, revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has assessed that it is acting as principal in all of its revenue arrangements.

The following specific criteria must also be met before revenue is recognized:

Broadcasting fees. Revenue is recognized at a point in time upon airing of the advertisements.

The Company receives non-cash considerations (such as merchandise or services) from certain customers in exchange for advertising time. The fair value of such non-cash considerations received from the customers is included in the transaction price and measured upon airing of the advertisement.

The Company applies the requirements of PFRS 13, *Fair Value Measurement*, in measuring the fair value of the non-cash considerations. If the fair value cannot be reasonably estimated, the non-cash consideration is measured indirectly by reference to the stand-alone selling price of the advertisements when aired.

Digital services. Revenue from digital services is recognized at point in time when the materials are posted on the Company's social networking sites. The Company uses the cost as stated on the broadcast order.

Talent fees and customer event. Revenue from talent services and customer event is recognized over time upon rendering of services to its customers in accordance with the broadcast order.

Hotel revenues. Revenue from hotel accommodation services are recognized over the period of time under the input method, a time-based measure that results in a straight-line recognition of revenue, as the customer simultaneously receives the benefits from the services rendered by the Company throughout the period when rooms are occupied or services are performed. Payment is due as the customer occupies the room and receives the services except for some customers with specific credit terms.

Variable considerations. If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The volume discounts given by the Company to the customers give rise to a variable consideration.

Revenue outside the scope of PFRS 15

Rental income arising from operating leases on investment properties is recognized on a straight-line basis over the lease term.

Interest income is recognized as the interest accrues using the EIR method.

Dividend income is recognized when the Company's right to receive the payment is established.



Contract Balances

Trade receivables. A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets. A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities. A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Payments received before broadcast (pay before broadcast) represent contract liabilities, which are recognized as revenue upon airing of related advertisements.

Cost of Services and Operating Expenses

Cost of services and operating expenses are recognized when incurred. They are measured at the fair value of the consideration paid or payable. Cost of services and operating expenses are presented as net of recharges or reimbursements of expenses billed to various partner stations in the consolidated statement of comprehensive income.

Value-Added Tax (VAT)

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

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

The net amount of output VAT of the Parent Company and the input VAT of EHRI and FHBI are presented under "Accounts payable and accrued expenses" account and "Other current assets", respectively, in the consolidated statement of financial position.

Retirement Benefits

Net pension assets and accrued retirement benefits, as presented in the consolidated statements of financial position, is the present value of the defined benefit obligation at the financial reporting date reduced by the fair value of plan assets, adjusted for the effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method. Retirement benefits costs consist of service costs, net interest on the net defined benefit liability or asset and remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized in profit or loss. Past service costs are recognized when plan



amendment or curtailment occurs. These amounts are calculated periodically by an independent qualified actuary.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are held in trust and managed by a trustee bank. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Accrued Separation Costs

Accrued separation costs, as presented in the consolidated statement of financial position, pertain to the unpaid balance of separation pay of employees as at financial reporting date. These are recognized as a liability when they are accrued to the employees.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are available for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest cost.

Income Taxes

Current tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the financial reporting date.



Deferred tax. Deferred tax is provided, using the liability method, on all temporary differences at the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax relating to items recognized outside profit or loss is recognized under OCI in equity.

Deferred tax liabilities are recognized for all taxable temporary differences except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the financial reporting date.

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

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset even if that right is not explicitly specified in an arrangement.

Company as a Lessee Upon Adoption of PFRS 16

Lease liabilities. The lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at the Company's incremental borrowing rate. The incremental borrowing rate is determined based on the rate the Company's bank will charge should an amount equivalent to the value of the asset being leased will be borrowed using the same lease term. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Company's right-of-use assets are included in the "Property and equipment" account (see Note 11), and the lease liabilities (current and noncurrent) as separate line item in the consolidated statement of financial position (see Note 24).



Short-term Leases and Leases of Low-value Assets. The Company applies the short-term recognition exemption to its short-term leases of staff house (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to these leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Company as a Lessee Prior to Adoption of PFRS 16. Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of comprehensive income or capitalized in the consolidated statement of financial position (in case of leases directly related to construction) on a straight-line basis over the lease term.

Company as a Lessor Prior to and Upon Adoption of PFRS 16. Leases where the Company retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Earnings Per Share

Basic earnings per share is computed by dividing the net income by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net income by the weighted average number of shares outstanding during the year and adjusted for the effects of all dilutive potential common shares, if any.

In determining both the basic and the diluted earnings per share, the effect of stock dividends, if any, is accounted for retroactively.

Foreign Currency-denominated Transactions

Transactions in foreign currencies (i.e., currencies other than the Peso) are initially recorded using the functional currency exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are restated using the functional currency closing exchange rate at the end of reporting period. All differences are taken to profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Segment Reporting

For purposes of management reporting, the Company is organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit. Such business segments are the bases upon which the Company reports its primary segment information.

Financial information on business segments is presented in Note 5 to the consolidated financial statements. The Company has one geographical segment and derives substantially of its revenues from domestic operations.



Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Events after the Reporting Period

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

3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRSs requires management to make judgments, estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances that are believed to be reasonable as at the date of the consolidated financial statements. Actual results could differ from such estimates.

The judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments

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

Recognition of Revenue from Contracts with Customers

- a. *Identifying Performance Obligations.* The Company identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Company's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

Revenues earned from contracts with various promises are split into separately identifiable performance obligations based on their relative stand-alone selling price to reflect the substance of the transaction.

The Company offers bundled radio airtime, digital and hosting and customer event services and is assessed as three separate performance obligations.



- b. The Company recognizes revenue over time or at a point in time depending on its evaluation of when the customer obtains control of the promised goods or services. Revenue from broadcasting fees are recognized at a point in time when the revenue is aired. Revenues from talent fees and customer event are recognized over time as the Company provides the service. Revenue from digital services is recognized at a point in time when control over goods or services is transferred to the customer upon posting of advertising materials on its social media accounts
- c. *Determining Method to Estimate Variable Consideration and Assessing the Constraint.* The Company provides volume incentives to its customers based on the aggregate annual sales volume for the year. The determination of the sales volume excludes political placements, production costs, prizes, talent fees and other non-revenue accounts. In estimating the variable consideration, the Company is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Company determined that the most likely amount method is appropriate to use in estimating the variable consideration for the volume incentives given to the customers. The most likely amount is the single most likely amount in a range of possible consideration amounts. The Company considered this method to be the more appropriate estimate of the amount of variable consideration since the agreement with its customers has only two possible outcomes, which is, the customer either achieves the required aggregate annual sales volume, or does not.

Before including any amount of variable consideration in the transaction price, the Company considers whether the amount of variable consideration is constrained. The Company determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Definition of Default and Credit-Impaired Financial Assets. Upon adoption of PFRS 9, the Company defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- *Quantitative Criteria.* The borrower is more than 360 days past due for the customers of the Parent Company and 90 days past due for the customers of EHRI and FHBI on its contractual payments, which is consistent with the Company's definition of default. The determination of the period is based on the Company's practice and agreement with its customers within the industry.
- *Qualitative Criteria.* The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
 - a. The borrower is experiencing financial difficulty or is insolvent;
 - b. The borrower is in breach of financial covenant(s);
 - c. Concessions have been granted by the Company, for economic or contractual reasons relating to the borrower's financial difficulty; or
 - d. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the probability of default (PD), loss given default (LGD) and exposure at default (EAD) throughout the Company's ECL calculation.



Simplified Approach for Trade Receivables. The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of advertisers that have similar loss patterns. The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every financial reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

Grouping of Instruments for Losses Measured on Collective Basis. For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. The Company groups its trade receivable based on the type of customer.

Macro-economic Forecasts and Forward-looking Information. Macro-economic forecasts are determined by evaluating a range of possible outcomes and using reasonable and supportable information that is available without undue cost and effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company takes into consideration using different macro-economic variables to ensure linear relationship between internal rates and outside factors. Regression analysis was used to objectively determine which variables to use.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Company recognized a provision for ECL in 2019 amounting to ₱0.6 million while it recognized a reversal of ECL in 2018 amounting to ₱19.9 million. The carrying amount of receivables amounted to ₱442.0 million and ₱347.0 million as at December 31, 2019 and 2018, respectively (see Notes 7, 19 and 25).

Valuation of Unquoted Equity Securities. PFRS 9 requires all investments in equity instruments and contracts on those instruments to be measured at fair value. In 2019 and 2018, the Company valued its unquoted equity securities using adjusted net asset value approach. See Note 28 for the valuation methodology used and key inputs to valuation of the investment in shares of stock.

The fair value of unquoted equity securities amounted to ₱166.1 million and ₱164.5 million as at December 31, 2019 and 2018, respectively (see Note 10).

Valuation of Lease Liabilities and Right-of-Use Assets. The application of PFRS 16 requires the Company to make judgments that affect the valuation of lease liability and the valuation of right-of-use asset. These include: (1) determining contracts in scope of PFRS 16, and (2) determining the contract term and interest rate for discounting of future cash flows.

- a. *Determining contracts in scope of PFRS 16.* The Company has lease agreements covering rental of satellite communications capacity called transponder lease, land used as site for broadcasting business and where the hotel property is located, office spaces and transmitter sites. The Company recognized right-of-use assets and lease liabilities for the leases related to transponder lease and land. The Company has assessed leases for office spaces and transmitter sites as short-term and elected not to recognize right-of-use assets and lease liabilities (see Note 24).



- b. *Determining the contract term.* The lease term determined by the Company comprises non-cancellable period of lease contracts, and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option. The Company did not consider the renewal options as they need to be mutually agreed upon by both lessor and lessee. The Company considered the significant leasehold improvements on the leased assets to determine that the option to terminate the lease is not reasonably certain to be exercised. The same economic life is applied to determine the depreciation rate of right-of-use assets.
- c. *Determining the interest rate under PFRS 16.* The present value of the lease payments is determined using the discount rate representing the interest rate implicit in the lease, if that rate can be readily determined or the lessee's incremental borrowing rate, if that rate cannot be readily determined. The Company cannot readily determine the interest rate implicit in leases of satellite communications capacity, land principally used for broadcasting business, land where hotel property and other facilities are located, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Company's stand-alone credit rating). The incremental borrowing rate used as at January 1, 2019 ranges between 7.75% to 8.06%.

Operating lease commitments - Company as lessee prior to adoption of PFRS 16. The Company has a lease agreement with a third party, covering its satellite communications services and with a related party for its office space and transmitter site. The Company has determined that the risks and rewards of ownership of the underlying properties are retained by the lessors since the lease does not transfer ownership of the assets to the Company, the lease term is not for the major part of the economic life of the assets and the Company has no option to purchase the assets at the end of the lease agreements. Accordingly, the leases were accounted for as operating leases and were recognized on a straight-line basis over the lease term. Rent expense amounted to ₱23.0 million in 2018 and ₱22.0 million in 2017 (see Note 20).

Operating lease commitments - Company as lessor. The Company has arrangements with various lessees covering the building units it offers for lease, the ownership over which was determined to have been retained by the Company. Accordingly, these leases were accounted for as operating leases. Rent income amounted to ₱11.2 million, ₱8.6 million and ₱8.4 million in 2019, 2018 and 2017, respectively (see Note 12).

Classification of property. The Company determines whether a property is classified as property and equipment or investment property as follows:

- Property and equipment which are occupied for use by, or in the operations of, the Company and not for sale in the ordinary course of business.
- Investment property comprises building spaces and improvements which are not occupied for use by, or in the operations of, the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.

The Company considers each property separately in making its judgment.



Estimations

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

Estimation of useful lives of property and equipment and intangible assets. The Company estimated the useful lives of its property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The Company annually reviews the estimated useful lives of property and equipment and intangible assets based on factors that include asset utilization, internal technical evaluation, technological changes, environmental changes and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

As at December 31, 2019 and 2018, the carrying value of depreciable property and equipment amounted to ₱913.1 million and ₱100.1 million, respectively (see Note 11). Carrying value of net intangible assets amounted to ₱20.7 million and ₱32.5 million as at December 31, 2019 and 2018, respectively (see Note 13). Total depreciation and amortization relating to property and equipment and intangible assets charged to operations amounted to ₱65.7 million, ₱30.7 million and ₱30.8 million in 2019, 2018 and 2017, respectively (see Notes 11 and 13).

Revaluation of land. The Company carries land classified under property and equipment at revalued amounts, with changes in fair value being recognized in OCI. The Company engaged an independent valuation specialist to assess the fair value as at the financial reporting date. The key assumptions used to determine the fair value of the properties are provided in Note 11. As at December 31, 2019 and 2018, the carrying value of the land, carried at fair value, amounted to ₱299.1 million and ₱288.4 million, respectively. As at December 31, 2019 and 2018, revaluation increment on land (net of deferred tax) amounted to ₱200.2 million and ₱194.6 million, respectively (see Note 11).

Assessment of impairment of noncurrent nonfinancial assets except goodwill and land at revalued amount. The Company assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- a. significant adverse changes in the technological, market, or economic environment in which the Company operates;
- b. significant decrease in the market value of an asset;
- c. significant increase in the discount rate used for the value-in-use calculations;
- d. evidence of obsolescence and physical damage;
- e. significant changes in the manner in which an asset is used or expected to be used;
- f. plans to restructure or discontinue an operation; and,
- g. evidence is available from internal reporting that the economic performance of an asset is, or will be, worse than expected.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's net selling price and value-in-use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

Recoverable amount represents the value-in-use, determined as the present value of estimated future cash flows expected to be generated from the continued use of the assets. The estimated cash flows



are projected using growth rates based on historical experience and business plans and are discounted using pretax discount rates that reflect the current assessment of the time value of money and the risks specific to the asset.

Based on management's evaluation, no impairment loss needs to be recognized on the Company's property and equipment, advances to suppliers, investment properties, intangible assets and other noncurrent assets in 2019 and 2018. As at December 31, 2019 and 2018, the total carrying values of the Company's noncurrent nonfinancial assets, excluding goodwill and land at revalued amount, amounted to ₱1,143.3 million and ₱962.7 million, respectively (see Notes 11, 12 and 13).

Assessment of impairment of goodwill. For goodwill, the Company determines whether it is impaired at least on an annual basis. This requires an estimation of the value-in-use of the CGU to which the goodwill is allocated. The impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company has not yet committed to or significant future investments that will enhance the asset based of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the revenue growth rate and the long-term growth rate for extrapolation purposes. As at December 31, 2019 and 2018, the carrying value of goodwill amounted to ₱38.0 million. The key assumptions used to determine the recoverable amount for the goodwill, including sensitivity analysis, are disclosed and further explained in Note 13.

Recognition of deferred tax assets. The Company reviews the carrying amounts of deferred tax assets at each financial reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

Based on management's evaluation, there will be sufficient future taxable profits against which the deferred tax assets can be applied. As at December 31, 2019 and 2018, recognized deferred tax assets amounted to ₱27.2 million and ₱30.4 million, respectively (see Note 23).

Estimation of retirement benefits cost and liability. The determination of the obligation and retirement benefits cost is dependent on assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 22 and include among others, discount rates which are determined by using risk-free interest rate of government bonds consistent with the estimated term of the obligation and salary increase rates. In accordance with PFRSs, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement benefits obligation.

Net pension assets amounted to ₱7.7 million and ₱7.5 million as at December 31, 2019 and 2018, respectively (see Note 22).

Provisions. The Company provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at the end of the reporting date, net of any estimated amount that may be reimbursed to the Company. If the effect of the time value of money is material, provisions are discounted using a pretax rate that reflects the risks specific to the liability. The amount of provision is being reassessed at least on an annual basis to consider new relevant information. There were no provisions recognized in 2019 and 2018 (see Note 31).



4. Business Combination under Common Control

In 2017, the Parent Company acquired additional shares from EHRI amounting to ₱240.0 million to bring its total ownership interest to 80%. Consequently, the Parent Company obtained control over EHRI and its wholly-owned subsidiary, FHBI. The carrying amount of the initial investment and the additional consideration paid is equal to the net assets acquired.

This transaction was accounted for under pooling of interest method since the Parent Company and EHRI are under common control of EHC.

As at December 31, 2019 and 2018, the ownership interest of the Parent Company in EHRI and FHBI follows:

	Effective Percentage of Ownership	
	Direct	Indirect
EHRI Group	80	–
FHBI	–	80

The financial information of subsidiaries that have material non-controlling interests is provided below.

Subsidiaries	As at December 31				As at December 31		As at December 31	
	2019		2018		2019		2018	
	Proportion of ownership interest and voting rights held by non-controlling interest							
	Economic		Voting		Non-controlling interest		Loss allocated to non-controlling interest	
	<i>(In Percentages)</i>							
EHRI Group	20.0	20.0	20.0	20.0	₱181,367,955	₱194,053,319	(₱12,685,364)	(₱2,882,404)

The summarized financial information (stand-alone financial statements before inter-company eliminations within the Company) of subsidiaries with material non-controlling interests are provided below:

Summarized Statements of Financial Position

	2019		2018	
	EHRI	FHBI	EHRI	FHBI
Current assets	₱144,201,808	₱102,911,042	₱246,268,393	₱68,735,537
Noncurrent assets	887,094,933	738,870,361	767,623,597	657,264,983
Current liabilities	40,166,785	166,684,331	22,674,489	83,357,425
Noncurrent liabilities	4,375,071	33,096,532	–	–
Net assets	₱986,754,885	₱642,000,540	₱991,217,501	₱642,643,095
Attributable to:				
Equity holders of the Parent Company	₱789,353,908	₱658,033,562	₱792,924,001	₱646,883,276
Non-controlling Interest	197,400,977	(16,033,022)	198,293,500	(4,240,181)
	₱986,754,885	₱642,000,540	₱991,217,501	₱642,643,095



Summarized Statements of Comprehensive Income

	2019		2018	
	EHRI	FHBI	EHRI	FHBI
Revenue	₱3,155,152	₱34,305,025	₱–	₱–
Cost of sales	–	(4,277,345)	–	–
Gross profit	3,155,152	30,027,680	–	–
General and administrative expense	(5,792,979)	(79,801,819)	(4,044,513)	(16,727,559)
Other income (loss)	(3,295,534)	(3,252,095)	215,438	16,879
Loss before income tax	(5,933,361)	(53,026,234)	(3,829,075)	(16,710,680)
Income tax provision (benefit)	(1,470,745)	5,937,971	(1,189,846)	(4,937,890)
Net loss	(₱4,462,616)	(₱58,964,205)	(₱2,639,229)	(₱11,772,790)
Attributable to:				
Equity holders of the Parent Company	(₱3,570,093)	(₱47,171,364)	(₱2,111,383)	(₱9,418,232)
Non-controlling Interest	(892,523)	(11,792,841)	(527,846)	(2,354,558)
	(₱4,462,616)	(₱58,964,205)	(₱2,639,229)	(₱11,772,790)

The details of the effect of business combination under common control shown in the 2017 consolidated statement of cash flows is shown below:

	Movement Shown in Consolidated Statement of Cash Flows	Noncash Items	Total	Movement Based on Consolidated Statement of Financial Position	Effect of Business Combination Under Common Control
Movement in due from related parties	₱46,745,288	₱–	₱46,745,288	₱169,979,119	(₱123,233,831)
Movement in prepaid expense and other current assets	(8,563,863)	–	(8,563,863)	138,792,339	(147,356,202)
Movement in investment in an associate	–	–	–	(199,542,513)	199,542,513
Movement in property and equipment	(837,330)	770,954	(66,376)	323,183,733	(323,250,109)
Movement in accounts payable and accrued expenses	(42,707,898)	(705,858)	(43,413,756)	(117,084,345)	73,670,589
Subsidiaries' ending balances of:					
Deferred tax assets	–	3,930,374	3,930,374	–	(3,930,374)
Deficit	–	12,457,108	12,457,108	–	(12,457,108)
Non-controlling interest	–	106,985,723	106,985,723	–	106,985,723
					(₱230,028,799)

5. Segment Information

An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues.



The BOD, the Company’s chief operating decision maker, monitors operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit and loss in the consolidated financial statements.

The Company is organized into only two operating divisions, radio broadcasting and hotel business. The radio broadcasting division has seven programming formats, namely DZRH and “Aksyon Radyo” stations, Love Radio, YES FM, Hot-FM, Radyo Natin, Easy Rock and New Media. The hotel business has started its operations on July 26, 2019.

Revenues, net income, total assets and total liabilities as at and for the years ended December 31, 2019 and 2018 are the same as reported elsewhere in the accompanying consolidated financial statements.

2019				
	Radio Broadcasting	Hotel Business	Eliminations	Consolidated Financial Statements
Revenues	₱1,063,433,392	₱34,305,025	₱–	₱1,097,738,417
Net income (loss)	143,346,947	(63,426,821)	14,399,942	94,320,068
Total assets	2,223,870,233	1,873,078,144	(1,487,027,841)	2,609,920,536
Total liabilities	948,635,815	244,322,719	8,167,594	1,201,126,128

2018				
	Radio Broadcasting	Hotel Business	Eliminations	Consolidated Financial Statements
Revenues	₱1,021,657,991	₱–	₱–	₱1,021,657,991
Net income (loss)	107,107,781	(14,412,019)	10,021,726	102,717,488
Total assets	1,985,952,599	1,739,923,481	(1,445,938,868)	2,279,937,212
Total liabilities	867,498,703	106,062,885	5,334,859	978,896,447

2017				
	Radio Broadcasting	Hotel Business	Eliminations	Consolidated Financial Statements
Revenues	₱1,066,386,226	₱–	₱–	₱1,066,386,226
Net income (loss)	124,399,219	–	2,498,547	126,897,766
Total assets	1,573,356,830	608,199,204	(436,430,648)	1,745,125,386
Total liabilities	637,820,315	73,670,589	1,070,805	712,561,709

The Company has no revenue from transactions with a single external customer accounting for more than 10%. All customers of the Company are located in the Philippines.

6. Cash

	2019	2018
Cash on hand	₱15,327,990	₱14,614,096
Cash in banks	247,189,491	46,886,910
	₱262,517,481	₱61,501,006

Interest income from cash in banks amounted to ₱0.1 million, ₱0.1 million and ₱0.3 million in 2019, 2018 and 2017, respectively.



7. Receivables

	2019	2018
Trade (see Note 19)	₱411,296,740	₱311,800,489
Advances to stations (see Note 16)	49,662,641	41,061,751
Others	11,595,533	24,133,102
	472,554,914	376,995,342
Less allowance for ECLs	30,563,407	29,963,064
	₱441,991,507	₱347,032,278

Trade receivables and advances to stations are noninterest-bearing and have credit terms of approximately 90 days.

Movement of allowance for ECLs by class is as follows:

	Trade	Advances to stations	Others	Total
Balance as at January 1, 2018	₱42,311,503	₱363,419	₱7,167,906	₱49,842,828
Reversal (see Note 20)	(19,879,764)	-	-	(19,879,764)
December 31, 2018	22,431,739	363,419	7,167,906	29,963,064
Provision (see Note 20)	600,343	-	-	600,343
December 31, 2019	₱23,032,082	₱363,419	₱7,167,906	₱30,563,407

8. Inventories

	2019	2018
At cost:		
Food and beverage	₱1,224,963	₱-
Operating supplies	5,468,790	-
	₱6,693,753	₱-

Inventories charged to cost of sales amounted to ₱4.3 million and nil in 2019 and 2018, respectively (see Note 20).

9. Prepaid Expenses and Other Current Assets

	2019	2018
Input VAT	₱85,084,062	₱74,595,969
Prepaid expenses	7,244,115	5,626,899
Construction bond	1,000,000	1,000,000
	₱93,328,177	₱81,222,868



Input VAT arose from the purchases of goods and services of FHBI and EHRI related to the construction and hotel operations.

Prepaid expenses pertain to various prepayments of the Company which are expected to be amortized in the next financial reporting period.

Construction bond is a refundable deposit to the government in line with the construction of the hotel. The amount paid will be reimbursed to the Company after the completion of the construction which was initially expected in 2018. As the construction was actually completed in 2019, the Company expects to be refunded in 2020.

10. Financial Assets at FVOCI

	2019	2018
Investment in corporate shares of stocks and golf shares:		
Unquoted	₱166,054,441	₱164,332,562
Quoted	220,000	200,000
	₱166,274,441	₱164,532,562

The movements of financial assets at FVOCI follow:

	2019	2018
Balance at beginning of year	₱164,532,562	₱169,604,372
Increase (decrease) in fair value during the year	1,741,879	(5,071,810)
Ending balance at end of year	₱166,274,441	₱164,532,562

The fair value of the quoted shares of stock is determined based on quoted market price (see Note 28).

As at December 31, 2019 and 2018, the cumulative changes in the fair value of financial assets at FVOCI are recognized under “Reserve for fluctuation in fair value of financial assets at FVOCI” shown as part of equity in the consolidated statement of financial position.

Investments in unquoted shares of stock represent unlisted corporate shares in Philippine International Corporation (PIC) and EHC. In 2019 and 2018, the Company determined the fair value of these investments using adjusted net asset value approach (see Note 28).



11. Property and Equipment

a. Property and equipment carried at cost consists of:

	2019						Total
	Building and Leasehold Improvements	Broadcasting and Transmission Equipment	Furniture and Equipment	Transportation Equipment	Construction in-Progress	Right-of-Use Assets	
Cost							
Balance at beginning of year, as previously stated	₱166,223,284	₱453,703,129	₱125,317,928	₱50,910,503	₱686,573,128	₱-	₱1,482,727,972
Effect of PFRS 16 adoption (see Note 2)	-	-	-	-	-	38,741,425	38,741,425
Balance at beginning of year, as restated	166,223,284	453,703,129	125,317,928	50,910,503	686,573,128	38,741,425	1,521,469,397
Additions	38,784,273	105,600	27,381,449	-	136,365,301	35,595,942	238,232,565
Casualty losses	(32,945,270)	(2,609,149)	(5,602,372)	-	-	-	(41,156,791)
Reclassifications	690,939,411	-	56,685,781	-	(747,625,192)	-	-
Balance at end of year	863,001,698	451,199,580	203,782,786	50,910,503	75,313,237	74,337,367	1,718,545,171
Accumulated Depreciation							
Balance at beginning of year	144,861,908	409,608,782	96,642,345	44,914,810	-	-	696,027,845
Depreciation (see Note 20)	20,765,311	11,601,880	6,156,655	2,272,997	-	13,052,918	53,849,761
Casualty losses	(15,704,734)	(1,789,229)	(2,226,611)	-	-	-	(19,720,574)
Balance at end of year	149,922,485	419,421,433	100,572,389	47,187,807	-	13,052,918	730,157,032
Net Book Values	₱713,079,213	₱31,778,147	₱103,210,397	₱3,722,696	₱75,313,237	₱61,284,449	₱988,388,139

	2018						Total
	Building and Leasehold Improvements	Broadcasting and Transmission Equipment	Furniture and Equipment	Transportation Equipment	Construction in Progress		
Cost							
Balance at beginning of year	₱163,881,156	₱452,447,263	₱105,654,123	₱47,499,431	₱329,316,578	₱1,098,798,551	
Additions	2,342,128	1,255,866	19,663,805	3,741,072	357,256,550	384,259,421	
Disposals	-	-	-	(330,000)	-	(330,000)	
Balance at end of year	166,223,284	453,703,129	125,317,928	50,910,503	686,573,128	1,482,727,972	
Accumulated Depreciation							
Balance at beginning of year	141,146,856	397,651,394	95,261,969	43,427,053	-	677,487,272	
Depreciation (see Note 20)	3,715,052	11,957,388	1,380,376	1,817,757	-	18,870,573	
Disposals	-	-	-	(330,000)	-	(330,000)	
Balance at end of year	144,861,908	409,608,782	96,642,345	44,914,810	-	696,027,845	
Net Book Values	₱21,361,376	₱44,094,347	₱28,675,583	₱5,995,693	₱686,573,128	₱786,700,127	

On October 2, 2019, a fire incident occurred within the office premises of the Company. The said incident resulted in physical damages on certain portion of the Company's radio stations, property and equipment. This also resulted to the temporary suspension of its radio broadcasting operations for two days. Fixed assets with net book value amounting to ₱21.4 million was recorded as casualty losses in the 2019 consolidated statement of comprehensive income. This incident was covered by insurance policies involving settlements for property damages and business interruptions (see Note 31).

Borrowing cost capitalized as part of the construction in-progress amounted to ₱20.6 million and ₱17.9 million as at December 31, 2019 and 2018, respectively, as the loan was specifically drawn to finance construction of the hotel property (see Note 14).



b. Land at revalued amount as at December 31, 2019 and 2018 consists of:

	2019	2018
Cost:		
Balance at beginning of year	₱10,396,194	₱10,396,194
Addition	2,700,000	–
Balance at end of year	13,096,194	10,396,194
Revaluation increment on land:		
Balance at beginning of year	277,978,306	211,179,706
Increase	8,039,900	66,798,600
Balance at end of year	286,018,206	277,978,306
Carrying amount	₱299,114,400	₱288,374,500

The revalued amounts of ₱299.1 million and ₱288.4 million in 2019 and 2018, respectively, are based on the valuation conducted by independent appraisal companies as at December 31, 2019 and 2018, respectively. The appraisal companies used the market data or sales comparison approach where the fair market values are determined by referring to the extent, character and utility, and sales and holding prices of similar land, significantly adjusted for dissimilarities in the nature, location or condition of the specific properties.

The fair values of these parcels of land are determined using Level 3 valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable (see Note 28). The price per square meter of significant unobservable input is from ₱470 to ₱23,900 in 2019 and ₱100 to ₱23,900 in 2018. Significant increases (decreases) in the estimated price per square meter in isolation would result in a significantly higher (lower) fair value.

The revaluation increment, net of tax, of ₱200.2 million and ₱194.6 million as at December 31, 2019 and 2018, respectively, is included in the equity section of the consolidated statements of financial position.

12. Investment Properties

	Land	Building	Total
Cost at beginning and end of year	₱43,162,500	₱80,381,524	₱123,544,024
Accumulated depreciation at beginning and end of year	–	80,381,524	80,381,524
Net Book Values	₱43,162,500	₱–	₱43,162,500

Investment properties are leased to employees and third parties. The total fair value of the investment properties, based on the recent appraisal reports, amounted ₱162.8 million for land and ₱79.8 million for building. The latest appraisal report was as at December 31, 2019. The fair values of the properties are based on valuations performed by an accredited independent appraiser.

The fair values of these investment properties were determined using Level 3 valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable (see Note 28).



The appraiser used the market data or sales comparison approach in determining the fair value of the land. The valuation was made on the basis of the market value determined by referring to the extent, character and utility, and sales and holding prices of similar properties, significantly adjusted for dissimilarities in the nature, location or condition of the specific properties.

The fair value of building and other property, which represent reproduction cost less depreciation, was arrived at by the appraiser using the cost approach. This method determines the fair value of the building and other property by estimating the cost to create the same structure with the same design and using similar construction materials.

The highest and best use of investment properties, as determined by the appraiser, is a mixed commercial and residential utility, which is similar to their current use.

Rental income generated from these investment properties amounted to ₱11.2 million in 2019, ₱8.6 million in 2018 and ₱8.4 million in 2017. Related direct operating expenses amounted to ₱9.1 million, ₱7.9 million and ₱8.5 million in 2019, 2018 and 2017, respectively.

13. Goodwill and Other Intangible Assets

The Company's intangible assets and goodwill pertain to a radio station acquired in 2008 at a cost of ₱229.6 million. The excess of acquisition cost over the adjusted fair values of the identifiable assets amounting to ₱38.0 million was recognized as goodwill.

The net book values of the intangible assets as at December 31 are as follows:

	2019		
	Frequency license	Intellectual Property Rights	Total
Cost			
Balance at beginning and end of year	₱153,594,927	₱5,810,867	₱159,405,794
Accumulated Amortization			
Balance at beginning of year	121,103,707	5,810,867	126,914,574
Amortization (see Note 20)	11,814,996	-	11,814,996
Balance at end of year	132,918,703	5,810,867	138,729,570
Net Book Values	₱20,676,224	₱-	₱20,676,224
	2018		
	Frequency license	Intellectual Property Rights	Total
Cost			
Balance at beginning and end of year	₱153,594,927	₱5,810,867	₱159,405,794
Accumulated Amortization			
Balance at beginning of year	109,288,711	5,810,867	115,099,578
Amortization (see Note 20)	11,814,996	-	11,814,996
Balance at end of year	121,103,707	5,810,867	126,914,574
Net Book Values	₱32,491,220	₱-	₱32,491,220

The remaining estimated useful life of frequency license as at December 31, 2019 is 1.75 years.



Impairment Testing of Goodwill

The Company performs its annual impairment test every December of each year. Goodwill is allocated to only one CGU, which is the DWRK radio station. The recoverable amount of the CGU determined based on value-in-use, is compared to its carrying amount. An impairment loss is recognized if the carrying amount of the CGU exceeds its recoverable amount.

The recoverable amount of the CGU, which exceeds its carrying amount by ₱356.4 million, ₱279.7 million and ₱387.3 million as at December 31, 2019, 2018 and 2017, respectively, has been determined based on the value-in-use calculations using cash flow projections from financial budgets covering a five-year period. The pre-tax discount rates applied to the cash flow projections and the expected growth rates used in the extrapolation of the cash flows beyond the five-year period are shown in the key assumptions disclosure below. The expected growth rate is the same as the long-term average growth rate for the media industry. As a result of this analysis, management has determined that there was no impairment loss in 2019, 2018 and 2017 since the value-in-use exceeds the carrying value of the identifiable assets of the CGU.

Key Assumptions. The following are the key assumptions used in management's analysis:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Discount rate	13.41%	19.06%	15.10%
Revenue growth rate	5.00%	5.00%	5.00%
Long-term growth rate	5.00%	5.00%	5.00%

Sensitivity to Changes in Assumptions. The discount rates represent the current market assessment of the risk specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate is derived from the weighted average cost of capital, which takes into account both debt and equity. The cost of equity is derived from the expected return on investment of the Company's investors. The cost of debt is based on average lending rates. Segment specific risk is incorporated by applying individual beta factors, evaluated annually based on publicly available market data. The carrying amount of the CGU is enough to absorb significant changes in the discount rates as at December 31, 2019.

On the average, the revenue of the CGU over the next five years is projected to grow in line with the economy or with nominal Gross Domestic Product. Historically, advertising spending growth had a direct correlation with economic growth. Even with a revenue growth rate of zero percent, there would still be no impairment in 2019.

The long-term growth rate is based on the projected growth of the Company, based on historical experience, economic conditions and the Company's future plans. Even with a long-term growth rate of zero percent, there would still be no impairment in 2019.



14. Loans

Short-term Loans

These are peso-denominated loans which the Company availed from financial institutions with annual interest of 5.25-6.5% to finance its capital requirements. Interest expense on short-term loans amounted to ₱4.2 million and ₱0.9 million in 2019 and 2018, respectively.

	2019	2018
Balance at beginning of year	₱48,000,000	₱–
Availments	89,000,000	50,000,000
Payments	–	(2,000,000)
Balance at end of year	₱137,000,000	₱48,000,000

Interest repricing date is every 91 days from date of inception. On November 15, 2019, the Company applied for a renewal of the short-term loan with Bank of the Philippine Islands and the maturity date was extended until February 13, 2020.

The short-term loans are unsecured and not subject to loan covenants.

Long-term Loans

	2019	2018
Principal		
Balance at beginning of year	₱350,000,000	₱225,000,000
Availments	–	125,000,000
Payments	(33,320,000)	–
Balance at end of year	316,680,000	350,000,000
Unamortized discount		
Balance at beginning of year	1,595,412	1,059,904
Additions	–	937,500
Amortization	(470,464)	(401,992)
Balance at end of year	1,124,948	1,595,412
Carrying amount	315,555,052	348,404,588
Less current portion*	66,234,505	32,853,998
	₱249,320,547	₱315,550,590

*Net of unamortized discount of ₱0.4 million and ₱0.5 million in 2019 and 2018, respectively

On May 12, 2017, the Parent Company entered into a ₱350.0 million seven-year term loan facility with Bank of the Philippine Islands (the “Lender” or “BPI”). The proceeds of the loan will be used for constructing and operating a hotel in Boracay Island, Aklan. The facility was fully drawn in 2018. Details are shown below:

Drawdown Dates	Amount
July 2017	₱70,000,000
August 2017	60,000,000
October 2017	50,000,000
December 2017	45,000,000
January 26, 2018	55,000,000
April 4, 2018	70,000,000
	₱350,000,000



The loans are payable over seven years in 21 consecutive quarterly installments on each repayment date commencing on July 4, 2019 while the interest on the unpaid principal amount shall be paid in quarterly payments from the initial drawdown date.

Interest Rate

The Parent Company has an option to pay interest based on a fixed interest rate or a floating interest set forth in the notice of borrowing at each drawdown. The Parent Company elected to pay floating interest for all drawdowns made. Floating interest rate is the bid yield for the relevant benchmark 3-month PDSTR2 at approximately 4:15pm one banking day prior to the first banking day of each quarterly interest period and a spread of point ninety-five percent (0.95%) per annum subject to a floor rate based on the sum of the prevailing Term Deposit Facility rate or similar rate of the Bangko Sentral ng Pilipinas for tenors closest to the Interest Period ("BSP TDF") plus a spread of 0.50% per annum.

Prepayment Option

The Parent Company also has the option to prepay the loan after the third year from the initial drawdown, wholly or partially, at any time during the term. The amount payable in respect of each prepayment shall be the full or partial outstanding principal amount of the loan plus any accrued but unpaid interest, penalties and other charges, if any. The prepayment option was assessed as clearly and closely related to the loan and does not require bifurcation.

Debt Issuance and Borrowing Costs

Borrowing costs related to the loan amounting to ₱20.6 million in 2019 and ₱14.3 million in 2018 were capitalized as part of property and equipment (see Note 11). This comprises of interest expense amounting to ₱20.1 million and ₱13.9 million in 2019 and 2018, respectively, and amortization of debt issue cost amounting to ₱0.5 million and ₱0.4 million in 2019 and 2018, respectively.

Unamortized debt discount amounting to ₱1.1 million and ₱1.6 million as at December 31, 2019 and 2018, respectively, representing capitalized debt issue costs is presented as deduction from the Company's long-term loans.

Debt Covenant

The Company's loan facility contains certain restrictive covenants that require the Parent Company to comply with specified financial ratios, namely, debt-to-equity ratio which is not allowed to exceed 2:1 and current ratio not to fall below 1:1.

As at December 31, 2019 and 2018, the Parent Company is in compliance with its debt covenants (see Note 25).

Suretyship

The loan is secured by a Continuing Suretyship of EHC and SPC essentially as primary obligors, being jointly and severally liable with the Company to BPI, its successors and assigns, or its subsidiaries or related parties for the payment of the loan.



15. Accounts Payable and Accrued Expenses

	2019	2018
Trade	₱274,427,254	₱211,857,597
Provision for volume discounts	24,195,047	20,721,431
Accrued expenses:		
Agency commissions	23,664,849	34,376,435
Service fees (see Note 16)	29,399,749	18,965,493
Program cost	12,394,089	17,240,525
Personnel	3,331,093	1,972,272
Communication, light and water	2,529,273	2,582,746
Rent	83,841	2,137,901
Others	5,814,533	3,717,817
Retention fee payable	59,433,299	44,203,167
Output VAT - net	41,032,238	36,428,648
Withholding taxes payable	3,433,652	3,091,088
Others	4,518,954	4,267,969
	₱484,257,871	₱401,563,089

Trade payables and accrued expenses consist of amounts due to suppliers and service providers and are usually payable within 30 days.

Retention fee payable is due 60 days after the construction of the property. This is noninterest-bearing and is expected to be settled in 2020.

Withholding taxes payable and other payables consist of dues to various government agencies which are normally settled within the following year.

16. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. Key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

In the normal course of business, the Company has transactions with the following related parties:

- EHC, ultimate parent company;
- Cebu Broadcasting Company (CBC), an entity under common control;
- Philippine Broadcasting Corporation (PBC), an entity under common control;
- Pacific Broadcasting System, Inc. (PBSI), an entity under common control;
- Aliwan Productions and Events, Inc. (ALEI) and
- Other related parties under common control

These transactions will be settled through cash.



The summary of transactions and outstanding balances with related parties are presented below:

Related Party/Nature	2019		2018		Terms and conditions
	Transactions during the Year	Outstanding Balance	Transactions during the Year	Outstanding Balance	
Ultimate parent company					
<u>EHC</u>					
Advances	₱41,867,632	₱141,789,232	₱92,770,961	₱299,785,201	Unsecured, interest-free with no definite call dates; with offsetting agreement; no impairment
Dividend declaration	–	–	41,867,632	(41,867,632)	2018 - payable on February 18, 2019
Entities under common control:					
<u>CBC</u>					
Advances	11,687,098	(28,047,395)	31,995,993	(16,360,297)	Unsecured, interest-free with no definite call dates; with offsetting agreement; no impairment
Program costs	140,274,385	(19,361,266)	119,937,725	(18,290,326)	Trade transactions. Refer to discussion on marketing agreements below.
Recharges/reimbursements	240,000	–	240,000	–	Unsecured, noninterest-bearing
Dividend declaration	–	–	15,000,000	(15,000,000)	2019 - no dividend declaration 2018 - payable on February 18, 2019
Rent income	90,000	–	90,000	–	Unsecured, noninterest-bearing
<u>PBC</u>					
Advances	1,680	12,544,949	2,500,000	12,543,269	Unsecured, interest-free with no definite call dates; with offsetting agreement; no impairment
Program costs	21,549,927	(3,790,592)	20,169,088	(3,950,087)	Trade transaction. Refer to discussion on marketing agreements below.
Recharges/reimbursements	120,000	–	120,000	–	Unsecured, noninterest-bearing
Dividend declaration	–	–	1,500,000	(1,500,000)	2019 - no dividend declaration 2018 - payable on February 18, 2019
Rent income	90,000	–	90,000	–	Unsecured, noninterest-bearing
<u>PBSI</u>					
Advances	2,998,200	14,750,516	2,998,059	17,748,716	Unsecured, interest-free with no definite call dates; with offsetting agreement; no impairment
Program costs	52,382,663	(5,502,484)	45,375,636	(9,187,507)	Trade transaction. Refer to discussion on marketing agreements below.

(Forward)



Related Party/Nature	2019		2018		Terms and conditions
	Transactions during the Year	Outstanding Balance	Transactions during the Year	Outstanding Balance	
Recharges/reimbursements	₱180,000	₱-	₱180,000	₱-	Unsecured, noninterest-bearing
Rent income	90,000	-	90,000	-	Unsecured, noninterest-bearing
<u>SPC</u>					
Rent expense	10,702,513	-	10,702,513	-	Unsecured, noninterest-bearing
<u>ALEI</u>					
Advances		(1,000,000)	10,702,513	-	Unsecured, noninterest-bearing
<u>Affiliated service companies</u>					
Advances	1,364,692	8,954,037	1,576,718	7,589,345	Unsecured, interest-free with no definite call dates and no impairment
Recharges/reimbursements	71,089,392	-	58,930,580	-	Unsecured, noninterest-bearing
Service fees	71,587,260	(12,855,923)	92,016,582	(7,573,389)	Unsecured, interest-free with no definite call dates and no impairment
Other related parties:					
<u>Key management personnel</u>					
Advances	-	-	-	54,003	Unsecured, interest-free with no definite call dates and no impairment
Short-term employee benefits	-	-	28,344,076	-	None

The Company's significant related party transactions are as follows:

- a. The Company and several affiliated broadcasting companies, which are owned and managed by certain stockholders and/or members of the BOD of the Company, entered into marketing agreements, whereby the affiliated broadcasting companies designated the Company as their sole marketing outfit for the sales, promotion, and marketing of the radio commercial airtime of all radio broadcast stations of these affiliated broadcasting companies. The original marketing agreement, which was effective for a period of five years from January 1, 1998, has been renewed annually, thereafter.

Under the marketing agreements, the Company shall remit to the affiliated broadcasting companies a certain percentage of the annual revenue from the sale of the commercial time of the radio broadcast stations after agency commission. Total fees pertaining to related parties included under "Program costs" presented as part of "Costs of services" in the consolidated statements of comprehensive income amounted to ₱214.2 million in 2019, ₱185.5 million in 2018 and ₱209.4 million in 2017 (see Note 20).

- b. The Company charges its affiliated broadcasting companies for their share in the expenses for operating the radio broadcast stations amounting to ₱71.6 million, ₱59.5 million and ₱60.7 million in 2019, 2018 and 2017, respectively, which are shown as "Recharges/reimbursements" under "Operating expenses" account in the consolidated statement of comprehensive income (see Note 20).
- c. On December 29, 2019, CBC, PBC and PBSI (collectively referred to herein as "the Networks"), the Company and EHC, entered into a Memorandum of Agreement confirming the agreement among the parties to the net settlement of the respective receivables and payables as at December 31, 2019. The Networks, the Company and EHC made a similar agreement on



December 29, 2019 for the net settlement of receivables and payables as at December 31, 2019 (see Note 27).

- d. The Company grants and obtains short-term interest-free advances to and from its related parties, which are owned and managed by certain stockholders and/or members of the BOD of the Company.
- e. The short-term employee benefits of key management personnel amounted to ₱34.0 million, ₱28.3 million and ₱28.6 million in 2019, 2018 and 2017, respectively. The pension benefits of the key management personnel are not covered by the Company's retirement plan.
- f. Payable to affiliated service companies amounting to ₱12.9 million and ₱7.6 million as at December 31, 2019 and 2018, respectively, are included in "Accrued expenses" as part of "Service fees". The advances to affiliated service companies and other related parties amounting to ₱8.9 million and ₱7.6 million in 2019 and 2018, respectively, are included in "Receivables" as part of "Advances to stations" (see Note 7).

17. Capital Stock

The Parent Company was listed with the Philippine Stock Exchange on October 8, 1949. In its initial public offering, the Parent Company offered the share at a price of ₱1.05. The Parent Company had 605, 608 and 605 shareholders on record as at December 31, 2019, 2018 and 2017, respectively.

As at December 31, 2019 and 2018, capital stock consists of 1,000,000,000 authorized common shares with par value of ₱1.00 per share, of which 402,803,777 shares have been issued.

Treasury shares at cost comprised of 120,787 shares as at December 31, 2019 and 2018.

On October 19, 1976, the stockholders approved the increase in the authorized capital stock of the Parent Company from ₱1.5 million, divided into 1.5 million shares with par value of ₱1.00 each to ₱5.0 million, divided into 5.0 million shares with par value of ₱1.00 each. On the same date, the stockholders approved the declaration of 50% stock dividends payable to stockholders of record as at October 30, 1976.

In 1978, the stockholders reduced the proposed increase to ₱4.0 million, divided into 4.0 million shares with par value of ₱1.00 each, and approved the payment of the 50% stock dividend to stockholders of record as at October 30, 1976. The increase in authorized capital stock was approved by the Philippine SEC on April 28, 1978.

The BOD and stockholders approved on January 29, 1997 and February 26, 1997, respectively, the increase in the Parent Company's authorized capital stock from ₱4.0 million, divided into 4.0 million shares with par value of ₱1.00 each to ₱1.0 billion, divided into 1.0 billion shares with the same par value.

18. Retained Earnings

On December 20, 2019, at the special meeting of the BOD, the BOD authorized the appropriation amounting to ₱100.0 million for the acquisition of land or office building to be taken from the unrestricted retained earnings of the Company as at December 31, 2019 to ensure business continuity and that its operations are not hampered by the uncertainty of the renewal of its sub-lease from SPC.



The BOD deems it to the best interest of the Company to purchase its own property for its business operations.

On December 29, 2018, the BOD declared cash dividends amounting to ₱120.7 million or ₱0.30 per share to stockholders on record as at January 28, 2019 payable on February 18, 2019.

The Parent Company's retained earnings are not available for declaration as dividends to the extent of the cost of treasury stock and recognized deferred tax assets. As at December 31, 2019, the Parent Company's retained earnings available for dividend declaration amounted to ₱359.5 million.

19. Revenues

	2019	2018	2017
Broadcasting fees	₱1,095,005,175	₱1,054,114,963	₱1,081,811,603
Hotel, food and beverage	34,305,025	-	-
Less:			
Volume discounts	30,251,016	20,721,431	-
Sales discounts	1,320,767	11,735,541	15,425,377
	₱1,097,738,417	₱1,021,657,991	₱1,066,386,226

In 2019, 2018 and 2017, revenue arising from exchange of goods and services, included in broadcasting fees, amounted to ₱1.1 million, ₱1.2 million and ₱3.1 million, respectively.

Disaggregated Revenue Information

	2019	2018	2017
Type of services:			
Broadcasting	₱984,816,120	₱929,611,613	₱960,745,213
Hosting and customer event	63,873,737	81,929,492	99,315,305
Digital	14,743,535	8,145,405	6,325,708
Hotel, food and beverage	34,305,025	-	-
	₱1,097,738,417	₱1,019,686,510	₱1,066,386,226

	2019	2018	2017
Timing of revenue recognition:			
Point in time	₱1,033,864,680	₱937,757,018	₱967,070,921
Over time	63,873,737	81,929,492	99,315,305
	₱1,097,738,417	₱1,019,686,510	₱1,066,386,226

Contract Balances

	2019	2018
Trade receivables (see Notes 7 and 25)	₱388,264,658	₱289,368,750
Contract liabilities (see Note 15)	34,557,336	20,837,452

Advances from sponsors are non-refundable placement fees paid by the Company's customers for future broadcast airings.

Revenue recognized in 2019 and 2018 that was included in the beginning balance of contract liabilities amounted to ₱20.9 million and ₱11.4 million, respectively.



20. Cost of Sales and Services and Operating Expenses

Cost of Sales and Services

	2019	2018	2017
Program costs (see Note 16)	₱297,176,496	₱321,240,908	₱347,216,624
Service fees (see Note 16)	236,346,319	246,219,568	217,135,258
Personnel expenses (see Notes 16, 21 and 22)	32,716,541	43,733,638	48,690,979
Depreciation (see Note 11)	18,250,296	12,284,559	12,123,197
Replacement parts	9,013,495	12,772,952	8,046,964
Food and beverage	4,277,345	-	-
	₱597,780,492	₱636,251,625	₱633,213,022

Operating Expenses

	2019	2018	2017
Personnel expenses (see Notes 16, 21 and 22)	₱129,276,860	₱98,683,165	₱85,560,385
Depreciation and amortization (see Notes 11, 12 and 13)	47,414,461	18,401,010	18,666,345
Sales commissions	40,435,076	48,110,010	48,555,413
Communication, light and water	38,161,054	31,563,237	28,860,249
Taxes and licenses	19,901,919	21,509,551	20,572,685
Travel and transportation	19,250,170	17,350,608	15,057,118
Outside services	15,423,305	8,447,381	7,183,182
Rent (see Note 24)	13,855,648	23,030,345	21,982,050
Repairs	10,633,570	14,176,020	15,189,371
Professional fees	6,846,251	6,252,731	8,033,562
Entertainment, amusement and recreation	6,335,691	1,428,201	1,120,859
Materials and supplies	5,980,580	1,647,499	1,101,276
Advertising and promotions	5,419,045	7,287,875	6,169,753
Dues and membership	4,545,745	4,556,474	4,413,891
Replacement parts	4,519,161	5,962,782	6,881,221
Commissions	2,607,677	1,026,896	615,787
Provision for (reversal of) ECL - net (see Note 7)	600,343	(19,879,764)	14,657,647
Others	12,965,812	14,795,859	24,160,652
	384,172,368	304,349,880	328,781,446
Reimbursement/recharges (see Note 16)	(71,629,392)	(59,470,580)	(60,675,480)
	₱312,542,976	₱244,879,300	₱268,105,966

Materials and supplies that are recognized as part of “Program costs” and “Materials and supplies” accounts under “Cost of services” and “Operating expenses”, respectively, amounted to ₱2.1 million, ₱2.2 million and ₱2.4 million in 2019, 2018 and 2017, respectively.



21. Personnel Expenses

	2019	2018	2017
Salaries, wages and bonuses	₱139,763,287	₱121,355,411	₱110,200,072
Retirement benefits cost (see Note 22)	6,839,783	6,507,895	7,747,136
Other short-term employee benefits	15,390,331	14,553,497	16,304,156
	₱161,993,401	₱142,416,803	₱134,251,364

22. Retirement Benefits

The Company has a funded, noncontributory defined benefit retirement plan covering all of its remaining employees. The benefits are based on years of service and compensation on the last year of employment. The latest actuarial valuation report is as at December 31, 2019.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of a retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding for the plan.

The components of retirement benefits cost are as follows:

	2019	2018	2017
Current service cost	₱7,396,478	₱6,236,089	₱7,088,038
Net interest cost	(556,695)	271,806	659,098
	₱6,839,783	₱6,507,895	₱7,747,136

Remeasurements on retirement benefits asset recognized in OCI consist of actuarial gains (losses) on:

	2019	2018	2017
Present value of benefit obligation (PVBO)	₱13,095,064	₱17,312,274	₱7,022,421
Fair value of plan assets (FVPA)	(6,081,759)	(2,128,942)	(1,197,041)
	₱7,013,305	₱15,183,332	₱5,825,380

Movements in the remeasurements on retirement benefits asset follow:

	2019	2018
Beginning balance	₱38,489,661	₱27,861,329
Remeasurement gain, net of deferred tax liability	4,909,313	10,628,332
Ending balance	₱43,398,974	₱38,489,661

Deferred income tax effect of remeasurements amounted to ₱2.1 million, ₱4.6 million and ₱1.7 million in 2019, 2018 and 2017, respectively (see Note 23).



The amounts recognized in the statements of financial position are as follows:

	2019	2018
PVBO	₱72,778,413	₱73,432,393
FVPA	80,464,679	80,945,137
Retirement benefits asset	(₱7,686,266)	(₱7,512,744)

Movements in the retirement benefits asset follow:

	2019	2018
At beginning of year	(₱7,512,744)	₱4,819,248
Remeasurement effects in OCI	(7,013,305)	(15,183,332)
Retirement benefits cost	6,839,783	6,507,895
Contributions	-	(3,656,555)
At end of year	(₱7,686,266)	(₱7,512,744)

The changes in PVBO are as follows:

	2019	2018
At beginning of year	₱73,432,393	₱80,446,943
Current service cost	7,396,478	6,236,089
Interest cost	5,441,340	4,537,208
Actuarial losses (gains) arising from:		
Experience adjustments	(14,009,445)	(5,861,986)
Changes in assumptions	914,381	(11,450,288)
Benefits paid	(396,734)	(475,573)
At end of year	₱72,778,413	₱73,432,393

The changes in FVPA are as follows:

	2019	2018
At beginning of year	₱80,945,137	₱75,627,695
Interest income	5,998,035	4,265,402
Benefits paid	(396,734)	(475,573)
Actuarial loss	(6,081,759)	(2,128,942)
Contributions	-	3,656,555
At end of year	₱80,464,679	₱80,945,137

The Fund consists of the following assets and investments:

- Cash and cash equivalents, which include regular savings and time deposits earning interest at their respective bank deposit rates;
- Investments in government securities, which include retail treasury bonds and fixed treasury notes that bear interest ranging from 3.0% to 10.1% and will mature in 0.7 to 11.1 years;
- Investments in debt securities, consisting of various corporate bonds which earn interest ranging from 4.0% to 7.5% and have remaining maturities of 0.3 to 5.9 years;
- Dividends receivables, interest receivables and accounts receivables from brokers;
- Investment in stocks of a third party with a market value of ₱100.50 per share; and
- Investment in BDO institutional equity fund.



The objective of the plans portfolio is capital preservation by earning higher than regular deposit rates over a long period given a small degree of risk on principal and interest. Asset purchases and sales are determined by the plan's trustee bank, who have been given discretionary authority to manage the distribution of the assets to achieve the plan's investment objectives. In order to minimize the risks of the fund, the committee monitors compliance with target asset allocations and composition of the investment portfolio on a regular basis.

The Company expects to contribute ₱2.1 million in 2020. The Company does not have any asset-liability matching strategy.

The categories of plan assets as a percentage of the FVPA as at December 31 are as follows:

	2019	2018
Cash and cash equivalents	1.66%	4.10%
Investments in government securities:		
Fixed treasury notes	74.36%	65.92%
Retail treasury bonds	1.46%	0.92%
Investments in debt securities:		
Banks	1.33%	3.69%
Holding firm	4.79%	6.29%
Utilities	2.94%	8.45%
Property	4.62%	6.49%
Telecommunications	1.73%	0.70%
Investment in unsecured debt securities	1.15%	1.28%
Receivables	4.87%	1.09%
Investment in stocks	0.58%	0.63%
Investment in unit investment trust fund	0.51%	0.44%
	100.00%	100.00%

The assumptions used to determine retirement benefits of the Company as at January 1 are as follows:

	2019	2018
Discount rate	5.01%	7.41%
Salary increase rate	4.00%	10.00%

The sensitivity analysis below has been determined based on the reasonably possible change of each significant actuarial assumption on the retirement obligation as at December 31, 2019 assuming all other assumptions were held constant:

	Increase (Decrease)	Increase (Decrease) in Retirement Benefit Obligation
Discount rate:		
Sensitivity 1	0.05%	(₱1,171,748)
Sensitivity 2	(0.05%)	1,332,007
Salary increase rate:		
Sensitivity 1	1.00%	2,798,579
Sensitivity 2	(1.00%)	(2,210,686)



The table below shows the maturity analysis of the undiscounted benefit payments as at December 31, 2019:

Plan year	Amount
Within one year	₱41,119,618
More than one year to five years	6,032,010
More than five years to 10 years	9,296,417
More than 10 years to 15 years	21,134,631
More than 15 years to 20 years	64,718,465
More than 20 years	312,729,417

The defined benefit retirement plan is funded by other participating companies, which are related parties of the Company. The plan contributions are based on the actuarial present value of accumulated plan benefits and fair value of plan assets are determined using an independent actuarial valuation. The net defined benefit cost and the contributions to the plan are specifically identifiable, such that, the Company's PVBO pertains only to the benefit of the Company's employees and the FVPA pertains only to the contributions made by the Company. The Company shall contribute to the Fund such amounts as shall be required, under actuarial principles, to provide the benefits and the expenses incident to the operation and administration of the Fund.

There are no related party transactions between the Fund and the Company.

23. Income Taxes

a. The provision for income tax consists of:

	2019	2018	2017
Current income tax:			
Regular corporate income tax	₱67,026,081	₱49,051,851	₱59,061,052
Minimum corporate income tax	764,518	—	—
Final tax	23,007	24,174	50,452
	67,813,606	49,076,025	59,111,504
Deferred income tax	6,580,347	(2,390,093)	(3,260,039)
	₱74,393,953	₱46,685,932	₱55,851,465

b. Deferred income tax charged directly to equity during the year follows:

	2019	2018	2017
Revaluation increment on land	₱2,411,970	₱20,039,580	₱1,523,310
Remeasurements on retirement benefits	2,103,991	4,555,000	1,747,614
Reserve for fluctuations in fair value of financial assets at FVOCI	261,282	(772,771)	—
	₱4,777,243	₱23,821,809	₱3,270,924



- c. The reconciliation of income tax computed at the statutory tax rate to provision for income tax as shown in profit or loss follows:

	2019	2018	2017
Statutory income tax	₱50,614,206	₱44,821,026	₱54,824,769
Additions to (reductions in)			
income tax resulting from:			
Movement in unrecognized			
deferred tax assets	19,614,067	(366,885)	-
Nondeductible expenses	3,054,855	2,077,847	2,576,046
Expired NOLCO	1,126,297	366,885	-
Interest income subjected to final			
tax at a lower rate	(15,472)	(16,268)	(25,794)
Capitalized rent under PAS 17	-	(196,673)	-
Dividend income exempt from tax	-	-	(1,386,310)
Nontaxable income	-	-	(137,246)
Provision for income tax	₱74,393,953	₱46,685,932	₱55,851,465

- d. The components of the Parent Company's net deferred tax liabilities consist of the tax effects of the following:

	2019	2018
Deferred tax assets on:		
Allowances for:		
Doubtful accounts	₱9,169,022	₱8,988,919
Inventory obsolescence	276,059	293,026
Provisions for volume discounts	7,258,514	6,216,429
Accrued separation costs	2,766,068	2,766,068
Unamortized past service cost	895,925	1,166,685
Unearned rent	332,016	329,692
Lease liabilities - net	107,569	-
Accrued rent	-	606,744
	20,805,173	20,367,563
Deferred tax liabilities on:		
Revaluation increment on land	85,805,462	83,393,492
Reserve for fluctuations in fair value of financial		
assets at FVOCI	22,247,957	21,986,675
Unamortized capitalized borrowing cost	11,537,233	6,436,635
Pension assets - net	2,305,880	2,253,823
Unamortized debt issue costs	337,484	478,624
Unrealized foreign exchange gain	105,761	69,593
Others	5,439,632	4,461,332
	127,779,409	119,080,174
	₱106,974,236	₱98,712,611



- e. The components of net deferred tax assets of EHRI and FHBI as at December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets on:		
NOLCO	₱3,445,662	₱9,776,140
Contract liability	1,491,194	87,516
Lease liabilities - net	1,379,975	-
MCIT	63,103	-
Accrued rent under PAS 17	-	196,673
	6,379,934	10,060,329
Deferred tax liability on -		
Unrealized foreign exchange gain	24,532	2,219
	₱6,355,402	₱10,058,110

In 2019, unrecognized deferred tax asset from the 2016-2019 NOLCO and 2019 MCIT amounting to ₱18.9 million and ₱0.7 million, respectively, were not recognized by FHBI since management believes that there will be no sufficient future taxable income available to allow said deferred tax assets to be utilized. NOLCO incurred in 2016 expired in 2019.

As at December 31, 2019, the NOLCO that can be claimed as deduction from future regular taxable income is as follows:

Year Incurred/Paid	Expiry Date	EHRI	FHBI
2019	December 31, 2022	₱5,140,952	₱40,553,354
2018	December 31, 2021	3,796,481	15,755,261
2017	December 31, 2020	2,547,511	6,733,559

As at December 31, 2019, the Company's unused MCIT that can be carried forward and be claimed as deduction against future RCIT due are as follows:

Year Incurred/Paid	Expiry Date	EHRI	FHBI
2019	December 31, 2022	₱63,103	₱-

24. Lease Arrangements

- a. The Company leases satellite communications capacity for the performance of its broadcasting services called the Transponder Lease, which considers certain space segment capacity and transponder power. The lease agreement is for a period of five years from November 1, 2012 and was renewed for another five years commencing on November 1, 2017. The lease has a remaining term of 4 years with a monthly payment of \$8,500.
- b. The Company has lease agreements with various individuals for the rent of land used principally to its broadcasting business as well as the site for its radio broadcasting stations. The Company is allowed to construct buildings and improvements on the leased premises provided that upon the expiration of the lease term, all structure, except the transmitter, antennae systems, discs and other related broadcast and communications equipment and accessories, shall belong to the lessor without reimbursing the Company for its expenses.



The Company's obligations under these leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets except for its related parties. Termination and renewal options are mutually agreed by lessor and lessee.

The following are the remaining terms of the leases as of adoption date of PFRS 16:

Location	Remaining term	Monthly payment	Escalation
Barrio Bayabas, Cagayan De Oro	13 months	₱47,916	10% per annum
Krislamville-Kakar, Cotabato City	5 years	40,365	10% every two years
Barrio Rizal, Santiago, Isabela	5 years	25,101	10% every two years

On June 1, 2019 the Company entered into another lease agreement for the lease of land located in Pagatpat, Cagayan de Oro City to replace its site in Barrio Bayabas, Cagayan De Oro. The lease has a term of 10 years with a monthly payment of ₱20,000 per month with an escalation of 5% every three years. The Company started leasing the property without terminating the contract on its former site.

- c. The Company has a lease agreement with a related party for the land where its hotel property and other facilities are located. The lease agreement is for a period of ten years commencing on October 1, 2018 at ₱116.45 per square meter per month.
- d. The Company also has a lease agreement with BPI Century Tokyo Leasing and Financing Corp. covering its kitchen and bar equipment, generator sets, and air-conditioning units for a period of 3-4 years commencing on December 2019, March 2019, and April 2019, respectively, at an annual rental amounting to ₱0.21 million, ₱0.55 million, and ₱0.20 million, respectively.
- e. The Company has a lease agreement with a related party for its office space, renewable annually with a fixed monthly rental of ₱0.9 million. Rent expense on this lease agreement amounted to ₱9.0 million included under "Rent" presented as part of "Operating expenses" in the 2019, 2018 and 2017 consolidated statements of comprehensive income.
- f. The Company has lease agreements with various individuals for the rent of transmitter sites. Rent expense on these lease agreements amounted to ₱3.4 million, ₱5.3 million, ₱5.7 million in 2019, 2018 and 2017, respectively, which is included under "Rent" presented as part of "Operating expenses" in the consolidated statements of comprehensive income (see Note 21).

The Company also has certain leases of office spaces with lease terms of 12 months or less. The Company applies the 'short-term lease' recognition exemptions for these leases.

- g. The rollforward analysis of lease liabilities follows:

	2019
At January 1, 2019 (see Note 2)	₱39,397,003
Additions	35,595,941
Payments	(13,452,535)
Interest expense	4,936,619
Unrealized foreign exchange gain - lease liabilities	(283,933)
As at December 31, 2019	66,193,095
Less current portion	15,719,734
	<u>₱50,473,361</u>



The following are the amounts recognized in the 2019 consolidated statement of comprehensive income:

	2019
Depreciation expense of right-of-use assets (see Note 20)	₱13,052,918
Interest expense on lease liabilities	4,936,619
Expenses relating to short-term leases (see Notes 20)	13,855,648
	₱31,845,185

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

	2019	2018
Within one year	₱21,614,174	₱4,940,024
After one year but not more than five years	46,091,551	13,684,211
More than five years	12,896,638	14,781,279
	₱80,602,363	₱33,405,514

The Company has no lease contracts that contain variable payments.

25. Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist of cash and loans. The main purpose of these financial instruments is to fund the Company's operations. The other financial assets and financial liabilities arising directly from its operations are receivables, due from related parties, construction bond, refundable deposits, financial assets at FVOCI, accounts payable and accrued expenses, dividends payable, accrued separation costs and lease liabilities.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. The BOD reviews and approves policies for managing each of these risks.

Credit Risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of control and monitoring procedures. It is the Company's policy that all clients who wish to trade on credit terms are subjected to credit verification procedures. Receivables, due from related parties, construction bond and refundable deposits balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is not significant. The Company evaluates the concentration of risk with respect to its receivables as low, as its customers are located in several industries and operate in largely independent markets.

With respect to credit risk arising from the Company's cash in banks, the Company's exposure arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company deals only with financial institutions duly evaluated and approved by the BOD. The Company avoids concentrations of credit risk on its liquid assets as these are spread over several financial institutions.



The table below shows the maximum exposure to credit risk for the Company's financial assets as at December 31, 2019 and 2018. The Company does not hold collaterals as security.

	2019	2018
Cash in banks	₱247,189,491	₱46,886,910
Receivables	441,991,507	347,032,278
Due from related parties	140,037,302	313,716,889
Construction bond	1,000,000	1,000,000
Refundable deposits	2,285,472	1,851,667
Financial assets at FVOCI	166,274,441	164,532,562
	₱998,778,213	₱875,020,306

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix as at December 31, 2019 and 2018:

December 31, 2019								
	Current	<30 days	30-60 days	61-90 days	91-360 days	Over 360 days	Credit Impaired	Total
ECL rate	1.73%	1.81%	1.80%	2.84%	13.41%	49.02%	100.00%	
Estimated EAD	₱116,188,614	₱100,647,728	₱82,047,013	₱50,369,251	₱51,640,310	₱1,891,798	₱8,512,026	₱411,296,740
ECL	1,939,381	1,825,824	1,474,359	1,430,025	6,923,143	927,324	8,512,026	23,032,082
	₱114,249,233	₱98,821,904	₱80,572,654	₱48,939,226	₱44,717,167	₱964,474	₱-	₱388,264,658

December 31, 2018								
	Current	<30 days	30-60 days	61-90 days	91-360 days	Over 360 days	Credit Impaired	Total
ECL rate	1.41%	1.44%	1.54%	3.00%	19.89%	20.46%	100%	
Estimated EAD	₱71,981,885	₱88,715,423	₱60,955,338	₱35,336,475	₱42,027,765	₱3,769,340	₱9,014,263	₱311,800,489
ECL	1,014,994	1,276,126	937,886	1,058,764	8,358,624	771,082	9,014,263	22,431,739
	₱70,966,891	₱87,439,297	₱60,017,452	₱34,277,711	₱33,669,141	₱2,998,258	₱-	₱289,368,750

The table below shows the credit quality of the Company's financial assets based on their historical experience with the corresponding third parties:

2019				
	High grade	Standard grade	Impaired	Total
Financial assets at amortized cost:				
Cash*	₱247,189,491		₱-	₱247,189,491
Receivables:				
Trade		388,264,658	23,032,082	411,296,740
Advances to stations		49,299,222	363,419	49,662,641
Others		4,427,627	7,167,906	11,595,533
Due from related parties	140,037,302			140,037,302
Construction bond		1,000,000		1,000,000
Refundable deposits		2,285,472		2,285,472
Financial assets at FVOCI	166,274,441			166,274,441
	₱553,501,234	₱445,276,979	₱30,563,407	₱1,029,341,620

*Amount is exclusive of cash on hand amounting to ₱15.3 million as at December 31, 2019.



	2018			
	High grade	Standard grade	Impaired	Total
Financial assets at amortized cost:				
Cash*	₱46,886,910	₱–	₱–	₱46,886,910
Receivables:				
Trade	–	289,368,750	22,431,739	311,800,489
Advances to stations	–	40,698,332	363,419	41,061,751
Others	–	16,965,196	7,167,906	24,133,102
Due from related parties	313,716,889	–	–	313,716,889
Construction bond	–	1,000,000	–	1,000,000
Refundable deposits	–	1,851,667	–	1,851,667
Financial assets at FVOCI	164,532,562	–	–	164,532,562
	₱525,136,361	₱349,883,945	29,963,064	904,983,370

*Amount is exclusive of cash on hand amounting to ₱14.6 million as at December 31, 2018.

Financial assets classified as “high grade” are those cash in banks transacted with reputable local banks, due from related parties and financial assets at FVOCI with no history of default on the agreed contract terms. Financial instruments classified as “standard grade” are those receivables, construction bond and refundable deposits with little history of default on the agreed terms of the contract and are being collected on due dates with an effort of collection. Lastly, “Impaired” items are those that are long outstanding and have been identified as impaired.

Liquidity Risk

Liquidity risk arises when obligations are not met when they fall due. It is the Company’s objective to finance capital expenditures, services, and maturing obligations as scheduled. To cover the Company’s financing requirements and at the same time, manage its liquidity risk, the Company uses internally generated funds and proceeds from debt. Projected and actual cash flow information are regularly evaluated and funding sources are continuously assessed.

The tables below summarize the maturity profile of the Company’s financial liabilities as at December 31, 2019 and 2018 based on contractual undiscounted payments:

	2019				
	On demand	Less than 3 months	3 to 12 Months	More than 12 months	Total
Other financial liabilities					
Accounts payable and accrued expenses*	₱115,544,633	₱194,069,015	₱125,659,379	₱–	₱435,273,027
Dividends payable	8,254,044	–	–	–	8,254,044
Short-term loans:					
Principal	–	117,000,000	20,000,000	–	137,000,000
Interest	–	413,959	–	–	413,959
Long-term debt:					
Principal	–	–	66,640,000	250,040,000	316,680,000
Interest	–	4,134,243	11,051,863	23,776,761	38,962,867
Lease liabilities	–	6,330,986	10,517,975	49,344,134	66,193,095
	₱123,798,677	₱321,948,203	₱233,869,217	₱323,160,895	₱1,002,776,992

*Amounts are exclusive of nonfinancial liabilities amounting to ₱49.0 million as at December 31, 2019.



	2018				Total
	On demand	Less than 3 months	3 to 12 Months	More than 12 months	
Other financial liabilities					
Accounts payable and accrued expenses*	₱115,478,361	₱104,447,059	₱137,849,964	₱-	₱357,775,384
Dividends payable	8,254,044	14,319,782	-	-	22,573,826
Short-term loans					
Principal	-	48,000,000	-	-	48,000,000
Interest	-	413,959	-	-	413,959
Long-term debt					
Principal	-	-	33,320,000	316,680,000	350,000,000
Interest	-	4,824,746	14,401,167	43,045,345	62,271,258
Accrued separation costs	-	-	-	29,436,574	29,436,574
	₱123,732,405	₱172,005,546	₱185,571,131	₱389,161,919	₱870,471,001

*Amounts are exclusive of nonfinancial liabilities amounting to ₱43.8 million as at December 31, 2018.

The maturity group of financial liabilities was based on the remaining period from the end of the reporting period to the contractual maturity date. When a counter party has a choice when the amount is paid, the liability is allocated to the earliest period in which the Company is required to pay.

The Company's financial assets (consisting of cash, receivables and due from related parties) which are available to settle maturing obligations amounted to ₱844.5 million and ₱722.3 million as at December 31, 2019 and 2018, respectively.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to market risk for changes in interest rates relates primarily to its long-term debt with floating interest rates.

The following table demonstrates the sensitivity of the Company's income before income tax (through the impact on floating rate borrowings) in 2018 to a reasonably possible change in interest rates, with all other variables held constant. There is no impact on the Company's equity other than those already affecting the net income.

Drawdown date	EIR	Increase by 1%	Decrease by 1%
July 2017	4.82%	(₱3,770,948)	(₱6,702,035)
August 2017	4.82%	(4,472,506)	(7,986,614)
October 2017	4.79%	(5,116,308)	(9,212,709)
December 2017	5.21%	(3,444,033)	(6,069,861)
January 2018	5.36%	(4,157,176)	(7,352,046)
April 2018	5.63%	(5,228,127)	(9,274,817)

Capital Management

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

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



The following table summarized the Company's capital structure as at December 31:

	2019	2018
Capital stock	₱402,803,777	₱402,803,777
Additional paid-in capital	79,354	79,354
Retained earnings	454,810,636	346,389,469
Treasury stock	(120,787)	(120,787)
	₱857,572,980	₱749,151,813

The Company's approach focuses on efficiently allocating internally generated cash for operational requirements and investments to grow the existing business. Shortages if any and acquisitions or investments in new business are funded by the incurrence of additional debt largely capped by existing loan covenants on financial ratios.

All financial ratios of the Parent Company are within the required limits in 2019 and 2018 as follows:

Financial Ratios	Required	2019	2018
Loan Agreement			
Debt to equity	Not allowed to exceed 2:1	0.74:1	0.78:1
Current ratio	Not allowed to fall below 1:1	1.26:1	1.16:1

26. Note to Consolidated Statement of Cash Flows

In 2019, the principal noncash transactions pertain to the effect of adoption of PFRS 16 on January 1, 2019, wherein, the Company recognized right-of-use assets under "Property and equipment" account in the consolidated statement of financial position amounting to ₱38.7 million. The Company also recognized additions to right-of-use assets amounting to ₱35.6 million. The Company also capitalized billings from contractors for the completion of building construction and recognized building under "Property and equipment" account in the consolidated statement of financial position amounting to ₱76.1 million.

In 2018, the principal noncash transactions pertain to the effect of adoption of PFRS 9 on January 1, 2018, wherein, the Company recognized reversal of impairment on its trade receivables under "Receivables" account in the consolidated statement of financial position amounting to ₱19.9 million. The Company capitalized billings from contractors for the completion of building construction recognized under "Property and equipment" account in the consolidated statement of financial position amounting to ₱34.7 million.

The movements of the Company's liabilities (assets) arising from financing activities in the consolidated statements of cash flows follow:

	January 1, 2019	Cash flows	Additions	Interest expense	Translation adjustment	Capitalized interest	Reclassifications	December 31, 2019
	₱	₱	₱	₱	₱	₱	₱	₱
Short-term loans	₱48,000,000	₱89,000,000	₱-	₱-	₱-	₱-	₱-	₱137,000,000
Current portion of long-term loan	32,853,998	(33,320,000)	-	-	-	466,002	66,234,505	66,234,505
Long-term loan - net of current portion	315,550,590	-	-	-	-	4,462	(66,234,505)	249,320,547
Accrued (prepaid) interest	429,379	(25,619,654)	-	4,964,738	-	20,100,882	-	(124,655)
Dividends payable	22,573,826	(14,319,782)	-	-	-	-	-	8,254,044
Lease liabilities	39,397,003	(13,452,535)	35,595,941	4,936,619	(283,933)	-	-	66,193,095
Total liabilities from financing activities	₱458,804,796	₱2,288,029	₱35,595,941	₱9,901,357	(₱283,933)	₱20,571,346	₱-	₱526,877,536



	January 1, 2018	Cash flows	Dividend declaration	Interest expense	Capitalized interest	Reclassifications	December 31, 2018
Short-term loans	P-	₱48,000,000	P-	P-	P-	P-	₱48,000,000
Current portion of long-term loan	-	-	-	-	-	32,853,998	32,853,998
Long-term loan - net of current portion	223,940,096	124,062,500	-	-	401,992	(32,853,998)	315,550,590
Accrued interest	705,858	(15,078,995)	-	887,757	13,914,759	-	429,379
Dividends payable	21,041,288	(119,130,845)	120,663,383	-	-	-	22,573,826
Total liabilities from financing activities	₱245,687,242	₱37,852,660	₱120,663,383	₱887,757	₱14,316,751	P-	₱419,407,793

27. Offsetting of Financial Assets and Financial Liabilities

The Company offsets its receivable and payable to its related parties as the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously (see Note 16). The gross amounts of the due from and due to its related parties and the amounts disclosed in the statement of financial position as at December 31 are as follows:

	2019			
	Gross amounts	Amounts offset ^(a)	Reported amounts ^(b)	Net exposure
Due from related parties ^(c)	₱169,084,697	₱29,047,395	₱140,037,302	₱140,037,302
Due to related parties ^(d)	29,047,395	29,047,395	-	-

(a) Amounts offset under PAS 32

(b) Reported amounts in the consolidated statement of financial position

(c) Total advances in Note 16

(d) Advances from CBC in Note 16

	2018			
	Gross amounts	Amounts offset ^(a)	Reported amounts ^(b)	Net exposure
Due from related parties ^(c)	₱330,077,186	₱16,360,297	₱313,716,889	₱313,716,889
Due to related parties ^(d)	16,360,297	16,360,297	-	-

(a) Amounts offset under PAS 32

(b) Reported amounts in the consolidated statement of financial position

(c) Total advances in Note 16

(d) Advances from CBC in Note 16

28. Fair Value Measurement

As at December 31, 2019 and 2018, the carrying values of financial assets and liabilities are equal to their estimated fair values.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Financial assets at FVOCI

Unquoted Shares of Stock

The Company valued its investment in unquoted shares of stocks using adjusted net asset value technique. Significant unobservable inputs used include discounts on lack of control and marketability of 30%. The sensitivity analysis below has been determined based on the reasonably possible change of each significant unobservable input on the fair value of the unquoted investments as at December 31, 2019 assuming all other assumptions were held constant:

Significant unobservable input	Increase (Decrease)	Increase (Decrease) in Fair Value of Investment
Discount of lack of control	(5%)	₱10,421,975
Discount of lack of marketability	(5%)	10,421,975



Quoted Shares of Stock

The fair value of the quoted shares of stock as at December 31, 2019 and 2018 is based on quoted market price (Level 1).

Other financial assets and financial liabilities. Due to the short-term nature of other financial assets and financial liabilities, the fair value of cash, receivables, due from related parties, construction bond, accounts payable and accrued expenses, dividends payable and current portion of lease liabilities approximate the carrying value as at the financial reporting date.

Refundable deposits. The fair value of approximates its cost due to uncertain timing of redemption.

Loans payable. The carrying value approximates fair value due to quarterly repricing.

Lease liabilities. The fair value of the noncurrent portion of lease liabilities amounted to ₱48.3 million as at December 31, 2019. The fair value is estimated to be the present value of the future cash flows discounted using the incremental borrowing rates. Interest rates used for discounting range between 5.83%-7.94% as at December 31, 2019.

The following table provides the fair value hierarchy of the Company's assets measured at fair value and those for which fair values are disclosed and the carrying amounts differ from fair value as at December 31, 2019 and 2018:

	2019			
	Fair Value Measurement Using			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value:				
Financial assets at FVOCI (see Note 10):				
Unquoted equity securities	₱166,054,441	₱-	₱-	₱166,054,441
Quoted equity securities	220,000	220,000	-	-
Land at revalued amount (see Note 11)	299,114,400	-	-	299,114,400
2018				
	Fair Value Measurement Using			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value:				
Financial assets at FVOCI (see Note 10):				
Unquoted equity securities	₱164,332,562	₱-	₱-	₱164,332,562
Quoted equity securities	200,000	200,000	-	-
Land at revalued amount (see Note 11)	288,374,500	-	-	288,374,500

There were no transfers between the different hierarchy levels in 2019 and 2018.



29. Earnings per Share (EPS) on Net Income Attributable to Equity Holders of the Company

Basic EPS is computed based on the weighted average number of issued and outstanding common shares during each year. Diluted EPS is computed as if the potential common share or instrument that may entitle the holder to common share were exercised as at the beginning of the year. When there are no potential common shares or other instruments that may entitle the holder to common shares, diluted EPS, is the same as the basic EPS.

There are no dilutive financial instruments in 2019, 2018 and 2017, hence, diluted EPS is the same as the basic EPS.

The Company's EPS were computed as follows:

	2019	2018	2017
(a) Net income attributable to equity holders of the Parent Company	₱107,005,430	₱105,599,892	₱126,897,766
(b) Weighted average number of shares outstanding	402,682,990	402,682,990	402,682,990
Basic/diluted EPS (a/b)	₱0.27	₱0.26	₱0.32

30. Events after the Reporting Period

COVID-19 Outbreak

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to May 15, 2020. On May 12, 2020, the Office of the President announced that only Metro Manila and Laguna in Luzon would be under modified ECQ from May 16 to May 31, 2020. On May 15, a resolution of the Inter-Agency Task Force on Emerging Infectious Diseases (IATF-EID) declared additional areas in Luzon under MECQ from May 16 to May 31, 2020. On May 28, 2020, the Office of the President downgraded the tier of quarantine of Metro Manila and other areas in Luzon to General Community Quarantine (GCQ) from June 1 to June 30, 2020. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Company considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows. The Company will continue to monitor the situation.



31. Contingencies

Contingent assets

As at December 31, 2019, the amount to be received as insurance claims related to the fire incident is not yet final and thus, no income was recognized in the 2019 consolidated statement of comprehensive income (see Note 11). However, on April 26, 2020 and May 5, 2020, the Company already received a sum of ₱35.0 million in advance from insurance companies.

Contingent liabilities

The Company is and may become a defendant/respondent in various cases and assessments which are pending in the courts or under protest. Management and its legal counsels believe that the liability, if any, that may result from the outcome of these cases and investigation will not materially affect its financial position and results of operations.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Manila Broadcasting Company and Subsidiaries
MBC Building, V. Sotto Street
CCP Complex, Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Manila Broadcasting Company and Subsidiaries as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, included in this Form 17-A and have issued our report thereon dated June 19, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements are the responsibility of the Company's management. These schedules are presented for purposes of complying with Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Christine G. Vallejo

Partner

CPA Certificate No. 99857

SEC Accreditation No. 1402-AR-2 (Group A),

November 11, 2019, valid until November 10, 2022

Tax Identification No. 206-384-906

BIR Accreditation No. 08-001998-105-2019,

November 7, 2019, valid until November 6, 2022

PTR No. 8125313, January 7, 2020, Makati City

June 19, 2020



MANILA BROADCASTING COMPANY AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
December 31, 2019

- I. Schedule of retained earnings available for dividend declaration
- II. Map showing the relationship among the Company and its ultimate parent company, subsidiaries, co-subsidiaries and associates
- III. Supplementary schedules required by Annex 68-E

MANILA BROADCASTING COMPANY AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2019

Unappropriated retained earnings, beginning	₱357,855,919
Adjustments:	
Deferred tax assets closed to retained earnings, beginning	(40,674,213)
Effect of adoption of PFRS 16	1,415,735
Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning	318,597,441
Add: Net income actually earned/realized during the year	
Net income during the year closed to retained earnings	143,346,947
Movement in deferred tax assets in profit or loss	(2,459,464)
	140,887,483
Appropriations during the year	(100,000,000)
Total retained earnings available for dividend declaration, end	₱359,484,924