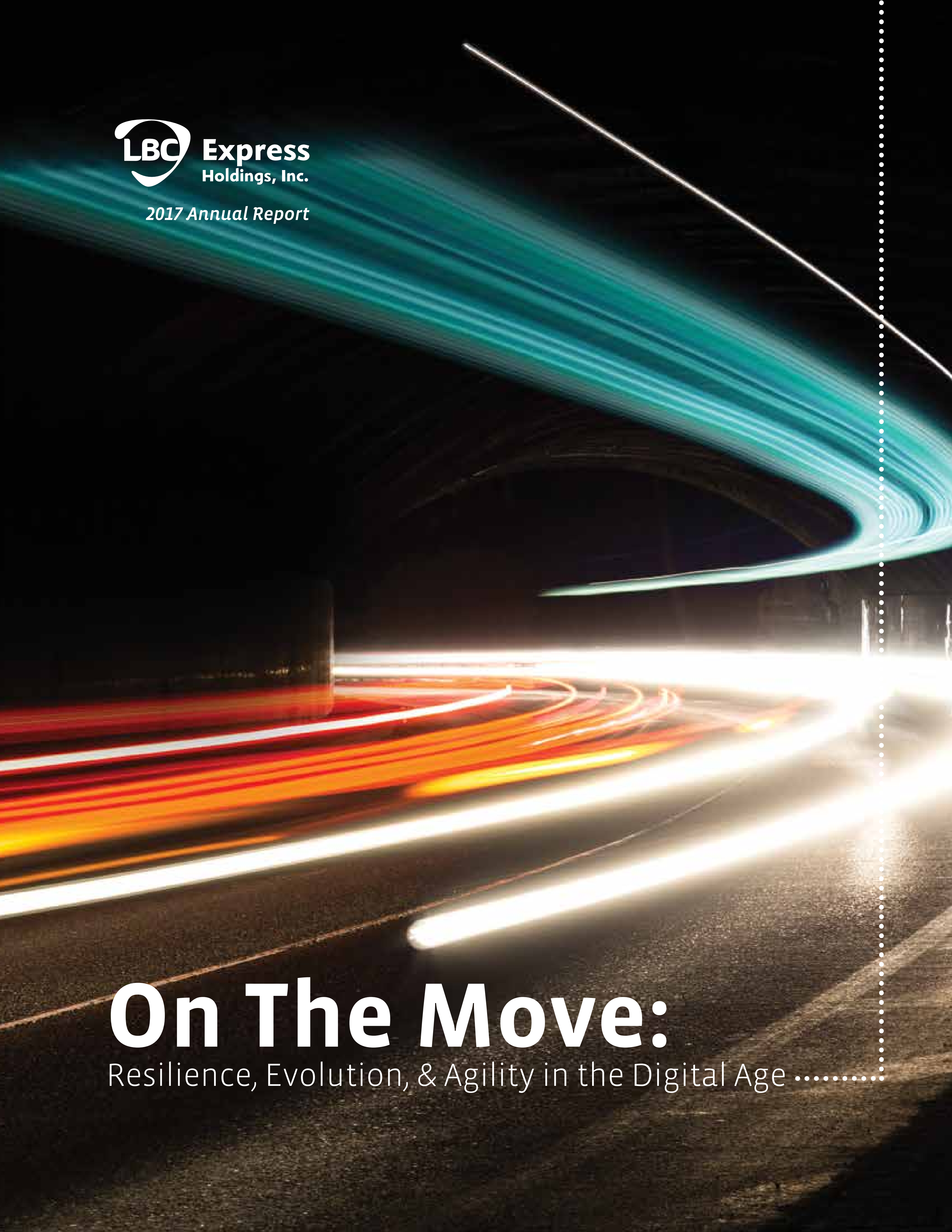


LBC Express Holdings, Inc.

2017 Annual Report

On The Move:

Resilience, Evolution, & Agility in the Digital Age

The Road to the Future

The future of business—in any industry—is digital. That much is certain. But the road to fully digitizing a company, especially one that has been in existence for over 60 years, with a network that spans continents, isn't simple, nor easy. One merely cannot declare an intent to "go digital," and see an entire organization fully transformed overnight. It's a process that has to be approached with diligence and thoughtfulness, given the impact that it will make to all its stakeholders.

That's not to say, however, that forward-thinking companies can't start the process now. In fact, we, at LBC, are proud to say that we're ***On The Move***.

Given its history, breadth, and reach, LBC is rethinking every aspect of its enterprise to ensure ***Resilience***, spur ***Evolution***, and guarantee ***Agility*** in this digital age.

It is a process that is not straightforward—but our expertise in logistics, which neither is straightforward, yields us the determination and skills to make this move— one that we believe is critical in our mission to consistently address evolving market needs. We will shift the traditional models of the forwarding, express delivery, money remittance, and corporate logistics industries. This transformation will leave no part of "LBC Universe" untouched—impacting everything from internal operations and systems to brand and customer relationships.

Here is our roadmap to achieving these capabilities and responding to new opportunities. Beyond what is already being done now, LBC's vision of digital transformation will solidify our status as a benchmark for "Moving It" in the digital age.

Table of Contents

The LBC Way

What Moves and Drives Us

Our Vision. By 2020, LBC shall be the access and delivery solutions provider of choice, professionally and technologically equipped to serve Filipino families and business entities through total customer experience.

Our Mission. Linking and bridging customers through our network and innovating new solutions to provide faster, easier, and more cost-effective delivery solutions.

What We Commit To

Our Brand Promise:

"A friend who makes your day"

LBC is the warm and helpful partner who enjoys moving packages, goods and money for you. We understand that people look forward to what you're sending, so we provide clarity, certainty and convenience to help make everyone's day."

What Inspires Us

Our Brand Tagline:

"We like to move it"

What We Are All About

Our Culture

These are the values that define everything we do in LBC:

- *Humility*
- *Integrity*
- *Trust*
- *Commitment*
- *Social Responsibility*
- *Customer First*
- *Teamwork*
- *Innovative*
- *Positive Thinking*

Our Brand Attributes

Clarity

We believe in providing transparent and timely information to give customers peace of mind. We want to pay particular attention to:

- The process of moving items or money
- The schedule and timing of your delivery
- Clear communication of our cost

Certainty

We believe in providing our various stakeholders with certainty through:

- Presenting relevant options for different needs
- Our staff's commitment to set expectations and deliver on our promises
- Fair and timely updates of information

Convenience

We promise to make your experience as hassle-free as possible by:

- Constantly improving our processes and adding new and relevant capabilities
- Easy access to call center and frontline staff
- Growing of our network coverage

How We Deliver Our Mission

1 History and Network

Integrate core competencies to create a solid foundation for our service commitment.

2 Understand and Learn

Gain meaningful insight into the evolution of the modern customer and apply to reinvent the business model.

3 Quality and Service

Apply new capabilities to win customers through quality and customer satisfaction

4 Innovate and Execute

Ensure resilience and agility as well as maintain market position by delivering high value products and services.

Our Businesses at a Glance

Being at the forefront of the courier and logistics industry gave us the leverage to set the benchmark for how the industry could evolve through the years. It is because of this that LBC has consistently forged a path of innovation with each decade and every milestone.

LOGISTICS

	Retail	Corporate
	LBC	LBC BUSINESS SOLUTIONS
	COURIER AIR CARGO BALIKBAYAN BOXES	SPECIALIZED CORPORATE SOLUTIONS FREIGHT FORWARDING SUPPLY CHAIN
Revenue Contribution (%)	57.4%	32.2%
Revenue (in million pesos)	PHP5,751.66	PHP3,229.51

MONEY

	Remittance	Payment Solutions
	LBC MONEY EXPRESS	LBC
	INSTANT PESO PADALA PESOPAK DELIVERY CORPORATE REMITTANCE PAYOUT	BILLS PAYMENT CASH ON PICK-UP/ CASH ON DELIVERY RETURN AND REFUNDS CORPORATE PAYROLL DISBURSEMENT
Revenue Contribution (%)	9.6%	0.8%
Revenue (in million pesos)	PHP961.72	PHP77.23

Remittance Partners

INBOUND

Over 40
Money Transfer Operators, Money Services Businesses and Banks

Al Ghurair Exchange (Ersal)
Asia United Bank
Atin Ito Remittance Ltd.
Bank Of Commerce
Bank Of Philippine Island
Cash Express / Al Ansari Exchange
Cash Sense
China Bank
Cimb Islamic Bank Berhad
Fastremit (Formerly: Wct Express)
Franki Exchange
Ime (Intl Money Express)
Instant Cash
Jrf (Japan Remit Finance)
Money Exchange
Multi-Money Transfer
New York Bay Philippines/ Transfast Remittance
Onyx Exchange
Pacific Ace Forex, Ltd. (Pacific Ace)
PETNET
Philrem Uk
Pinoy Express
Placid Express
Plus One Direct Business Provider, Inc./ Ayannah
Prabhu Money Transfer
Progoti Exchange
RCBC
Remitix
Sigue Money Transfer
Smj Teratai Sdn Bhd
Speed Remit
Speed Send
Tempo Financial (I-Transfer)
Tml Remittance Center
Tranglo
U-Remit International Corporation
Unidos Financial Services
Wic Worldcom Finance Ltd. (Worldcom)
Zenj Exchange

PAYOUT

1,321
Branches nationwide

INBOUND OR PAYOUT (RECIPROCAL)

2,200 branches

BILLS PAYMENTS

180
BILLERS RANGING FROM VARIOUS UTILITIES, INSTITUTIONS, CHARITIES, ETC.

CORPORATE PAYOUT CLIENTS

CORPORATE PAYOUT OR REMITTANCES

Philippine Red Cross
Philippine Veterans Bank
I-Fashion
Mailroom
AGB Nielsen

CORPORATE PAYMENT AND COLLECTIONS

Life Research Philippines
Mary Kay
Iload

There are achievements only LBC can claim—made possible simply because we like to move it. And the honor, is all ours—as we take pride in how we serve each customer, for every transaction, every time.

We believe our business is anchored on our ability to move not just parcels, but lives. What do people mean when they say "*ipa*-LBC *mo*"? It's not just about sending; it's about doing so with the peace of mind that your package will arrive safely in the hands of its recipient.

We make a difference by making sure that the trust our customers give us is repaid with reliability, transparency, and honesty. It's a reputation that we've worked hard to establish since the 50s; and one that we strive to live up to by continuously innovating.

Today, we're **On the Move** once again—this time towards digital transformation. Your needs are changing. . .and we're keeping up the pace to change with you.

“2017 was a great year for LBC...The real challenge moving forward is how we can do more.”

Message from the Chairman and President’s Report

Dear fellow Shareholders,

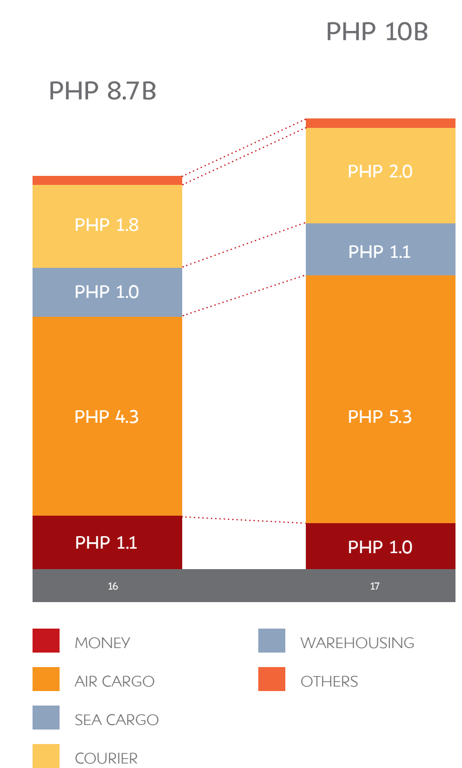
Being at the helm of a brand like LBC, it’s not unusual for me to be asked about the secrets behind its success.

If I may be so bold to say so myself—the answer isn’t very esoteric. LBC was a business built on values that still drive it forward today. These same values lend itself to a team who bring enthusiasm and energy to its success. And year after year, we can count on this to bring unprecedented, robust growth for the enterprise.

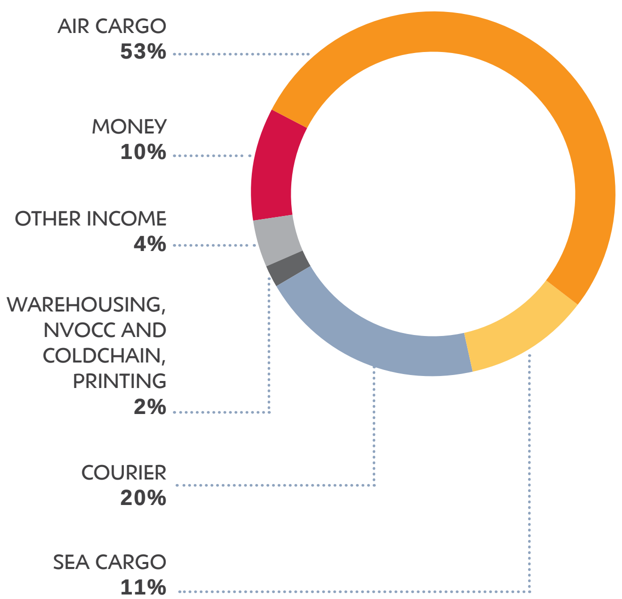
2017 was no different.

We expanded operations at many levels, in response to our markets requiring more efficient, better, and even faster services. We developed capabilities to meet our customers’ —both retail and corporate—ever-evolving needs and demands. We also saw our traditional business models evolve to address and adapt, not just to consumer needs, but to the entire industry and economy.

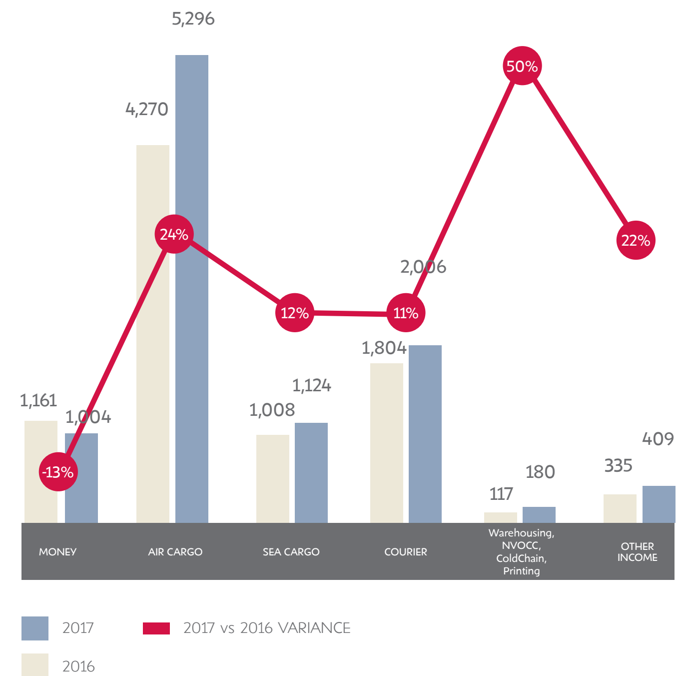
To that end, 2017 led to our company’s healthy financial performance, with double-digit growth. Revenues increased 15% to PhP 10 billion in 2017 from PhP 8.7 billion in 2016. Gross profit (service revenues less cost of services) also increased to PhP 3.4 billion from PhP 3.1 billion in 2016. The group’s operating company, LBC Express, Inc., likewise registered growth in Net Income after tax, increasing 7% in 2017 to PhP 985 million from PhP 920 million in 2016.



2016 VS 2017 REVENUES (IN BILLIONS PHP)



2017 TOTAL REVENUES SHARE BY SERVICE



2017 VS 2016 REVENUES BY SERVICE IN PHP MILLIONS

Logistics revenues continue to contribute the lion share to the company's coffers, with 87% contribution at PhP 9 billion, a 19% growth from the previous year. LBC Logistics revenue can be further segmented into its Retail and Corporate businesses, both having double-digit growth in 2017. Retail Logistics grew 16% to PhP 5.8 billion from PhP 5 billion in 2016; while Corporate Logistics increased 26% to PhP 3.2 billion from PhP 2.6 billion in 2016.

Being the leading express delivery company in the country, it's no surprise that we hold a significant 34% share of domestic Air Freight Cargo forwarding. According to the Civil Aeronautics Board, that's a total of 10,075 tonnes forwarded by LBC just for the first half of 2017 (year-end figures are yet to be released). From Air Cargo alone, we earned PhP 5.3 billion in 2017, a 24% increase from last year's PhP 4.3 billion.

This also means that sea Cargo revenues have likewise increased, contributing PhP 1.1 billion to revenues—a 12% increase from PhP 1 billion in the previous year. For international inbound cargo, this translates to 5,432 TEUs (twenty-foot equivalent) of incoming sea cargo from the Middle East, Asia-Pacific, Europe, and North America in 2017 —predominantly Balikbayan Boxes sent by Overseas Filipinos to their families in the Philippines. Total Sea Cargo TEUs however, both International and Domestic reached 8,449 in 2017, up 4% from 8,138 in 2016. Revenues from LBC's Courier business also increased by 11% in 2017, to PhP 2 billion from PhP 1.8 billion.

In the domestic express market, LBC consistently leads by virtue of our "Day 1" door-to-door nationwide acceptance and delivery service. This is a service that requires the seamless and simultaneous operations of multiple departments: 136 delivery hubs and 14 distribution centers that will enable acceptance across 1,321 branches nationwide. Suffice to say this isn't an easy feat; but in spite of volumes, we are proudly able to maintain a 99.8% sorting accuracy in our distribution centers and hubs across the country.

In the LBC Business Solutions, revenues increased for all segments, due to the company's unique capability of combined logistics and money services, yielding a more "value-added" service. This unique edge is an integral and critical combination that facilitates seamless transactions for eCommerce, and unlocks its inherent potential. That's one of the unique advantages that LBC brings to the table—the ability to enable businesses with multiple payment fulfillment services—covering refunds, reverse logistics and payment collection; the latter allowing our corporate clients to offer cash-on-delivery options to their clients. This is critical to the growth of eCommerce in the Philippines, and you should be proud of LBC's distinct ability to empower that.

In the Philippines, 72 new branches were opened across Metro Manila, Luzon, Visayas and Mindanao— bringing the total number of wholly-owned branches to 1,321 by the end 2017. This branch expansion continues to provide volume growth while also extending the brand's reach and footprint. Revenue from Philippine retail branches increased 12% in 2017, contributing a total of PhP 645 million to total revenues of the company.

A Chat with MAC: President & COO Mike Camahort began his nationwide Digital Transformation caravan with launch events with leaders in Metro Manila and Metro Cebu. He will continue to personally visit key areas to share his vision on Digital Transformation.

In the pipeline for 2018, LBC aims to open 80 more branches across the country, scattered between populous major cities and likewise going deeper into second- and third-class municipalities in various provinces in the Visayas and Mindanao.

2017 was a great year for LBC.

However, without belittling everything that was achieved in 2017, all these are just par-for-the-course for a company that's recognized as an industry leader and the benchmark for Global Filipinos.

Your company is equipped with a fleet of thousands, with strategic warehouses and distribution centers all over the world, employs tens of thousands of associates across the globe, and a heritage that continues to inspire trust throughout our now close to 70 years of existence. You can't expect anything less, knowing every person responsible for where we are know has been working towards this goal.

The real challenge moving forward is how we can do more.

For years, LBC has witnessed the changes brought about by socio-economic, political and technological factors. Through it all, we have remained a strong and steady contender in the industry—consistently introducing innovations that have since become ingrained in Filipino culture.

Today, with digitalization set to revolutionize the entire industry, we see another opportunity for LBC to define itself across all its business segments. Technology has, literally, changed every aspect of the way businesses operate—and LBC is on the move to make sure that we lead the pack.

To set our Digital Transformation on the right course, we have to make sure that it is at the core of our operational agenda. I am keenly aware of the challenges that this transformation presents. Rethinking the way we do business in response to the digital reality requires time; and time is a rare resource for a company with our breadth and scale. Still, as we find ourselves at this critical crossroad, I am compelled to ask you all, my fellow shareholders, to look at and consider your company's Digital Transformation not as something that can be achieved in an instant, but rather, as a journey.

The profound changes we have in the pipeline will transform the way we do business. It's not going to happen overnight but we've set clear targets to work towards. We've made significant investments towards its realization and we will continue to do so as we keep moving forward.

We also, I assure you, fully recognize the magnitude of this undertaking. Amid all these challenges and the seemingly overwhelming tasks at hand, I am proud to say that we have already made significant inroads towards seeing this vision through.

Digital Transformation, after all, is a process that starts with our people, slowly manifesting itself through the tools we begin to utilize. To that end, we have been stepping up efforts to roll out solutions, develop capabilities, and collaborate with key stakeholders that will be critical to the success of this massive endeavor. We also know that leadership should and will drive this metamorphosis, which is why I have empowered other leaders of the company to likewise become captains of this paradigm shift, to ensure its success.

At the end of the day, however, this goal goes beyond rolling out new platforms and solutions.

We are moved by the idea that our mission to transform will allow us to evolve our business models to retain our market position, build resilience in fickle economies, as well as remain agile amid growing competition.

We believe in our ability to set LBC apart as a fully digital organization—tough enough to keep up with the incredible pace of technology, with just the right amount of flexibility so we can adapt to changing needs, while anchored on the values that built us.

And so I urge you remember this: the idea is for us is not to do technology for the sake of technology, but to use it so that we continue to move lives in more meaningful ways.

Join me, as we continue to Move It.

MIGUEL ANGEL A. CAMAHORT
Chairman of the Board
President & Chief Executive Officer

Digital Transformation

Achieving our vision is anchored on our ability to digitally transform the way we do things, the Way We Move.

However, Digital Transformation is not only just about incorporating the technological tools needed to change the organization; it is a massive undertaking given the scale of the company, and understanding that changes will only begin once mindsets of the human elements are also shifted. This "Change Management" for a 70-year old company, a heritage brand, will include over 8,000 associates across the globe, and a vast network of brick and mortar stores, hubs, and warehouses. We're up for the task, we're ready for the challenge.

For our customers…

Evolving consumer behavior and preferences are driving the way LBC wants to approach business. Our company will be introducing solutions for a market that is connected 24/7, time-starved, with demands anchored on technology's ability to respond at the speed of need.

In response to customer demand, LBC recognizes that we cannot continue running our business with the current processes and technologies. Automation of all key processes is needed to survive and to be relevant in the industry.

We are upgrading your company's core logistics applications to automate all manual processes. Operations will significantly change once fully implemented, and we all look forward to this coming to fruition by 2019. Your company will also be introducing additional products and services to customers of all segments.

For our partners…

Boundaries among suppliers, service providers and consumers are evolving quickly, as a result of rapid shifts in technological advances. This entails a fundamental rethinking about how LBC streamlines internal processes, and will prioritize, ever more, driving speed and efficiency.

How These Moves Will Change Everything

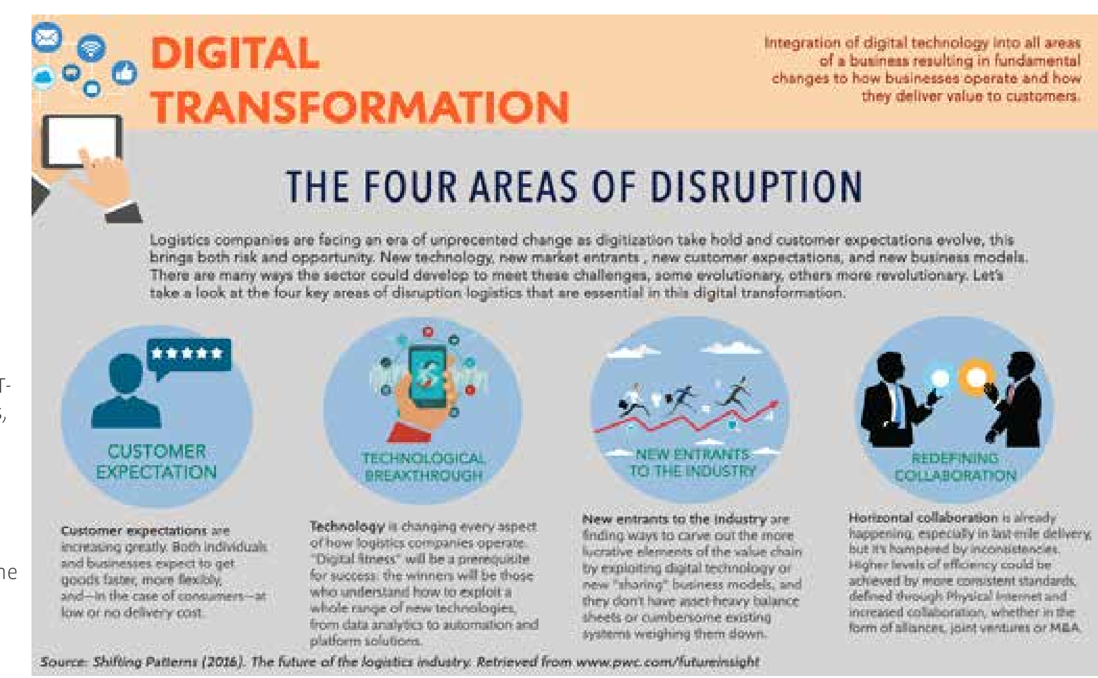
LBC's Digital Transformation will accelerate our own business activities, processes and competencies that will, in turn, impact our stakeholders in strategic and meaningful ways. We will harness Digital Transformation to radically improve internal performance, partner relationships, and expand reach across different business segments.

- We will further develop the first mile to make us accessible for pick-ups for the retail market, and small-corporate accounts (MSMEs)
- We will set up our cross-border operations to capture the e-Commerce market at its origin, making LBC an end-to-end logistics service provider
- We will partner with other logistics service providers through crowdsourcing, making our pick-up and delivery operations "burstable."
- We will utilize crowdsourcing to fulfill the need for surge of volume, thus providing a cost-effective solution to demand
- We will expand our Returns Services to Reverse Logistics through reselling, liquidation or disposal of returned items
- We will expand money transaction through digital currency solutions, allowing peer-to-peer payments or C2B payments
- We will ensure improved efficiencies in our hubs

All these initiatives will be driven by technology, and supported by our skilled workforce.

LBC has invested on Digital Transformation to ensure that infrastructure and systems will support our automated processes, and to enable better decision making through information transparency and integrity across all touchpoints.

LBC has disseminated DT-related communications, cascaded to all employees, enterprise-wide, to encourage ALL to join the bandwagon and engage more associates to buy-in to the movement.



Operational Highlights:

Information Technology

"We are confident a full digital transformation will be completed by the first half of 2019."

Alexander Francis D. Deato
Senior Vice-President, Information Technology, LBC Express, Inc.

LBC's enterprise-wide Digital Transformation will be supported by a full-stack of IT initiatives covering everything from infrastructure to consumer-facing technologies.

The scale of this undertaking is unprecedented. And to date, key upgrades and functionalities are already being introduced in the very framework of LBC's operations.

The scope of the LBC IT system spans the group's subsidiaries and affiliates in countries across Asia-Pacific, USA, Canada, the Middle East, Europe and Australia, covering both its Corporate and Retail businesses, also for both Logistics and Money segments. The transformation's primary objective, in the technological aspect, is to replace and enhance existing systems, a critical functionality given LBC's global reach, breadth, and vast scope of services. This improved system will enhance the main cargo "Exchange center" in Manila, and allow integration into the established "Put-To-Light" (PTL) sorting system, which was also a recent development for the company.

Operational Highlights

- Implementation of Vistra
- Implementation of RAMCO HR System
- Enabling the RemPOS System
- Enabled API and webhook integration with eCOM for major corporate accounts including the country's largest eCommerce shopping and platforms Lazada and Shopee, via QuadX
- Received CAS Accreditation

Moving forward

The IT team will provide the digital foundations which will support all operations, and from which service innovations and new or improved products will be developed; while also improving efficiencies by providing timely data to all stakeholders.

"The IT team enables the company in a semi-automated state and ensures that all LBC systems are fully integrated. We are a team that supports LBC's push to go global. And our contributions will ensure that LBC can connect and integrate to any LBC partner and agent."

Operational Highlights:

Quality Excellence

“The success of LBC’s 7-year continuous certification to ISO 9001 lies on its core values – integrity, teamwork, and commitment. These values matched with our passion for customer centricity and discipline give us the foundation to move faster as we go through digital transformation.”

Marizza M. Bacabac
Senior Manager, Quality Excellence, LBC Express, Inc.

ISO-Certified LBC

In line with LBC’s commitment to quality and service excellence, we have certified our organization to the ISO 9001:2015 Quality Management Systems standard, a global standard, which is focused on meeting customer expectations and delivering customer satisfaction.

To date, LBC has the most number of ISO 9001:2015 certified sites among logistics companies. Our compliance to ISO 9001 standards means we consistently strive to stay in tune to what makes this business work – a continuous effort to inject quality into the heart of operations.

The journey to quality excellence started in 2011 with LBC Solutions, the corporate arm of LBC, with its sea and air freight services certified. On its 7th year of being certified, LBC has proven its ability to sustain, extend and renew to cover air and sea freight logistics, remittance and payment solutions, contact center management for corporate and retail customers following the risk-based framework of the ISO 9001:2015 standards.

7 consecutive years
LBC has been ISO certified

Certificate No. 56710

Awards Received

Trusted Brands Philippines 2017
Airfreight / Courier Service Category, Platinum Winner
Remittance Center Category, Gold Winner

LBC President & COO Miguel Angel A. Camahort nominated Global Filipino Executive of the Year **2017 Asia CEO Awards**

LBC Express, Inc. ranked 255 in the 2017 **BusinessWorld Top 1000 Corporations**, and leading Freight Forwarding Services company

Operational Highlights:

Customer Care Management

“The CCM team attends to a large volume of daily customers queries and concerns, with urgency, and ensures that each customer is satisfied with our offered resolution.”

Denny C. Munoz
Senior Manager, Customer Interaction, LBC Express, Inc.

It is LBC’s goal to provide quality customer care that is humane, personal, and prompt, and always available through multiple touchpoints and platforms. Digital Transformation, empowered and enabled by robust IT support allows us to deliver personalized customer service that veers away from traditional, template responses. Achieving this, while anchored on cost-efficiency, was also a priority for our team in 2017.

Operational Highlights

- ISO certified in June 2017
- CCM achieved 12% savings from budget, maximizing cost efficiency.
- Creation of Business Unit Coordinators & Customer Feedback team (met the target AHT of 3.9, with actual of 3.58 minutes), for more personalized servicing of all clients, internal and external

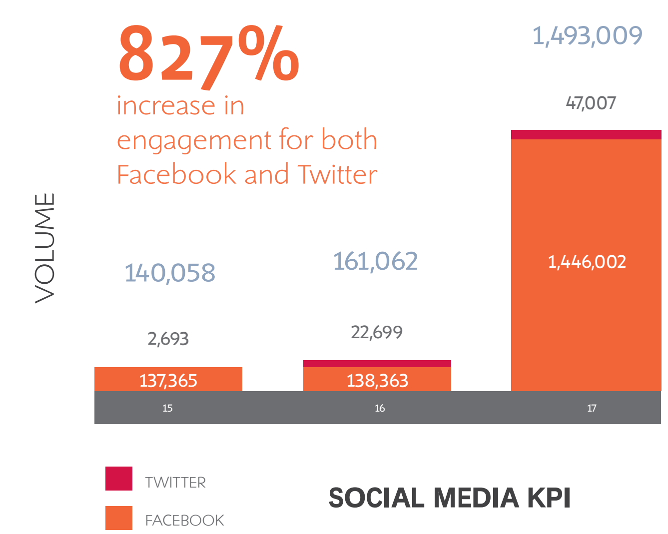
12% savings from budget, maximizing cost efficiency

3.58 Minutes averaging handling time, exceeding target of 3.9 minutes

INBOUND KEY PERFORMANCE INDICATORS

	2015	2016	2017
Answer Level	96%	96%	96%
Average Handling Time (minutes)	4.11	3.23	3.58
Total response Time (seconds)	60	45	57
Call Volume (millions)	2.47	2.28	1.91

827% increase in engagement for both Facebook and Twitter



SOCIAL MEDIA KPI

The exponential increase in Social Media handling volumes is indicative of the shift from phone-in queries. The CCM team has efficiently handled both channels.

Operational Highlights:

Compliance

We navigate through the complexity of local and international trade rules not simply because we have to, but because it's critical to ensuring proper service. LBC complies with Republic Act 9160 or the Anti-Money Laundering (AML) Act, and Anti-Money laundering laws in other international jurisdiction where LBC operates money remittance service. Furthermore, the company regularly reports to the AML Committee to provide details on the activities of the LBC Compliance Department for the Philippines as well as international origins.

The company constituted an AML Committee, to ensure compliance functions are properly carried out, giving it the authority to decide and act in behalf of the Board of Directors on AML matters. This movement is a concrete manifestation of Management's full support of these endeavors to ensure regulatory compliance.

Members of the Committee are:

- Enrique V. Rey, Jr., Chief Risk, Audit, Investor Relations & Compliance Officer
- Rene E. Fuentes, SVP - Overseas Retail Operations
- Oliver L. Valentin, SVP - Philippines Business Unit
- John Paul Misa, AVP Legal
- Hermogenes Mercado, VP for Corporate Money Treasury/Cash Management
- Last November 2017, a new member to the Committee was added: Alexander Francis D. Deato, SVP-Information Technology

Compliance Operational Highlights

- In compliance with the law, Management oversight of its Money Laundering Prevention Program (MLPP) program; Improvement and dissemination of; reflects changes/updates in the AML laws and regulations and distributed to all branches and hubs
- Internal controls for audit and compliance

> Trust, credibility, and transparency are critical and imperative to LBC's operations."

Moving Forward

- Continuous and consistent AMLA Training for all employees handling or involved in our remittance business segment
- Continue to leverage on technology to ensure safer and transparent transactions
- Continue to ensure due diligence from and with partners

Operational Highlights:

Data Protection & Privacy

Data protection and privacy is part and parcel of our brand promise.

At LBC, we do what is necessary to protect personal information of our customers and employees. In fact, a move to comply with newly implemented data privacy and protection laws everywhere LBC operates is already in motion. Above and beyond meeting regulatory laws, we put focus on customer privacy as an intrinsic part of our service--especially as we move towards Digital Transformation.

To that end, every project, new service innovation or offer, that LBC introduces in its Digital Transformation roadmap considers its impact on data privacy; it is Privacy By Design. Furthermore, as an organization, we respect the personal information entrusted to us by our customers and employees. We are currently, and will continue to enhance our internal systems, policies and protocols-- deserving of all our stakeholders' trust, and enhancing our reliability as a company, and as a brand.

1 APPOINT A DATA PROTECTION OFFICER (DPO)
Adhere to the Data Privacy Act

2 CONDUCT A PRIVACY IMPACT ASSESSMENT
Know the dangers

3 CREATE A PRIVACY MANAGEMENT PROGRAM
Be responsible

4 IMPLEMENT STEPS TO ENSURE PRIVACY AND DATA PROTECTION
Comply completely

5 PREPARE FOR ANY DATA BREACHES
Be alert

"LBC's obligation isn't just about delivering parcels—but rather, a commitment to ensure that every transaction happens safely and securely—building our customer's trust and establishing a relationship of transparency with our key stakeholders."

Enrique V. Rey, Jr.
Chief Risk, Audit, Investor Relations & Compliance Officer, LBC Express, Inc.

Operational Highlights:

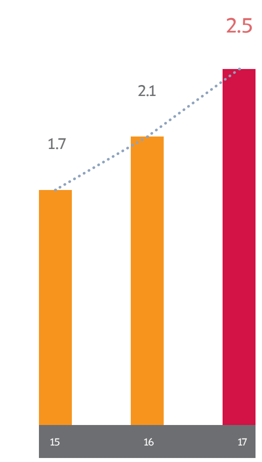
Business Solutions

Total Supply Chain Solutions provider

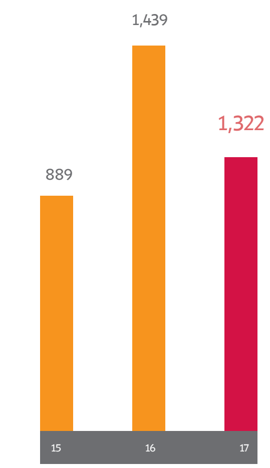
Enabling businesses of all sizes: LBC Business Solutions provides various logistics services to cater to Micro-, Small-, Medium- and Large Enterprises

24%
CAGR: 2015-2017

P560M
2017 net income before tax, exceeded target by 37% for the year



REVENUE (IN BILLIONS PHP)



EMPLOYEE HEADCOUNT

LBC drives eCommerce

Logistics plays a critical role in unlocking e-commerce in this country. In fact, LBC's unique capability of being able to offer combined logistics and money services was a catalyst for the growth of eCommerce in the Philippines.

Being a total supply chain solutions provider, LBC Business Solutions sought to focus on improving and maintaining operational and people efficiency, responding to customers' changing needs and optimizing cost of service delivery.

Aligned with LBC's mission, the team provided innovative solutions to customize customers' various requirements. Using the right technology, the goal was able to support new business capabilities and implement continuous processes improvement and simplification.

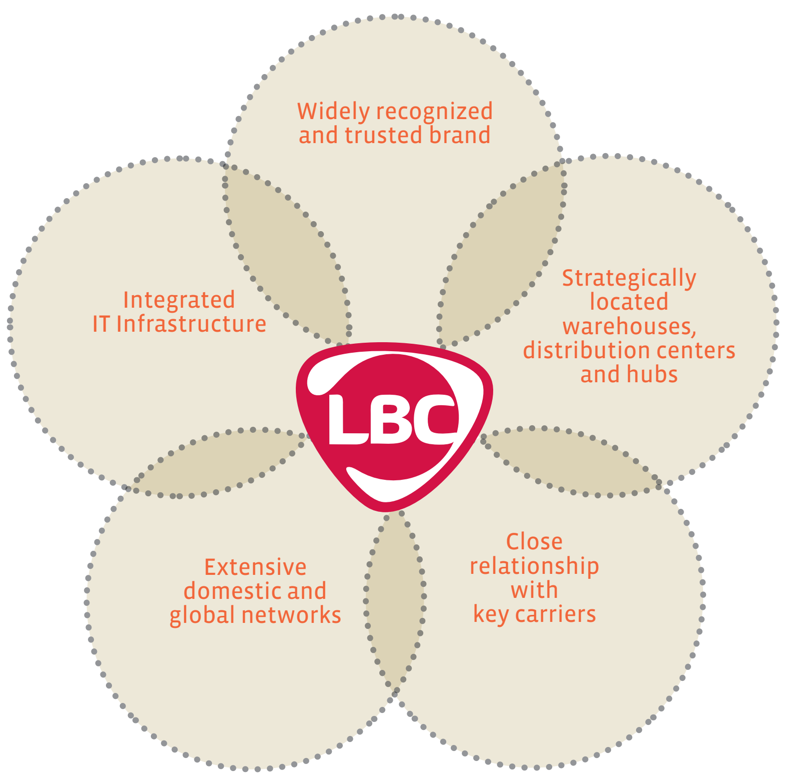
Currently, we are expanding the business by partnering with key stakeholders and focusing on talent retention and individual employee growth.

- Rising e-commerce driven by cross border transactions, time-definite delivery and demand for collection services support cash-on-delivery, as well as reverse logistics
- Growth of SME sector supported by Send Tipid service
- Digital transformation prompted by implementation of key technologies
- Increasing demand of supply chain solutions leading to warehouse expansions and value added services.

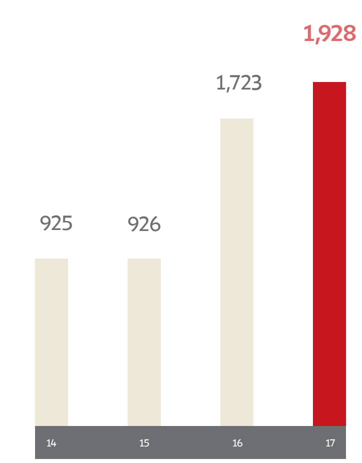
We have identified major catalysts that are poised to prompt major operational shifts.

Moving forward

- Implement cross border movement of international online trade via online shops alongside key partners: Lazada, Shopee, KS Logistics, Cebu Pacific.
- Utilize the network of nautical highways and road connections with the on-going RORO project
- On-going improvement of warehousing services to focus on storage of goods to value-added services (pick and pack, cross-docking, inventory management, and distribution) with key partners
- Continue to leverage existing platform, expand network and position of cash on delivery (COD) collection capabilities
- Enhance fulfilment and delivery services including warehousing, packaging, delivery, billing payment and other services



Logistics solutions for corporate clients are a combination of air, sea, and land freight to maximize efficiencies and ensure speed to market nationwide and overseas.



NUMBER OF CORPORATE CUSTOMERS

LBC Business Solutions is poised to benefit from the surging demand for corporate logistics.

Operational Highlights:

Philippine Systems

"The department focuses on our ability to build value, inspired by LBC's culture of excellence and transparency. Ultimately, this encourages cooperation within the team, and innovation."

Rene E. Fuentes
Senior Vice-President, Systems & International Operations
LBC Express, Inc.

The backbone of LBC's operations

No other company has the strength, breadth, size, and network that LBC has built. Despite the scale of its operations however, LBC functions with efficiency, delivers quality consistently, and moves with notable agility.

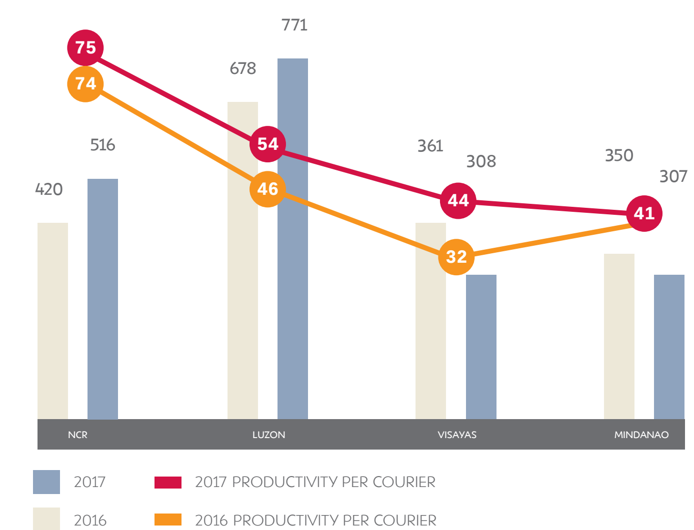
Maintaining operational excellence means understanding the internal systems and streamlining them to achieve goals. For 2017, this included:

- Restructuring manpower to improve day to day operations resulting in increased in delivery performance as it guided the number needed manpower.
- Implementation of NWOW (New Ways of Working) through the assistance of Process Excellence Team (PET) to provide a better perspective of accountability and responsibility on each Associate up to Managers.

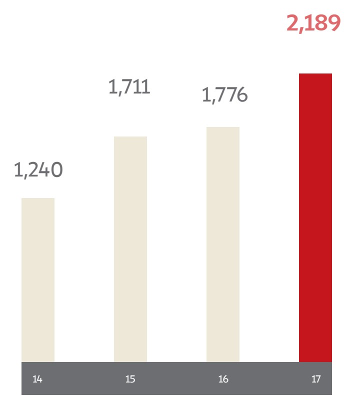
LBC invests a lot into ensuring efficiency in every aspect of its business. Not just to benefit the team that's behind every *padala*, but to make sure that LBC is able to give customers the best value for its customers.

Moving forward

Foster commitment towards growth, supported by implementation of technological initiatives in internal and consumer operations to fulfill LBC's company-wide objective or digital transformation.



NUMBER OF DELIVERY COURIERS BY AREA



NUMBER OF COURIERS

The ongoing digital transformation further enhances the main cargo "Exchange center" in Manila, and integrating into the established "Put-To-Light" (PTL) sorting system which was also a recent development for the company. The PTL system increases sorting capabilities and efficiencies as volumes increase and likewise integrates into current mobile and handheld terminal applications used in logistics operations.

Operational Highlights:

International Operations

As the population of overseas Filipinos continuously increases and spreads out further into more cities around the world, the demand for LBC services, likewise, continues to grow. To that end, we have identified key overseas locations where we believe we can continue serving Global Filipinos with our unique brand of customer service-- reliability our market has come to trust for over 60 years.

LBC is in a unique position to offer worldwide reach anchored on Filipino values. We focus on providing excellent service to both internal and external customers, with a commitment to serving Filipinos--wherever they are in the world.

Operational Highlights:
International Operations

North America

"Markets today are evolving at a rapid pace and we're making sure LBC is able to meet demands and exceed customer expectations through technology and exceptional customer service."

Hugo N. Bonilla
Senior Vice-President, North America Operations, LBC Mundial Corp.

Operational Highlights

- Improved Direct Cost – Lowered ratio by 4 points, from 52% share to revenue to 48% share to revenue
- Significant Increase in 2017 Net Income by 219% vs 2016
- Online booking and portal for Customs Forms, Packing lists, and other regulatory requirements
- Boosted employee engagement through implementation of feedback and engagement programs
- Ensured efficient operations through real-time platforms post transaction; achieved 71% customer satisfaction based on surveys

Moving Forward

- Consistent online expansion / digital transformation to provide more well-rounded and comprehensive services
- Implementation of real-time feedback platform, providing better insight into operational improvements and customer satisfaction, through Robo-Call
- Establish key partnerships to expand current market to commercial and corporate accounts
- Expand beyond current North American reach to include Arizona, Florida, Texas and Missouri. In Canada, priority provinces are Alberta and Manitoba.

219%
increase in net income

Operational Highlights: International Operations

Middle East

Achieved **92%** of revenue target in 2017

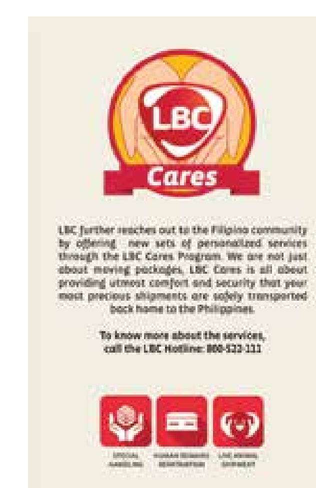
Embassy On Wheels. LBC has opened a service for the convenience of Overseas Filipinos, especially those outside of Jeddah, to collect their new passports and other consular documents with the LBC located within the Philippine Consulate premises

LBC Smart Shelters A partnership with RTA Bus Smart Shelters, LBC has 5 operational mini-outlets, open until late, across popular areas in Dubai frequented by Filipinos. At these branches, customers can avail of Express Air – a courier service for small parcels (5kg or 8kg) to 236 destinations worldwide. Empty cargo boxes are also available for purchase, as well as onsite booking reservations for pick-ups

One-Stop Shop Document Processing Overseas Filipinos can conveniently renew and complete their employmenet requirements, licenses and other legal documents through LBC, with a fixed fee that includes authentication processing in the Philippines and delivery to their addresses in the Middle East. Included are documents issued by the Department of Foreign Affairs, CENOMAR, National Bureau of Investigation, Professional Regulation Commission, to name a few.

LBC Plus is a customer rewards program where points are earned and privileges and discounts at partner establishments can be redeemed.

LBC Cares A service that offers end-to-end solution for shipment of valuables with care and professionalism; LBC being the first Filipino cargo company to provide this service, seeks to ease the process of securing sensitive requirements and paperwork for shipment of human remains, live animals, as well as fragile appliances and furniture. These services have first been offered in the UAE and will eventually the rest of the Gulf region.



Asia-Pacific

These regions are at the heart of LBC's expansion. Our goal is to continue exploring strategic partnerships and acquisitions, study market prices, be more creative with our marketing initiatives to grow the business while reflecting the values that define LBC.

Operational Highlights

- Expansion of LBC footprint across Queensland, Australia through key acquisitions.
- Addition of sea cargo services in Macau through strategic partnerships.
- Expansion of LBC Singapore product line in response to market needs.
- Consistent support for key Filipino organizations and its individual initiatives across different origins.

14% ↑
Net income

4%
Revenue growth in 2017

Expansion of LBC Kwuntong warehouse to better serve our customers and to facilitate new businesses (cross-border projects).

Dubbed as the biggest sports olympics in HK, LBC held its 2nd LBC Cup Palarong Pinoy participated by hundreds of Filipino Workers.

To appreciate and strengthen the business partnership with our box agents, LBC conducted its first agent's night at LBC Kwuntong warehouse.

Each with at least 20 years of service at LBC Express, these associates epitomize The Joy of Moving It.

Operational Highlights:

Human Capital Success and Services

"In the spirit of digital transformation, we seek to transform our workforce by giving them the skills necessary to adapt to this change."

Jhayner V. Bufi
Chief People Officer, LBC Express, Inc.

In LBC, you work **with** the company— not for them.

LBC is a company built on people who are passionate, curious and motivated by the mission to succeed.

The company is equally committed to growing the business, as much as they are to the people who are responsible for its success. To that end, LBC invests in the development of its people and growing their internal capabilities. Key programs in place are critical to ensuring that the organization effectively develops employees for future frontline leadership positions and career advancements. These include:

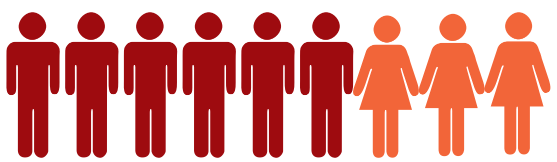
- Developmental programs for supervisors and associates where LBC provides track specific developmental programs-- from basic, intermediate and advance.
- Developing people and internal capabilities via the learning and management system (LMS)
- Instituted the Service Excellence Program
- Implemented online engagement programs to engage all employees organization-wide one way or another aside from the physical activities we have.
- Regular assessment of Assessment of Leadership, Values, ICSAT and Engagement

The company's commitment to develop individuals who continue to contribute and invest in the company's growth is unparalleled.

Moving forward

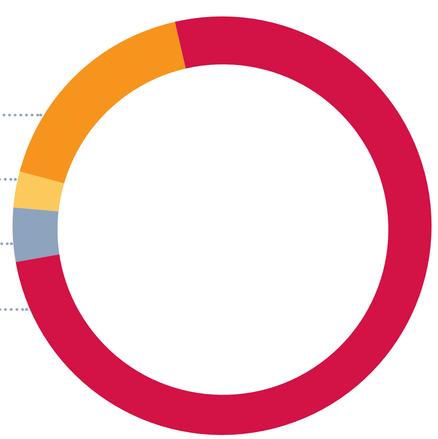
- Design and implement a Competency-Based System essential in ensuring effective performance of the functions and responsibilities of any position within the organization and be able to identify developmental needs.
- On-going focus on Customer Experience, Business Intelligence and IT for 2018
- Empower LBC leaders to lead Engagement of their teams following the ENJOY framework

Employee Profile

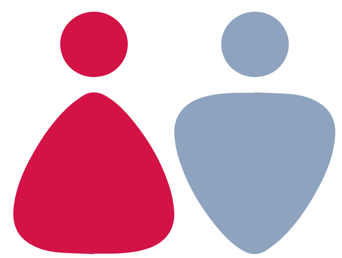


MALE: 63% FEMALE: 37%

GEN X **17%**
GEN Z **3%**
BOOMERS **4%**
GEN Y **76%**



8,001
Total employees,
a 7% increase from 2016



High Engagement, Low attrition rates

4/5
Overall Employee Engagement Score

1.8%
Average Monthly Attrition Rate

Rising engagement across different platforms

LEADERSHIP EXCELLENCE (LPI) 2017

3.46
On a scale of 1 lowest and 4 highest
Highest score in three years, demonstrating improving leadership potential of LBC employees

VALUES VALIDATION 2017

3.65
On a scale of 1 lowest and 4 highest
Highest score in three years, highlighting the relevance of LBC values to Big Picture Success

VOLUNTEERISM

1,153
CSR volunteers

4,612
Volunteered manhours

ENGAGEMENT SURVEY

4.14
On a scale of 1 lowest and 5 highest

Significant employee engagement

INTERNAL CUSTOMER SATISFACTION

89.03%
Proof positive that LBC employees are happy

TRAINING

7,345
Employees trained

Operational Highlights

Global Marketing

"Making a real difference in the lives of our customers is anchored on understanding them. Our success is anchored on our ability to gather insight and data from our customers and analyzing it to deliver a solution based on what they actually need and want."

Javier C. Mantecon
Chief Marketing Officer, LBC Express, Inc.

Operational Highlights

- Customer Experience Management established CSATs level to address rising customer demand and expectations
- Mapped out customer journey to provide programs and initiatives extending customer life value and revenue through Customer Relationship Management
- Rebuilding & Improving customer touchpoints, starting with the development of a Customer Self-Service Portal, an new version of the existing LBC website, to create a more robust, interactive and functional digital experience

Moving Forward

We will translate our business intelligence, and understanding of customer preferences to create relevant and personal touchpoints that will engage them in relevant, meaningful ways

- Re-launch the LBC loyalty program, to retain & reward customers

17 million
customers across the globe, to date

The launch of LBC Connect is one of our first steps in this digitalized journey. This initiative, along with those that will follow, will help reshape customer experience through technology, while staying true to our brand attributes of Clarity, Certainty and Convenience.

LBC Foundation upholds these core values:

EXCELLENCE

Strives to maximize its resources in achieving significant social impact

COMMITMENT

Dedicated to transforming lives

COLLABORATION

Recognizes that creating access and opportunities for Filipinos involves strategic partnerships with diverse stakeholders

INTEGRITY

Will act in a transparent manner in all its activities; demonstrating accountability

BAYANIHAN

A thread that binds.

Believes in the benefit of mutual aid or cooperative endeavor in community development

In the spirit of moving people forward through empowerment, LBC sought to exercise corporate social responsibility by focusing on education, led by its philanthropic arm, LBC Foundation.

Operational Highlights

Provided access to the basic right of education to underserved communities and uplifted the quality of education available to them.

Secured the education of 133 students through scholarships and educational assistance, at the same time providing medical assistance to employees and/or their dependents beyond HMO benefits.

Achieved LBC's objective to "move people forward" by empowering them and through programs that help uplift their lives.

"Education is an equalizer. It is a gift that instills a sense of pride, and dignity, and even responsibility. Beyond the knowledge and skills that are taught in the classroom, education also imbibes discipline, respect, leadership, teamwork—life skills and values that LBC, as an organization, feel strongly about."

- Christine L. Wuthrich, Executive Director, LBC Foundation

Proud member of—

- Association of Foundations
- ZEP2020: Zero Extreme Poverty, Education Cluster
- PhilCV or Philippine Coalition on Volunteerism, Inc.
- League of Corporate Foundations.
- Office of the Vice President's Angat Buhay Program

A catalyst for employee engagement and volunteerism

- Conducted 65 employee volunteer activities nationwide
- Engaged total of 1,155 volunteers who participated, 944 of which were unique volunteers.

Moving Forward

In addition to building classrooms, LBC Foundation also wants to provide the tools and training needed to provide quality education to the next generation of Filipinos. This entails—

- Providing access to the basic right of education to underserved communities and uplifting the quality of education available to them.
- Enhance students learning and performance through relevant programs.
- To create larger impact by maximizing our core business and reach as well as develop more socially responsible LBC employees.

Matina Biao Elementary School, Brigada Skwela Project, May 2017

Matina Biao Elementary School, Brigada Skwela Project, May 2017

300 children beneficiaries of the After School Program with Project Pearls

In addition to the classrooms built and donated by LBCF in Bato Catanduanes, a three-classroom structure for Damilag Integrated School in Brgy. Damilag, Manolo Fortich, Bukidnon were turned-over last October 11, 2017. This is a partnership with PhilAm Foundation and OVP's Angat Buhay Program. Barangay Damilag is recognized as one of the most populous barangays in the municipality, with no accessible high school. The construction of the high school provides at least 127 children in the district a safe and conducive environment for learning.

After School Program with Project Pearls, June 2017

Paraisong Pambata, San Antique, March 2017

Corporate Social Responsibility

Emergency Response Team

Moving Communities Through Volunteerism

"The spirit of collaboration is central to our efforts—from our employee volunteers to our government partners, to our community leaders. Whether it's a major disaster or simply the fact that we want to be there to mitigate emergencies, we are fortunate to have a team of people behind this initiative who have demonstrated an admirable level of commitment to this project."

Christian W. Guidotti
Vice-President, Administration, LBC Express, Inc.

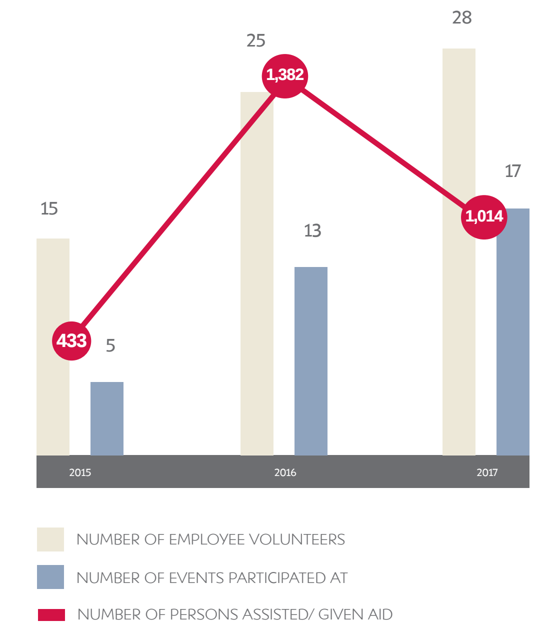
The contributions of the private sector, especially when it comes to emergency response are more relevant today than ever.

Our scale makes us more capable to offer manpower, and LBC has the resources to respond quickly in emergencies due to its vast network across the nation. Our values highlight our strong focus to contribute and make a difference in the communities we serve. To that end, 2017 was a year focused on gathering members of the LBC Emergency Response Team (ERT) and reaching out to communities.

Across the nation, LBC's exclusive emergency response vehicle, along with its trained employee volunteers, travelled across the Philippines to join numerous local festivities and provide medical assistance, providing aid to over a thousand Filipinos.

2017 was also a year where key stakeholders such as the MMDA, Emergency Rescue Association, and Bureau of Fire Protection gave the ERT consistent recognition for the active role we took in response operations.

For LBC, disaster preparedness and emergency response is something that doesn't just fall under the purview of the government. In fact, being one of the largest companies handling courier and cargo logistics in the country, with an employee base of thousands, prompts LBC to seek out and mobilize individuals within the organization who share the company's views on giving back to the community.



EMERGENCY RESPONSE TEAM PERFORMANCE

The LBC ERT provided emergency medical aid to 1,014 persons in need, in 2017.

LBC
HARI NG PADALA!

A pioneer in the industry

We Like To Move It

A brand that's synonymous to reliability and trust.
The gold standard for Global Filipinos.
A recognized name that's accessible
wherever Filipinos are.

2017

8,449 TEUs Sea Cargo

27.38 Million Tons Domestic Air Cargo

30 Million Remittance Transactions

17 Million Customers

13% Growth

13 Billion Php Revenues

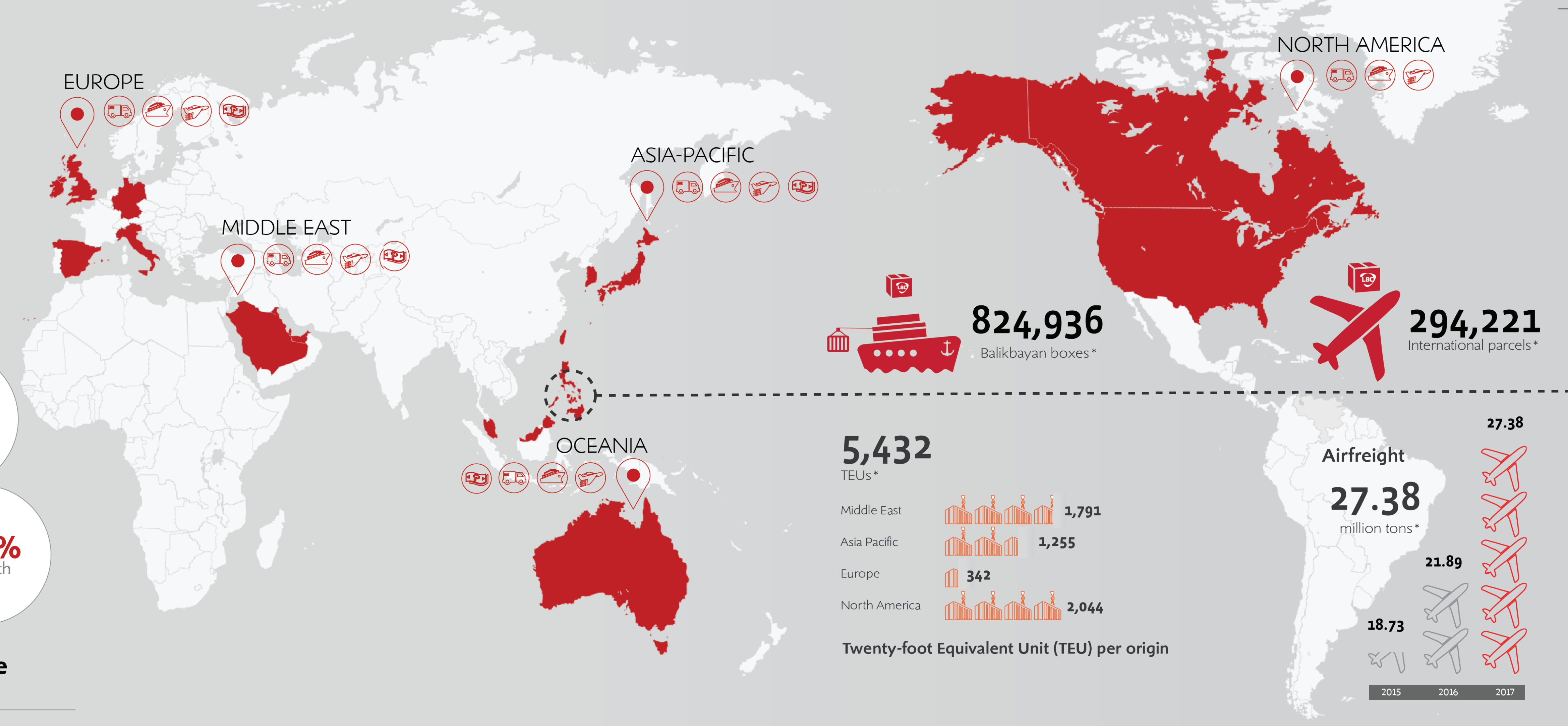
Total Enterprise

LOGISTICS SERVICES

- **LAND** – Nationwide distribution using LBC's fully equipped on-ground fleet
- **SEA** – Various modes of transport across waterways: pier to pier, pier to door, door to door, door to pier and warehouse to warehouse
- **AIR** – Transport of goods is certain via international and domestic airfreight
- **RETAIL** – Courier, Air Cargo, Balikbayan Boxes
- **CORPORATE** – Specialized Corporate Solutions, Freight Forwarding, Supply Chain

MONEY SERVICES

- **BILLS PAYMENT** – Bill Payments & Corporate Remittance Payouts
- **REMITTANCE** – Branch Retail Services, Prepaid Remittance Cards, Mobile & Online Remit Services



	EUROPE	MIDDLE EAST	OCEANIA	ASIA-PACIFIC	NORTH AMERICA
Countries	9	5	2	9	2
Warehouses	2	7	2	7	13
Cargo & Remittance Branches	2	14	2	18	36
Partner Agent Countries	10	-	-	2	-
Partner Agent Branches	118	424	1	244	149

* Volumes forwarded in 2017

International	Philippines
408 Organic Employees	**7,000** Organic Employees
29 Countries	**14** Distribution Centers
88 Branches Overseas	**1,321** Branches
32 Warehouses Overseas	**136** Local Hubs
937 Partner Agents Overseas	**1,417** Delivery Vehicles

Domestic

81% Brand Awareness & Market Reach

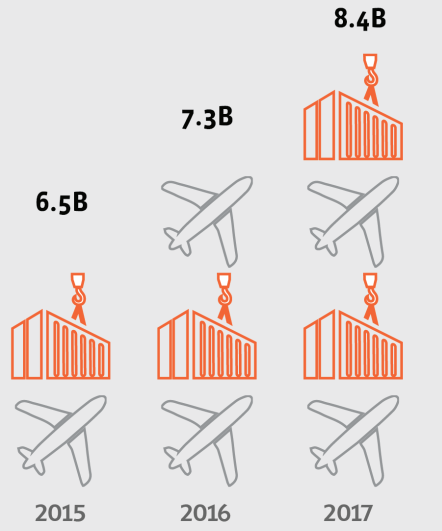
70% Barangays Covered

99.83% Sorting Efficiency

99.5% Delivery-On-Time

Proudly a Filipino-owned company, and now in service of the Global Filipino anywhere he may be, LBC's growth strategy is largely contingent on its Philippine operations and rapidly expanding network. With the goal of being accessible to every Filipino across the 7,107 islands in the country, LBC continues to make meaningful investments to continuously increase its footprint and strengthen its infrastructure, while offering increasing value to all its stakeholders.

At the end of 2017, LBC had 1,321 branches in the Philippines, with 80 branches in the pipeline for 2018. On top of this incomparable network, our top-of-mind brand equity, extensive market penetration and reach, LBC is and will continue to be well-entrenched in the Philippines, and soon, across the globe.



DOMESTIC REVENUE

Corporate Governance

The Board of Directors and Management, and employees of LBC EXPRESS HOLDINGS, INC. (the "Company") commit themselves to the principles of good governance, as contained in its Revised Manual on Corporate Governance approved in May 2017 and July 2014. The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization as soon as possible.

The Board of Directors

The Articles of Incorporation of the Company provides that the Board of Directors shall be composed of nine (9) members. As of 31 December 2017, the Board of Directors of the Company consists of nine (9) directors.[1]

As required by the Securities and Exchange Commission ("SEC"), the Company, being a publicly-listed company, is mandated to nominate two (2) independent directors. Thus, of the seven (7) directors of the Company, two (2) were elected as independent directors in accordance with the By-Laws of the Company.

Pursuant to the SEC Memorandum Circular 19-16, the Board of Directors of the Company resolved to increase the number of its independent directors from 2 to 3, subject to the amendment of the Company's Articles of Incorporation and By-Laws reflecting such recommendation.

In 2017, the Board of Directors held twelve (12) meetings consisting of eleven (11) special board meetings and one (1) board organizational meeting. We list below the attendance of the members of the Board of Directors during such board meetings, as follows:

2017 Board Meetings

	Miguel A. Camahort	Enrique V. Rey, Jr.	Rene E. Fuentes	Mark Werner J. Rosal	Solita V. Delantar	Luis N. Yu	Augusto G. Gan	Alexander Francis D. Deato
8 Mar	P	P	P	P	P	P	P	*
19 Apr	P	P	P	P	P	P	P	*
10 May	P	P	P	P	P	P	P	*
26 May	P	P	P	P	P	P	P	*
20 June	P	P	P	P	P	P	P	*
4 July	P	P	P	P	P	P	P	*
10 July	P	P	P	P	P	P	P	*
2 Aug	P	P	P	P	P	P	P	*
29 Aug	P	P	P	P	P	X	X	X
28 Sept	P	P	P	P	P	P	P	X
16 Oct	P	P	P	P	P	P	X	X
22 Nov	P	P	P	P	P	P	X	X

P: Present I X: Not Present I *: Not yet a director Board Committees

1 Anthony A. Abad's term as independent director will take effect from the approval by the Securities and Exchange Commission of the amendment to the Company's articles of incorporation and by-laws providing for a third independent director. On 02 March 2018, Jason Rosenblatt was elected as director of the Company replacing Alexander Francis D. Deato.

Board Committees

To assist the Board of Directors in discharging its duties and responsibilities, the Board constituted: (1) the Audit Committee; (2) the Nomination Committee; and (3) the Compensation and Remuneration Committee which directly report to the Board in accordance with duly approved procedures. As of 31 December 2017, the board committees and its members are as follows:

	Board Committees		
Director	Audit	Nomination	Compensation and Remuneration
Miguel Angel A. Camahort	Member	Member	Chairman
Rene E. Fuentes	N/A	N/A	N/A
Enrique V. Rey, Jr.	Member	Member	Member
Augusto G. Gan	N/A	N/A	N/A
Solita V. Delantar (Independent)	Chairman	Chairman	Member
Luis N. Yu, Jr. (Independent)	N/A	N/A	N/A
Mark Werner J. Rosal	N/A	N/A	N/A
Alexander Francis D. Deato [2]	N/A	N/A	N/A

Audit Committee

The Audit Committee is responsible for the company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. The Audit Committee consists of at least three (3) directors, who shall preferably have accounting and finance backgrounds, one (1) of whom shall be an independent director and another with audit

2 Alexander Francis D. Deato resigned as director on 02 March 2018. Anthony A. Abad's term as independent director will take effect from the approval by the Securities and Exchange Commission of the amendment to the Company's articles of incorporation and by-laws providing for a third independent director.

The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization as soon as possible.

experience. Each member shall have adequate understanding at least or competence at most of the Company's financial management systems. The Chair of the Audit Committee shall be an independent director.

Nomination Committee

The Nomination Committee was constituted by the Board of Directors to review and evaluate, among others, the qualifications of all persons nominated to the Board and other appointments that require Board approval in accordance with the qualifications and disqualifications provided under the Company's By-Laws and relevant laws. The Nomination Committee shall have at least three (3) members, one of whom must be an independent director.

Compensation and Remuneration Committee

The Compensation and Remuneration Committee is tasked by the Board of Directors to, among others, establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the corporation's culture, strategy and the business environment in which it operates. The Compensation and Remuneration Committee shall have at least three (3) members, one (1) of whom shall be an independent director.

Pursuant to the SEC Memorandum Circular 19-16, the Board of Directors of the Company resolved to reconstitute the following committees: (1) the Audit Committee; (2) the Corporate Governance Committee which shall replace and assume the functions of the Nomination Committee and the Compensation and Remuneration Committee; (3) the Board Risk Oversight Committee which shall be responsible for the oversight of the Company's Enterprise Risk Management System; and (4) the Related Party Transactions Committee, which shall be tasked with reviewing all material related party transactions of the Company. The establishment of such additional committees shall be effective upon the approval of the Company's By-Laws and the adoption of the respective Charters of said committees.

External Auditor

The external auditor contributes to the enforcement of good governance through independent examination of the financial records and reports of the Company. The external auditor of the Company is the accounting firm of SyCip Gorres Velayo & Co. ("SGV & Co."). The Board, upon the recommendation of the Company's Audit Committee, approved the reappointment of SGV & Co. as the Company's independent auditor for 2016 based on their performance and qualifications.

The Company has not had any material disagreements on accounting and financial disclosures with its current independent auditor for the same periods or any subsequent interim period. SGV & Co. has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities of the Company. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

Audit and Audit-related Fees

The following table sets forth the aggregate fees billed for each of the last two years for professional services rendered by SGV & Co.:

	2016	**2017**
In millions (PHP) Audit and Audit-Related Fees*	PhP2,200,000	**PhP3,450,000**
Total	PhP2,200,000	**PhP3,450,000**

**Audit and Audit-Related Fees. This category includes the audit of annual financial statements, review of interim financial statements, and services that are normally provided by the independent auditor in connection with statutory and regulatory filings or engagements for those calendar years.*

Compliance Officer

The Board of Directors appoints a Compliance Officer who shall report directly to the Chair of the Board. The Compliance Officer is tasked with, among others, monitoring the compliance by the Company with the rules and regulations of regulatory agencies such as the SEC and the Philippine Stock Exchange ("PSE"), and submitting reports in accordance with the rules of such agencies and other pertinent laws. Updates and the consolidated changes to the Annual Corporate Governance Report of the Company for year 2016 were submitted to the SEC last 10 January 2017. Further, the Company submitted last 31 March 2017 its Compliance Report on Corporate Governance for year 2016.

As of 31 December 2017, the Company has complied with the principles and practices contained in its Manual on Good Corporate Governance. There were no sanctions imposed on any director, officer, or employee for non-compliance.

Disclosure and Transparency

The Company acknowledges that the essence of corporate governance is transparency. Thus, all material information about the Company which could adversely affect its viability or the interest of its stockholders and other stakeholders are publicly and timely disclosed by the Company. The Company and its Board of Directors commit at all times to full disclosure of material information dealings, and as such, has caused the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the commission for the interest of its stockholders and other stakeholders.

Commitment to Good Corporate Governance

The Company has established, and continues to implement and adopt, corporate governance rules in accordance with the rules and regulations of the SEC. As such, the manuals adopted and issued by the Company have been revised to be in line with the policies and rules of the SEC.

Board of Directors

Miguel Angel A. Camahort
Chairman of the Board and President
Mr. Miguel Angel A. Camahort is a Director, Chairman of the Board and President of the Company. He is also the President of LBC Express Corporate Solutions, Inc., the subsidiary operating the "Print and Mail" business of LBC Express, Inc. Mr. Camahort concurrently serves on the Board of Directors of the United Football League. Prior to joining the LBC Group, Mr. Camahort was a Senior Vice President and the Chief Operating Officer of Aboitiz One, Inc. from 2007 to 2009 and Aboitiz Transport System Corporation (ATSC) Solutions Division from 2004 to 2007. He also served as a Senior Vice President and the Chief Operating Officer of Aboitiz Transport System Corp. (formerly, William, Gothong & Aboitiz, Inc.) in the Freight Division from 1999 to 2003, prior to which he was the President of Davao Integrated Stevedoring Services Corporation (DIPSCCOR) from 1999 to 2003. Mr. Camahort holds a Bachelor of Science degree in Business Administration and Economics from Notre Dame de Namur University (formerly, the College of Notre Dame) in California, U.S.A.

Enrique V. Rey, Jr.
Director
Mr. Enrique V. Rey Jr. assumed the position of Investor Relations Officer of the Company in September 2015 and is concurrently acting CFO. He has held various Senior positions in operations from 2011 to 2014. Mr. Rey, Jr. was also a director of LBC Systems, Inc. from 2008 to 2010 and LBC Mundial Inc. from 2005 to 2008. Prior to joining the Company, Mr. Rey, Jr. worked for Coca-Cola Phils. where he was a Senior Head of Institutional Sales from 2000 to 2003. Mr. Rey was also Head of Sales from 2003 to 2005 at ATS. Mr. Rey, Jr. attended De La Salle University and completed a Management program at the Ateneo Business School. Mr. Rey, Jr. has also attend INSEAD and received training in Finance. Since 2010, Mr. Rey, Jr. has been a member of the Institute of Internal Auditors.

Rene E. Fuentes
Director
Mr. Rene E. Fuentes is currently the Senior Vice President for Global Retail Operations of LBC Express, Inc. Prior to joining the Company, Mr. Fuentes served as President of Documents Plus, Inc. from 1996 to 2001, and as Regional Manager, Vice-President of EFC Food Corporation from 1996 to 2001. Mr. Fuentes attended De La Salle University and completed a Key Executive Program in November 2013 at the Harvard Business School.

Mark Werner J. Rosal
Director
Atty. Rosal became a director of the Company on 28 April 2015. Born in Cebu City, Atty. Rosal, prior to taking up law, has a Bachelor's Degree in Physical Therapy from Cebu Velez College and is a licensed Physical Therapist. Atty. Rosal graduated in the top 5% of his law school batch at the University of San Carlos, Cebu City, in 2002 and was admitted to the Philippine Bar in 2003. He spent his early years in the practice of law at Balgos and Perez Law Offices and Angara Cruz Concepcion Regala and Abello (ACCRALAW). Currently, he is the Managing Partner of Rosal Diaz Bacalla and Fortuna Law Offices, a Cebu-based law firm. As part of his law practice as retained counsel of private corporations, he is a director (holding nominal shares) of Cebu Agaru Motors Inc., Wide Gain Property Holdings, Inc., and Sem-Ros Food Corp. (a non-operational corporation).

Augusto G. Gan
Director
Mr. Augusto G. Gan was appointed Director of the Company in November 2013. Mr. Gan concurrently serves as a Director of Atlantic Gulf and Pacific Company, Investment and Capital Corp of the Philippines, Pick Szeged ZRT, Sole-Mizo Zrt and Netvoice Inc. He is also the Managing Director of Ganesp Ventures and the Chairman of the Board of Anders Consulting Ltd. Previously, Mr. Gan was the President of the Delphi Group from 2001 to 2012 and the Chief Executive Officer of Novasage Incorporations (HK) from 2006 to 2007. He has also served as a Director of AFP Group Ltd. (HK) from 2005 to 2007 and ISM Communication from 2003 to 2004, as well as the Chairman of the Boards of Cambridge Holdings from 1995 to 2000 and Qualibrand Industries from 1988 to 2001. Mr. Gan holds a Master in Business Management degree from the Asian Institute of Management.

Anthony A. Abad
Director
Atty. Anthony A. Abad is currently the CEO and Managing Director of TradeAdvisors, as well as a partner of Abad Alcantara & Associates. He graduated from the Harvard University – John F. Kennedy School of Government with a Master's Degree in Public Administration, and a Fellow in Public Policy and Management at the Harvard Institute for International Development. Atty. Abad graduated from the Ateneo de Manila School of Law with a Juris Doctor degree, and a Bachelor of Arts degree, Major in Economics (Honors). Other current engagements include: Bloomberg Philippines, Anchor; Ateneo Center for International Economic Law, Director; Ateneo de Manila University, Professor; World Trade Organization, Panelist. Previously, Atty. Abad was Key Expert, Trade Policy & Export Development Trade Assistant for the European Union, Chairman and Secretary's Technical Advisor at the Department of Agriculture, and President and CEO of the Philippine International Trading Corporation.

Jason Michael Rosenblatt
Director
Mr. Jason Rosenblatt was appointed Director of the Company on March 2, 2018. He is currently a Partner at Crescent Point, a private equity and investment firm based in Singapore. Mr. Rosenblatt assumed a director position at LBC Express Holdings, Inc. in March 2018. His previous positions include: Laurasia Capital Management, Director; Standard Bank, Global Head of Special Situations; DKR Oasis, Head of Principal Strategies; Ritchie Capital Management, Director; McKinsey Company, Associate; and Bank One, Associate.

Solita V. Delantar
Independent Director
Ms. Solita V. Delantar was appointed Director of the Company in March 2014. Previously, Ms. Delantar served as Vice-President, Human Resources Management & Development Administration (November 1999 – September 2003), Consultant (July 1997 – July 1998), Vice-President, Finance & Administration (May 1988 - June 1996) and various other positions at Honda Philippines, Inc. Ms. Delantar is a Certified Public Accountant, Fellow in Personal Management and professional business mediator. From September 1998 to March 2007, she served as a Member of the Professional Board of Accountancy, which administers licensure examinations for CPAs. Ms. Delantar received her Bachelor of Science degree in Commerce with a major in Accounting from Far Eastern University and participated in a Bachelor of Laws program at Ateneo de Manila University.

Luis N. Yu, Jr.
Independent Director
Mr. Luis Yu, Jr. is the Founder and Chairman Emeritus of the 8990 Holdings, Inc. Mr. Yu is also the Chairman Emeritus of IHoldings, Inc. (2012 to present).
He is also the Chairman of 8990 Cebu Housing Development Corporation, 8990 Visayas Housing Development Corporation, 8990 Davao Housing Development Corporation, 8990 Mindanao Housing Development Corporation, 8990 Iloilo Housing Development Corporation and 8990 Luzon Housing Development Corporation (2009 to present), 8990 Housing Development Corporation (2006 to present), Ceres Homes, Inc. (2002 to present), N&S Homes, Inc. (1998 to present), L&D Realty Holdings, Inc. (1998 to present), and Fog Horn (1994 to present). Mr. Yu is currently the President of DECA Housing Corporation (1995 to present). Mr. Yu holds a Master in Business Management degree from the Asian Institute of Management. Mr. Yu has more than 30 years of experience managing and heading companies engaged in Mass Housing subdivision development.

Management Team

Miguel Angel A. Camahort

Chief Executive Officer and President

Mr. Miguel Angel A. Camahort is a Director, Chairman of the Board and President of the Company. He is also the President of LBC Express Corporate Solutions, Inc., the subsidiary operating the "Print and Mail" business of LBC Express, Inc. Mr. Camahort concurrently serves on the Board of Directors of the United Football League. Prior to joining the LBC Group, Mr. Camahort was a Senior Vice President and the Chief Operating Officer of Aboitiz One, Inc. from 2007 to 2009 and Aboitiz Transport System Corporation (ATSC) Solutions Division from 2004 to 2007. He also served as a Senior Vice President and the Chief Operating Officer of Aboitiz Transport System Corp. (formerly, William, Gothong & Aboitiz, Inc.) in the Freight Division from 1999 to 2003, prior to which he was the President of Davao Integrated Stevedoring Services Corporation (DIPSCCOR) from 1999 to 2003. Mr. Camahort holds a Bachelor of Science degree in Business Administration and Economics from Notre Dame de Namur University (formerly, the College of Notre Dame) in California, U.S.A.

Enrique V. Rey Jr.

Investor Relations Officer and Chief Finance Officer

Mr. Enrique V. Rey Jr. assumed the position of Investor Relations Officer of the Company in September 2015 and is concurrently acting CFO. He has held various Senior positions in operations from 2011 to 2014. Mr. Rey, Jr. was also a director of LBC Systems, Inc. from 2008 to 2010 and LBC Mundial Inc. from 2005 to 2008. Prior to joining the Company, Mr. Rey, Jr. worked for Coca-Cola Phils. where he was a Senior Head of Institutional Sales from 2000 to 2003. Mr. Rey was also Head of Sales from 2003 to 2005 at ATS. Mr. Rey, Jr. attended De La Salle University and completed a Management program at the Ateneo Business School. Mr. Rey, Jr. has also attend INSEAD and received training in Finance. Since 2010, Mr. Rey, Jr. has been a member of the Institute of Internal Auditors.

Rosalie H. Infantado

Treasurer

Ms. Infantado assumed the position of Treasurer of LBCEH in September 2017. She graduated with a Bachelor of Science degree, Major in Accountancy from the Polytechnic University of the Philippines in 1997. She is currently Vice-President - Financial Reporting and Analysis at LBC Express, Inc., and has been a Certified Public Accountant since 1998. With 20 years of experience in accounting, audit, and financial reporting, Ms. Infantado's previous professional experiences include employment at prestigious companies such as KPMG Philippines (Manabat SanAgustin & Co.), Concordia Advisors (Bermuda) Ltd., CITI Hedge Fund Services, Ltd. (Bermuda), and PriceWaterhouseCooper Philippines.

Cristina S. Palma-Gil Fernandez

Corporate Secretary

Cristina Palma-Gil Fernandez: Atty. Palma Gil-Fernandez assumed the position of Corporate Secretary of the Company in September 2015. Atty. Palma Gil-Fernandez graduated with a Bachelor of Arts degree, Major in History (Honors) from the University of San Francisco in 1989, and with a Juris Doctor degree, second honors, from the Ateneo de Manila University in 1995. She is currently a Partner at Picazo Buyco Tan Fider & Santos Law Offices and has over 19 years of experience in corporate and commercial law, with emphasis on the practice areas of banking, securities and capital markets (equity and debt), corporate reorganizations and restructurings and real estate.

Mahleene G. Go

Assistant Corporate Secretary, Corporate Information Officer and Compliance Officer

Atty. Mahleene G. Go assumed the position of Assistant Corporate Secretary, Compliance Officer and Corporate Information Officer of the Company in September 2015. Born on 25 April 1980, Atty. Go graduated with the degree of Bachelor of Arts, Major in Political Science, from the University of the Philippines in 2001, and with the degree of Juris Doctor from Ateneo De Manila University-School of Law in 2005. She also received a Certificate of Mandarin Language Training for International Students from 2011 to 2012 in Peking University, Beijing, China. She served as a Junior Associate at Picazo Buyco Tan Fider & Santos Law Offices from 2007 to 2010 and 2012 and is currently a Senior Associate at the same office. She currently serves as Trustee and Corporate Secretary for Center for Empowerment and Resource and Development, Inc.

Maria Eloisa Imelda S. Singzon

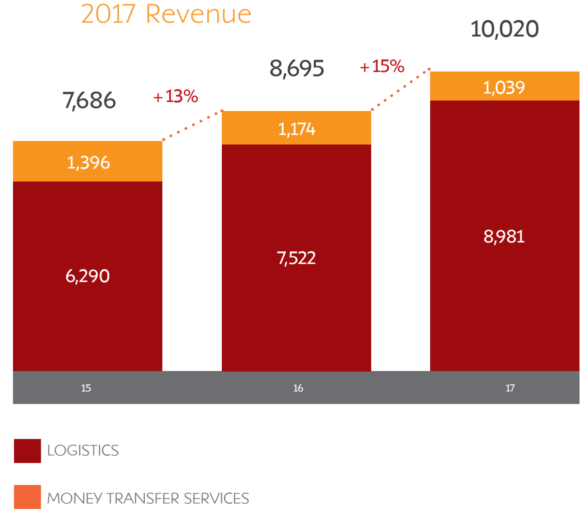
Alternate Corporate Information Officer

Maria Eloisa Imelda S. Singzon: Atty. Singzon assumed the position of Alternate Corporate Information Officer of the Company in April 2015. Born on 18 September 1986, Atty. Singzon graduated cum laude with the degree of Bachelor of Science, Business Economics, from the University of the Philippines in 2008, and with the degree of Juris Doctor from Ateneo de Manila School of Law in 2012. She is a Junior Associate at Picazo Buyco Tan Fider & Santos Law Offices from 2013 to present.

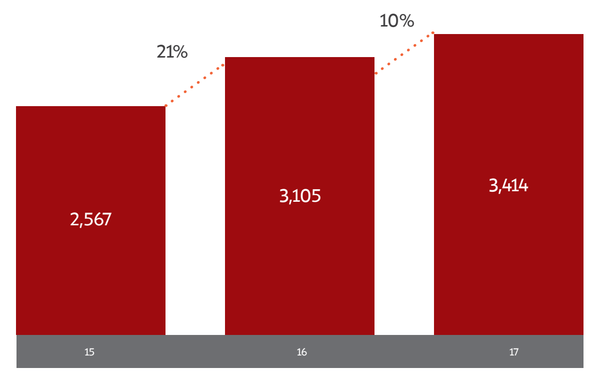
2017 Financial Highlights (LBC Express Holdings, Inc.):

Key Profit and Loss Items

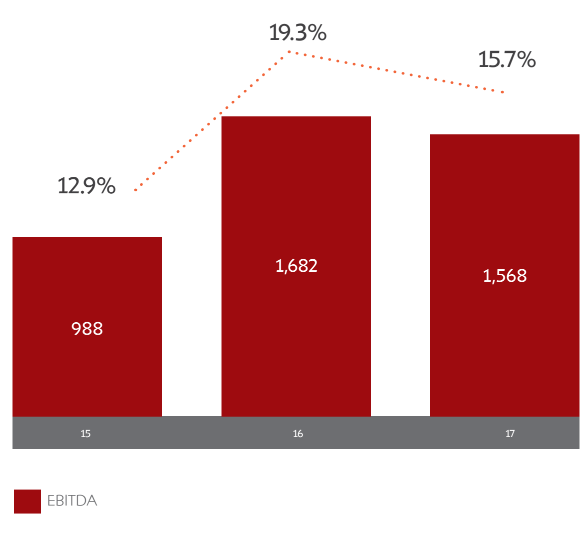
10B
2017 Revenue



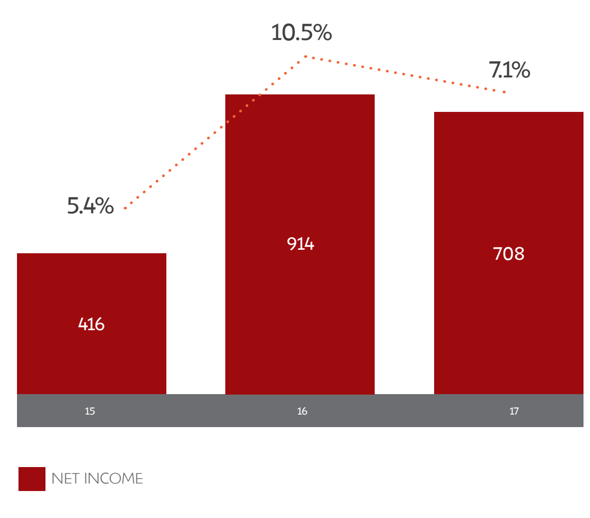
REVENUE
(IN PHP MILLIONS)



GROSS PROFIT
(IN PHP MILLIONS)



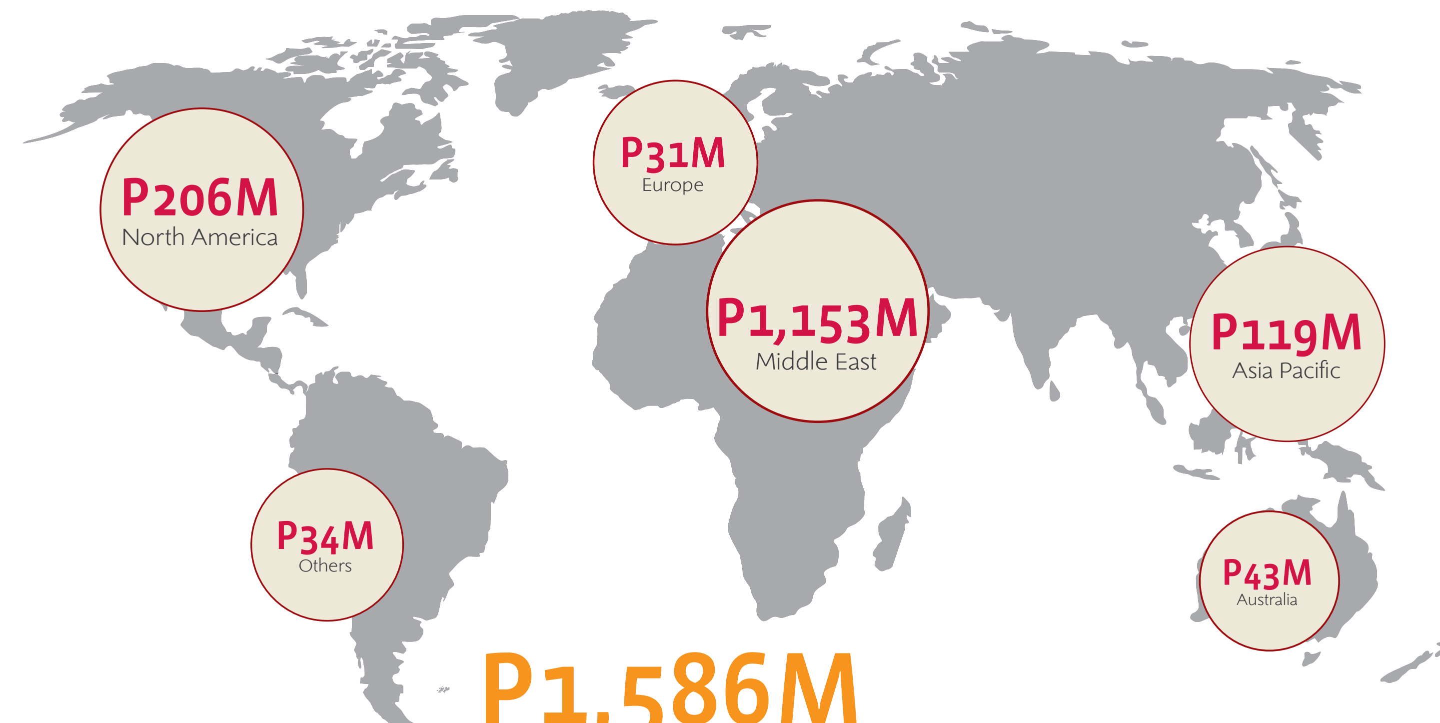
EBITDA
(IN PHP MILLIONS)



NET INCOME
(IN PHP MILLIONS)

2017 Financial Highlights (LBC Express Holdings, Inc.):

Revenue by Segment



P1,586M
Total international revenue in 2017

	2015	2016	2017
LOGISTICS: Retail	4,091	4,964	5,752
LOGISTICS: Corporate	2,199	2,558	3,230
MONEY: PH Domestic	1,187	1,058	907
MONEY: International Inbound	209	115	132
TOTAL	7,686	8,695	10,020

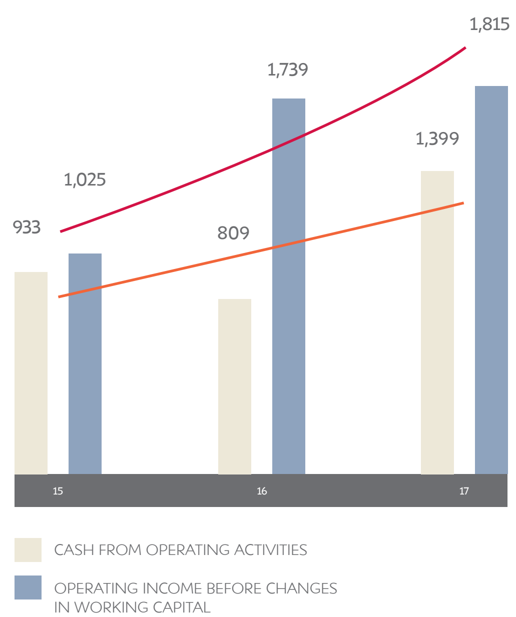
REVENUE BY BUSINESS SEGMENT
(IN PHP MILLIONS)

	2015	2016	2017	% SHARE
North America	169	214	206	13%
Asia-Pacific	111	96	119	8%
Australia	34	38	43	3%
Europe	36	38	31	2%
Middle East	758	1,000	1,153	73%
Others	124	38	34	2%

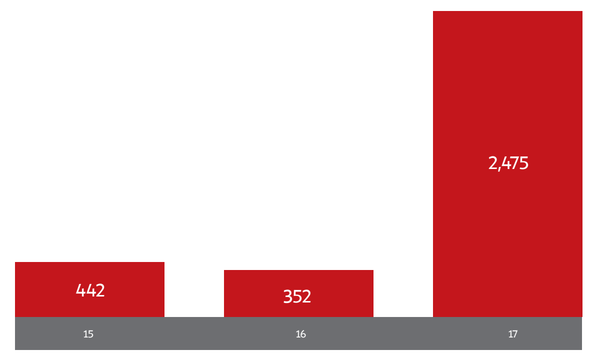
TOTAL REVENUE BY TERRITORY
(IN PHP MILLIONS)

2017 Financial Highlights (LBC Express Holdings, Inc.):

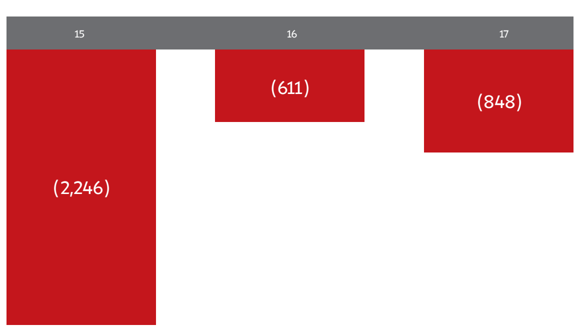
Cash Flow Analysis



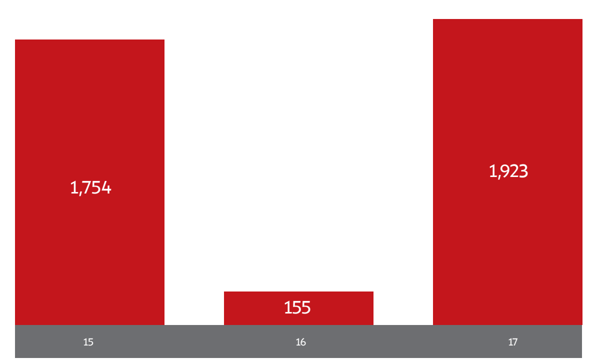
CASH AND OPERATING INCOME
(IN PHP MILLIONS)



NET INCREASE IN CASH
(IN PHP MILLIONS)



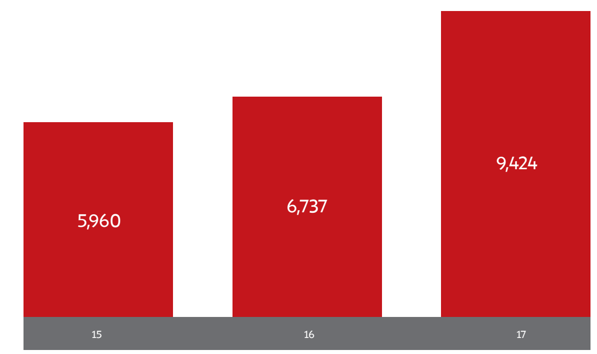
NET CASH (USED IN) INVESTING ACTIVITIES
(IN PHP MILLIONS)



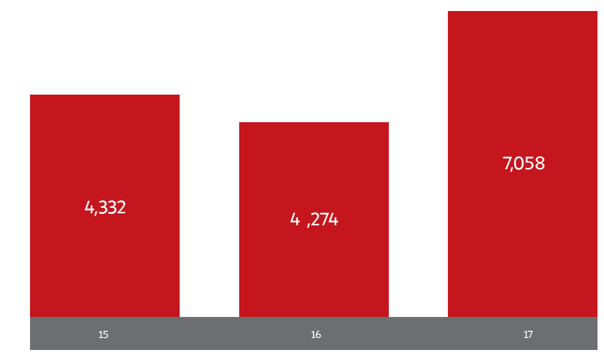
CASH FROM FINANCING ACTIVITIES
(IN PHP MILLIONS)

2017 Financial Highlights (LBC Express Holdings, Inc.):

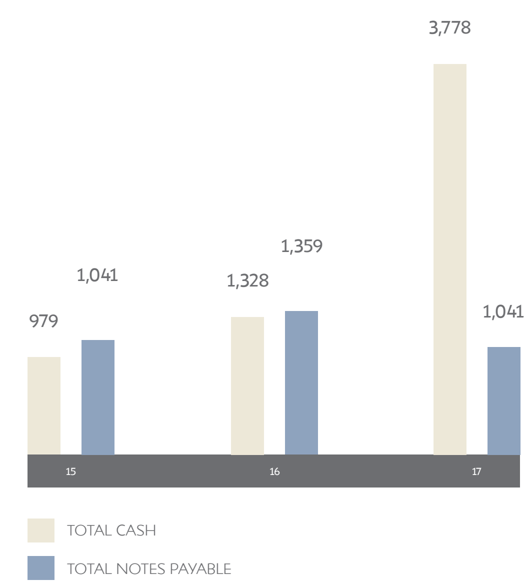
Key Balance Sheet Items



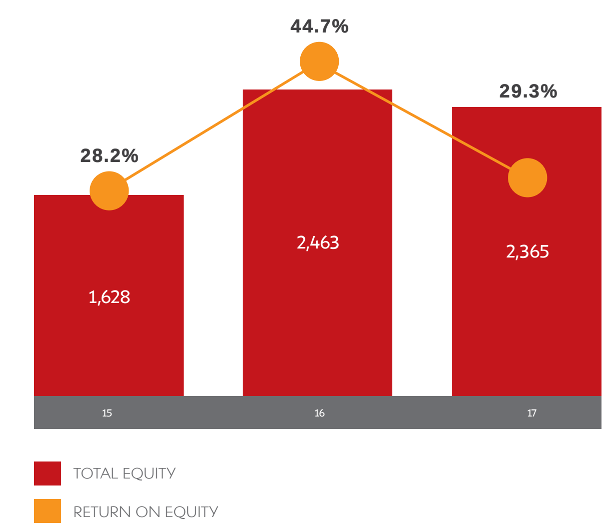
TOTAL ASSETS
(IN PHP MILLIONS)



TOTAL LIABILITIES
(IN PHP MILLIONS)



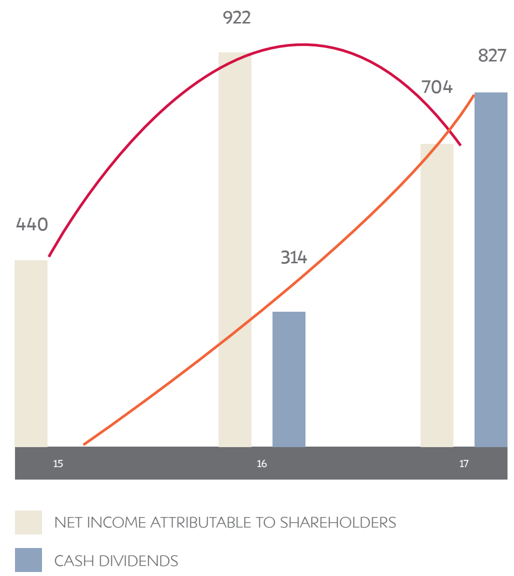
TOTAL CASH AND NOTES PAYABLE
(IN PHP MILLIONS)



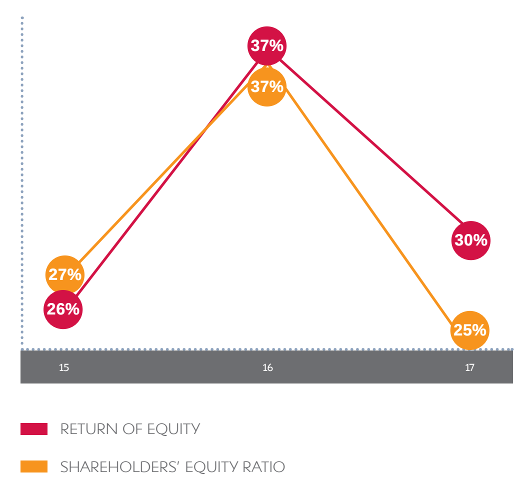
TOTAL EQUITY & RETURN ON EQUITY
(IN PHP MILLIONS)

2017 Financial Highlights (LBC Express Holdings, Inc.):

Share Data and Key Ratios



SHARE INFORMATION
(IN PHP MILLIONS)



RETURN ON EQUITY AND SHAREHOLDERS EQUITY RATIO

GROSS PROFIT : NET SALES

OPERATING INCOME : NET SALES

COST OF SALES : NET SALES

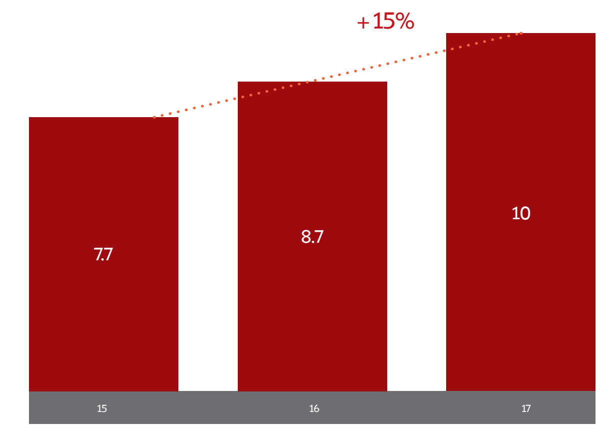
NET INCOME : TOTAL ASSETS

NET SALES AND TOTAL ASSETS

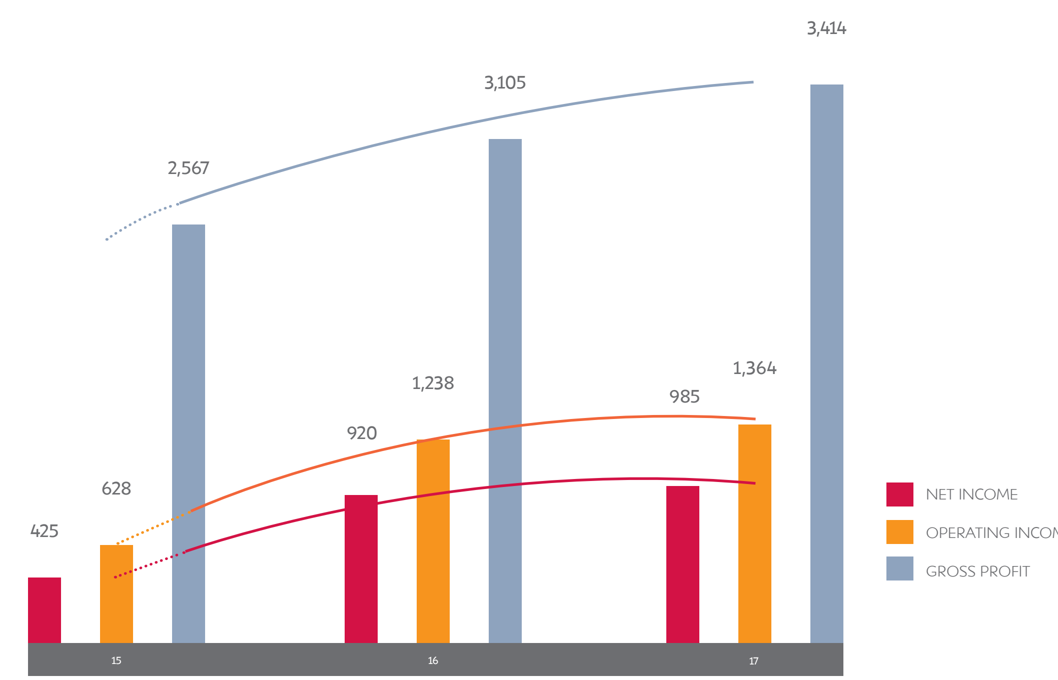
GROSS PROFIT, OPERATING INCOME, COST OF SALES, NET INCOME

2017 Financial Highlights:

LBC Express, Inc. (Operating Unit)



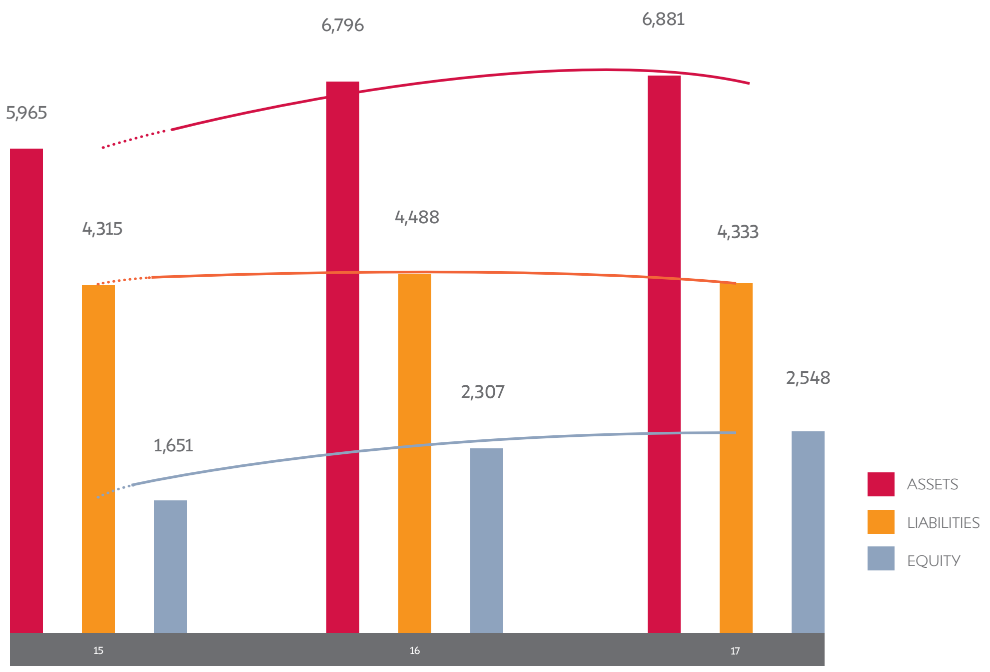
REVENUES
(IN PHP BILLIONS)



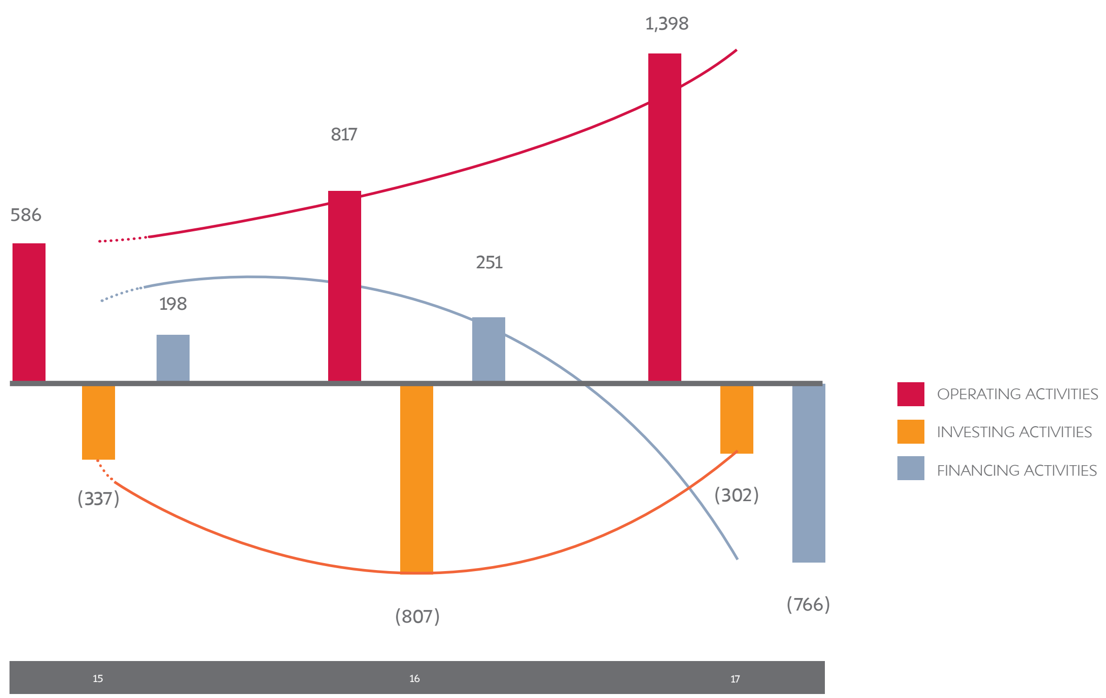
RESULT OF OPERATIONS

2017 Financial Highlights:

LBC Express, Inc. (Operating Unit)



FINANCIAL POSITION



CASH FLOW

LBC Express Holdings, Inc
and Subsidiaries

Consolidated Financial Statements

December 31, 2017 and 2016

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
LBC Express Holdings, Inc. and Subsidiaries

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 26 of the financial statements which describes the uncertainty related to the outcome of the case filed against LBC Express, Inc. (LBCE), among other respondents, by LBC Development Bank, Inc., as represented by its receiver and liquidator, the Philippine Deposit Insurance Corporation (PDIC) for collection of an alleged amount of ₱1.82 billion. The claim pertains to allegedly unpaid service fees from June 2006 to August 2011 and unpaid service charges on remittance transactions from January 2010 to September 2011.

LBCE and LBC Development Corporation (LBCDC), the ultimate parent company, together with other defendants, filed motions to dismiss the Complaint on January 12, 2016. In a Joint Resolution dated June 28, 2016, the Regional Trial Court (RTC) denied the motions to dismiss filed by all the defendants, including LBCE. Motions for reconsideration filed by the defendants were subsequently denied by the RTC in the Resolution dated February 16, 2017.

After filing motions for extension of time, LBCE and LBCDC filed their Answer with Counterclaims on April 10, 2017. In the Resolution dated June 15, 2017, the RTC denied the third motion for extension, declared all of the defendants including LBCE in default and ordered PDIC to present evidence ex-parte. LBCE and LBCDE filed a Verified Omnibus Motion for reconsideration and to lift the order of default. The other defendants filed similar motions, including a motion for inhibition. On July 21, 2017, LBCE received the Joint Resolution dated July 20, 2017, granting the Verified Omnibus Motions and the Motion for Inhibition, thereby lifting the order of default and admitting the Answers filed by all defendants.

The PDIC filed a Motion for Reconsideration dated August 7, 2017, seeking to reconsider the Joint Resolution dated July 20, 2017. The defendants, including LBCE and LBCDC have filed their respective comments thereto and the motion is currently pending resolution.

From August 10, 2017 to January 19, 2018, LBCE, LBCDC, the other defendants and PDIC were referred to mediation and Judicial Dispute Resolution (JDR) but were unable to reach a compromise agreement. The RTC ordered the mediation and JDR terminated and the case raffled to a new judge who will preside over the trial. To date, the parties are still awaiting the case to be raffled to another branch of the Makati RTC.

On April 24, 2017, LBCE and LBCDC filed a Petition for Certiorari with the Court of Appeals, challenging the RTC's June 28, 2016 Joint Resolution. The PDIC, LBCE, and LBCDC have filed their respective Comment, Reply, and Memoranda. The Petition for Certiorari was deemed submitted for resolution as of October 26, 2017 and is still pending.

The ultimate outcome of the case cannot presently be determined. In the opinion of management and in concurrence with its legal counsel, any liability of LBCE arising from the case is not probable and estimable at this point in time.

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 the 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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Assessment of potential liability in relation to the closure of LBC Development Bank, Inc.

The Parent Company's subsidiary, LBC Express, Inc. (LBCE), among other respondents, is involved in a case filed by LBC Development Bank, Inc., as represented by its receiver and liquidator, the Philippine Deposit Insurance Corporation (PDIC), for collection of an alleged amount of ₱1.82 billion. This is significant to our audit because the estimation of potential liability resulting from this case requires significant judgment by the management given the inherent uncertainty over its outcome. The Group's disclosures about the case and basis of management's assessments are included in Note 26 to the consolidated financial statements.

Audit Response

Our audit procedures focused on the evaluation of the management's assessment on whether any provision for potential liability should be recognized and the estimation of such amount. We held discussions with and obtained the written reply of the Group's external legal counsel on the status of the case and their assessment of any potential liability. We also sent a confirmation letter to PDIC and obtained their reply which we provided to the Group for them to reconcile with their records.

Other Information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

SGV
Building a better working world

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 Cyril Jasmin B. Valencia.

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1229-AR-1 (Group A),
May 12, 2015, valid until May 11, 2018
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621337, January 9, 2018, Makati City

March 15, 2018

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 21 and 22)	**₱3,778,408,492**	₱1,327,790,727
Trade and other receivables (Notes 5, 15, 21 and 22)	**1,675,801,822**	1,526,719,330
Due from related parties (Notes 15, 21 and 22)	**667,717,635**	1,107,999,329
Available-for-sale investments (Notes 9, 21 and 22)	**440,763,495**	250,937,154
Prepayments and other current assets (Notes 6, 21 and 22)	**446,131,160**	388,089,197
Total Current Assets	**7,008,822,604**	4,601,535,737
Noncurrent Assets		
Property and equipment (Note 7)	**976,053,401**	840,476,927
Intangible assets (Note 8)	**356,850,011**	266,047,661
Available-for-sale investments (Notes 9, 21 and 22)	**444,736,969**	458,391,174
Deferred tax assets - net (Note 18)	**289,524,039**	274,380,370
Security deposits (Note 19)	**255,426,919**	226,255,209
Other noncurrent assets (Note 6)	**92,164,977**	70,150,604
Total Noncurrent Assets	**2,414,756,316**	2,135,701,945
	₱9,423,578,920	₱6,737,237,682
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 10, 15, 21 and 22)	**₱1,603,110,735**	₱1,295,158,893
Due to related parties (Notes 15, 21 and 22)	**2,542,585**	18,254,029
Current portion of notes payable (Notes 12, 21 and 22)	**440,050,000**	666,715,500
Transmissions liability (Notes 11, 21 and 22)	**588,203,656**	467,284,795
Income tax payable	**125,020,186**	254,758,265
Current portion of lease liabilities (Notes 19, 21 and 22)	**30,691,524**	50,826,683
Total Current Liabilities	**2,789,618,686**	2,752,998,165
Noncurrent Liabilities		
Derivative liability (Notes 13, 21 and 22)	**1,860,373,479**	–
Bond payable (Notes 13, 21 and 22)	**896,185,059**	–
Retirement benefit liability (Note 20)	**705,325,767**	721,026,661
Notes payable - net of current portion (Notes 12, 21 and 22)	**601,250,000**	692,500,000
Lease liabilities - net of current portion (Notes 19, 21 and 22)	**87,031,857**	73,242,401
Other noncurrent liabilities (Notes 7, 8, 21 and 22)	**118,327,055**	34,477,440
Total Noncurrent Liabilities	**4,268,493,217**	1,521,246,502
	7,058,111,903	4,274,244,667
Equity (Note 14)		
Equity attributable to shareholders of the Parent Company		
Capital stock	**1,425,865,471**	1,425,865,471
Retained earnings	**659,288,179**	782,414,079
Accumulated comprehensive income	**326,920,319**	305,677,402
	2,412,073,969	2,513,956,952
Non-controlling interests	**(46,606,952)**	(50,963,937)
Total Equity	**2,365,467,017**	2,462,993,015
	₱9,423,578,920	₱6,737,237,682

See accompanying Notes to Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
SERVICE REVENUE (Note 23)	**₱10,020,116,486**	₱8,695,402,622	₱7,686,474,464
COST OF SERVICES (Note 16)	**6,606,032,273**	5,590,513,089	5,119,531,467
GROSS PROFIT	**3,414,084,213**	3,104,889,533	2,566,942,997
OPERATING EXPENSES (Note 17)	**2,066,636,094**	1,872,805,197	1,947,792,990
OTHER INCOME (CHARGES)			
Foreign exchange gains - net (Note 21)	**91,981,180**	143,233,568	108,110,678
Interest income (Notes 4 and 6)	**16,169,689**	2,365,500	1,539,555
Interest expense (Notes 12, 13, 15 and 19)	**(136,816,952)**	(63,493,537)	(43,314,537)
Loss on derivative (Note 13)	**(199,950,820)**	–	–
Others - net (Note 9)	**7,938,629**	10,900,924	1,447,367
	(220,678,274)	93,006,455	67,783,063
INCOME BEFORE INCOME TAX	**1,126,769,845**	1,325,090,791	686,933,070
PROVISION FOR INCOME TAX (Note 18)	**418,854,463**	411,150,046	270,632,174
NET INCOME	**707,915,382**	913,940,745	416,300,896
OTHER COMPREHENSIVE INCOME (LOSS)			
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on retirement benefit plan - net of tax (Notes 14 and 20)	**37,895,818**	(11,989,538)	(42,898,526)
Items that may be reclassified to profit or loss in subsequent periods			
Unrealized fair value gain (loss) on available-for-sale investments (Notes 9 and 14)	**(13,473,623)**	246,305,907	(64,364,214)
Currency translation gain (loss) - net (Note 14)	**(2,861,602)**	725,098	9,394,034
	21,560,593	235,041,467	(97,868,706)
TOTAL COMPREHENSIVE INCOME	**₱729,475,975**	₱1,148,982,212	₱318,432,190
NET INCOME ATTRIBUTABLE TO:			
Shareholders of the Parent Company	**₱703,876,073**	₱921,605,612	₱439,811,552
Non-controlling interests	**4,039,309**	(7,664,867)	(23,510,656)
NET INCOME	**₱707,915,382**	₱913,940,745	₱416,300,896
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Shareholders of the Parent Company (Note 25)	**₱725,118,990**	₱1,158,871,864	₱343,474,642
Non-controlling interests	**4,356,985**	(9,889,652)	(25,042,452)
TOTAL COMPREHENSIVE INCOME	**₱729,475,975**	₱1,148,982,212	₱318,432,190
EARNINGS PER SHARE (Note 25)			
Basic/Diluted	**₱0.49**	₱0.65	₱0.31

See accompanying Notes to Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Notes 1 and 14)	**Retained Earnings** (Note 14)	**Accumulated Comprehensive Income** (Note 14)	**Total**	**Non-controlling Interests**	**Total Equity**
	For the Year Ended December 31, 2017					
Balances as of January 1, 2017	**₱1,425,865,471**	**₱782,414,079**	**₱305,677,402**	**₱2,513,956,952**	**(₱50,963,937)**	**₱2,462,993,015**
Comprehensive income:						
Net income	–	**703,876,073**	–	**703,876,073**	**4,039,309**	**707,915,382**
Other comprehensive income	–	–	**21,242,917**	**21,242,917**	**317,676**	**21,560,593**
Total comprehensive income	–	**703,876,073**	**21,242,917**	**725,118,990**	**4,356,985**	**729,475,975**
Dividends declared	–	**(827,001,973)**	–	**(827,001,973)**	–	**(827,001,973)**
Balances as of December 31, 2017	**₱1,425,865,471**	**₱659,288,179**	**₱326,920,319**	**₱2,412,073,969**	**(₱46,606,952)**	**₱2,365,467,017**

	Capital Stock (Notes 1 and 14)	Retained Earnings (Note 14)	Accumulated Comprehensive Income (Note 14)	Total	Non-controlling Interests	Total Equity
	For the Year Ended December 31, 2016					
Balances as of January 1, 2016	₱1,425,865,471	₱174,498,871	₱68,411,150	₱ 1,668,775,492	(₱41,074,285)	₱1,627,701,207
Comprehensive income:						
Net income (loss)	–	921,605,612	–	921,605,612	(7,664,867)	913,940,745
Other comprehensive income (loss)	–	–	237,266,252	237,266,252	(2,224,785)	235,041,467
Total comprehensive income (loss)	–	921,605,612	237,266,252	1,158,871,864	(9,889,652)	1,148,982,212
Dividends declared	–	(313,690,404)	–	(313,690,404)	–	(313,690,404)
Balances as of December 31, 2016	₱1,425,865,471	₱782,414,079	₱305,677,402	₱2,513,956,952	(₱50,963,937)	₱2,462,993,015

	Capital Stock (Notes 1 and 14)	Additional Paid-In-Capital (Notes 2 and 14)	Retained Earnings (Notes 2 and 14)	Accumulated Comprehensive Income (Loss) (Note 14)	Equity Reserve (Note 2)	Total	Non-controlling Interests	Total Equity
	For the Year Ended December 31, 2015							
Balances as of January 1, 2015	₱40,899,000	₱71,081,190	₱133,861,985	₱164,748,060	₱929,200,314	₱1,339,790,549	(₱13,925,063)	₱1,325,865,486
Issuance of capital stocks	1,384,966,471	–	–	–	–	1,384,966,471	–	1,384,966,471
Share issuance cost	–	(15,660,863)	–	–	–	(15,660,863)	–	(15,660,863)
Effect of pooling-of-interest	–	–	–	–	(1,383,795,307)	(1,383,795,307)	–	(1,383,795,307)
Equity reserve closed to additional paid-in-capital and retained earnings	–	(55,420,327)	(399,174,666)	–	454,594,993	–	–	–
Comprehensive income:								
Net income (loss)	–	–	439,811,552	–	–	439,811,552	(23,510,656)	416,300,896
Other comprehensive loss	–	–	–	(96,336,910)	–	(96,336,910)	(1,531,796)	(97,868,706)
Total comprehensive income (loss)	–	–	439,811,552	(96,336,910)	–	343,474,642	(25,042,452)	318,432,190
Decrease in non-controlling interest	–	–	–	–	–	–	(2,106,770)	(2,106,770)
Balances as of December 31, 2015	₱1,425,865,471	₱–	₱174,498,871	₱68,411,150	₱–	₱1,668,775,492	(₱41,074,285)	₱1,627,701,207

See accompanying Notes to Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,126,769,845**	₱1,325,090,791	₱686,933,070
Adjustments for:			
Depreciation and amortization (Notes 7, 8, 16 and 17)	**320,756,856**	295,345,105	259,384,441
Loss on derivative (Note 13)	**199,950,820**	–	–
Interest expense (Notes 12,13, 15 and 19)	**136,816,952**	63,493,537	43,314,537
Retirement expense, net of benefits paid and contribution to retirement plan (Notes 16,17 and 20)	**38,435,988**	62,086,673	38,622,205
Unrealized foreign exchange gain (loss) - net	**14,975,028**	(3,949,023)	(170,476)
Gain on disposal of property and equipment and intangible assets (Notes 7 and 8)	**(2,145,151)**	(443,662)	(1,736,918)
Realized gain on redemption/sale of available-for-sale investments	**(4,361,295)**	(579,059)	–
Interest income (Notes 4 and 6)	**(16,169,689)**	(2,365,500)	(1,539,555)
Operating income before changes in working capital	**1,815,029,354**	1,738,678,862	1,024,807,304
Changes in working capital:			
Decrease (increase) in:			
Trade and other receivables	**(146,353,368)**	(59,959,808)	(17,585,364)
Prepayments and other current assets	**(58,041,963)**	55,215,242	(173,309,862)
Security deposits	**(29,171,710)**	(16,324,275)	(37,118,892)
Increase (decrease) in:			
Accounts and other payables (Notes 7, 8 and 24)	**263,449,497**	(538,852,457)	85,268,161
Transmissions liability	**120,918,861**	(40,854,962)	149,181,428
Net cash generated from operations	**1,965,830,671**	1,137,902,602	1,031,242,775
Interest received	**13,440,565**	2,365,500	1,539,555
Income tax paid	**(579,977,276)**	(331,353,486)	(99,689,702)
Net cash provided by operating activities	**1,399,293,960**	808,914,616	933,092,628
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Redemption of investments in UITF classified as available-for-sale investments (Note 9)	**1,206,361,295**	150,000,000	–
Disposal of property and equipment and intangible assets	**5,639,892**	13,454,663	17,707,641
Sale of available-for-sale investments	**–**	991,525	–
Acquisitions of:			
Intangible assets (Notes 8 and 24)	**(38,449,650)**	(20,471,368)	(36,693,506)
Property and equipment (Notes 7 and 24)	**(354,905,072)**	(294,255,624)	(312,060,184)
Available-for-sale investments (Note 9)	**(1,394,016,400)**	(400,757,920)	–
Increase in other noncurrent assets (Note 6)	**(13,014,373)**	(8,344,513)	(6,445,494)
Increase in due from related parties (Note 24)	**(259,183,593)**	(51,967,085)	(523,484,110)
Advances to a stockholder (Note 1)	**–**	–	(58,805,165)
Payment of cash to effect reverse acquisition	**–**	–	(1,325,865,801)
Net cash used in investing activities	**(₱847,567,901)**	(₱611,350,322)	(₱2,245,646,619)

(Forward)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of convertible bond (Notes 13 and 24)	**₱2,505,658,750**	₱–	₱–
Proceeds from notes payable	**369,899,521**	1,423,701,286	1,791,790,300
Proceeds from issuance of stocks (net of stock issuance cost)	**–**	–	1,369,305,608
Decrease in due to related parties (Note 24)	**(15,711,444)**	371,346	187,200,107
Payments of lease and other noncurrent liabilities (Note 24)	**(45,924,991)**	(53,894,808)	(84,858,055)
Interest paid (Note 24)	**(75,601,767)**	(61,773,899)	(43,314,537)
Dividends paid (Note 24)	**(127,536,686)**	(48,375,985)	–
Payments of notes payable (Notes 12 and 24)	**(687,815,021)**	(1,105,103,619)	(1,465,952,467)
Net cash provided by financing activities	**1,922,968,362**	154,924,321	1,754,170,956
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,474,694,421**	352,488,615	441,616,965
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(24,076,656)**	(3,800,377)	9,570,984
CASH OF THE PARENT COMPANY UPON OBTAINING CONTROL	**–**	–	23,120
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,327,790,727**	979,102,489	527,891,420
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,778,408,492**	₱1,327,790,727	₱979,102,489

See accompanying Notes to Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

LBC Express Holdings, Inc. (referred to as the “Parent Company” or “LBCH”), formerly Federal Resources Investment Group Inc. (FED), was registered with the Securities and Exchange Commission (SEC) on July 12, 1993 with a corporate life of 50 years.

The ultimate parent of the Parent Company is LBC Development Corporation (LBCDC).

The Parent Company undertook an Initial Public Offering and on December 21, 2001, LBCH’s shares were listed on the Philippine Stock Exchange (PSE).

The Parent Company invests, purchases or disposes real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation, association, domestic and foreign.

The Parent Company is a public holding company with investments in businesses of messengerial either by sea, air or land of letters, parcels, cargoes, wares, and merchandise; acceptance and remittance of money, bills payment and the like; and performance of other allied general services from one place of destination to another within and outside of the Philippines.

The Parent Company’s registered office address is at LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila, Philippines.

On April 22, 2015, the Parent Company received deposits for future stocks subscription from LBCDC amounting to ₱59,100,000.

On April 23, 2015, the Board of Directors (BOD) of the Parent Company approved the issuance of 59,101,000 common shares, at ₱1.00 per share, out of the unissued portion of the Parent Company’s authorized capital stock to LBCDC.

On May 18, 2015, the Parent Company and LBCDC entered into a Deed of Subscription, whereby LBCDC, subject to the completion of the mandatory tender offer, subscribed to 59,101,000 common shares out of the unissued authorized capital stock of the Parent Company or approximately 59.10% of the total authorized capital stock of the Parent Company by applying the deposits for future stocks subscription received on April 22, 2015 as the consideration for the subscribed shares at one peso (₱1.00) per share. Accordingly, on the same date, the Parent Company’s previous officers and directors resigned from their respective positions and majority were replaced by the representatives from LBCDC.

On May 18, 2015, a former stockholder entered into a Deed of Assumption of Advances with LBCDC; wherein, LBCDC agreed to assume the cash advances from the Parent Company by a former stockholder which transpired on April 28, 2015 amounting to ₱58,805,165. Accordingly, the Parent Company agreed to such assumption.

On May 22, 2015, LBCDC filed with the SEC its mandatory tender offer report for all the outstanding shares of the Company for a tender offer price of one peso (₱1.00) per share. The mandatory tender offer period commenced on June 8, 2015 and ended on July 7, 2015, during which period, none of the Tender Offer Shares were tendered by the shareholders of the Parent Company.

On July 14, 2015, LBCDC filed with the SEC its final tender offer report. With the completion of the Tender Offer, LBCDC now owns 59,101,000 common shares representing approximately 59.10% of the issued and outstanding and authorized capital stock of the Parent Company.

On July 22, 2015, the Parent Company issued the stock certificates to LBCDC covering the 59,101,000 common shares subject of the said subscription.

On July 29, 2015 and September 4, 2015, the BOD and stockholders, respectively, approved the following resolutions on the amendment to Charter, By-Laws and other documents:

- The change in the name of Parent Company to “LBC Express Holdings, Inc.”;
- The amendment of the secondary purpose of Parent Company which is primarily to align the purpose to that of a holding company;
- The transfer of Parent Company’s principal office address to LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila, Philippines;
- The increase in the number of directors of Parent Company from seven to nine;
- The increase in the authorized capital stock of Parent Company from ₱100,000,000 divided into 100,000,000 shares with par value of ₱1.00 per share up to ₱3,000,000,000 divided into 3,000,000,000 shares with par value of ₱1.00 per share;
- The change in the fiscal year of Parent Company from calendar year to first day of December of each year to the last day of November of the succeeding year; and
- The definition of dividends.

On July 29, 2015, the BOD approved the change of the trading symbol of the Parent Company’s shares in the PSE from “FED” to “LBC”.

On September 18, 2015, the BOD determined and fixed the amount of the increase in authorized capital stock of Parent Company from ₱100,000,000 divided into 100,000,000 shares with par value of ₱1.00 per share to ₱2,000,000,000 divided into 2,000,000,000 with par value of ₱1.00 per share, and authorized the filing of the increase in authorized capital stock with the SEC.

Moreover, the BOD of Parent Company, in meetings held on July 29, 2015, September 18, 2015 and October 2, 2015, as relevant, and the stockholders of LBCH in the annual general meeting held on September 4, 2015, also approved among others the following transactions:

- The acquisition by the Parent Company of 1,041,180,493 issued and outstanding shares of LBC Express, Inc. (LBCE) at a book value as reflected in the consolidated audited financial statements of LBCE as of November 30, 2014, which book value shall not be less than ₱1,000,000,000 or such other consideration and under such terms and conditions as management may deem beneficial to the interest of the Parent Company;
- The issuance of 475,000,000 new Parent Company shares to LBCDC at the subscription price of ₱1.00 per share out of the increase in authorized capital stock from ₱100,000,000 to ₱2,000,000,000;
- The issuance of 671,873,632 new Parent Company shares to LBCDC out of the increase in authorized capital stock, immediately following the approval by the SEC of the increase in authorized capital stock at the subscription price of ₱1.00 per share, under such terms and conditions as management may deem beneficial;
- The issuance of (i) 59,663,947 shares to Vittorio Lim, (ii) 59,663,946 shares to Mariano D. Martinez, Jr. and (iii) 59,663,946 shares to Lowell L. Yu, or an aggregate of 178,991,839 common shares, from the unissued authorized capital stock of the Parent Company, immediately following the approval by the SEC of the increase in authorized capital stock at the subscription price of ₱1.00 per share, under such terms and conditions as management may deem beneficial.

The foregoing issuances of stocks to LBCDC and/or other investors and/or third parties (with reference to LBCDC or LBCE) was for the purpose of:

- Primarily funding the acquisition by Parent Company of LBCE;
- Funding the acquisition of other potential investments, whether or not related to the business of LBCE; and
- Ensuring compliance by the Parent Company with the minimum public ownership requirements of the PSE.

On September 18, 2015, LBCDC subscribed to 25% of 1,900,000,000 increase in authorized capital stock or equivalent to 475,000,000 common shares at the subscription price of ₱1.00 per share, ₱177,555,495 of which, is immediately paid in cash, conditioned upon and effective immediately following the approval by the SEC of the increase in authorized capital stock.

On the same date, LBCDC subscribed to additional 671,873,632 common shares out of the unissued capital stock of the Parent Company at the subscription price of ₱1.00 per share, in exchange for cash, conditioned upon and effective immediately following the approval by the SEC of the increase in authorized capital stock.

On September 22, 2015, the Parent Company submitted an application for the increase in authorized capital stock from one hundred million pesos (₱100,000,000) divided into one hundred million (100,000,000) shares with par value of one peso (₱1.00) per share to two billion pesos (₱2,000,000,000) divided into two billion number of shares with par value of one peso (₱1.00) per share. On the same date, the amendments to the Articles of Incorporation and By-Laws, except for the change in fiscal year, were likewise submitted to the SEC.

In a Deed of Transfer dated September 24, 2015, the Parent Company purchased from LBCDC the shares of stock of LBCE at a total cash consideration of ₱1,384,670,966. It was also previously agreed that the Parent Company’s advances payable by LBCDC amounting to ₱58,805,495 will be offset against the remaining unpaid balance.

On October 2, 2015, certain individuals subscribed to a total of 178,991,839 common shares out of the unissued capital stock of LBCH at the subscription price of ₱1.00 per share, in exchange for cash, conditioned upon and effective immediately following the approval by the SEC of the increase in authorized capital stock.

On October 12, 2015, SEC approved the increase in authorized capital stock of the Parent Company. On the same date, SEC issued a certificate of filing of the Parent Company’s amended Articles of Incorporation and amended By-Laws.

On October 16, 2015, the Parent Company issued the stock certificates to LBCDC covering the 1,146,873,632 common shares while on October 21, 2015 the Parent Company issued the stock certificates to certain individuals covering 178,991,839 common shares.

The accompanying consolidated financial statements of the Parent Company and its subsidiaries have been approved and authorized for issue by the Group's BOD on March 15, 2018.

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

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

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost basis except for available-for-sale (AFS) investments and derivatives that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), which is also the Group's functional currency. All amounts are rounded off to the nearest peso unit unless otherwise indicated.

Difference in accounting periods
The Group consolidated the non-coterminous financial statements of its subsidiaries using their November 30 fiscal year end financial statements since it is impracticable for the said subsidiaries to prepare financial statements as of the same date as the reporting date of the Parent Company.

Management exercised judgment in determining whether adjustments should be made in the consolidated financial statements of the Group pertaining to the effects of significant transactions or events of its subsidiaries that occur between December 1, 2017 and the year-end date of the Parent Company's financial statements which is December 31, 2017. The consolidated financial statements were adjusted to effect LBCE's additional availment and settlement of bank loans in December 2017 amounting to ₱150.00 million and ₱161.25 million, respectively; the additional placement and termination of unquoted AFS investment in December 2017 amounting to ₱100.12 million and ₱40.07 million, respectively, the adjustment to reflect the increase in fair value of quoted AFS investment by ₱27.31 million for the period December 1 to December 31, 2017, and the recognition of marketable securities and other short-term investment under 'Prepaid and other current assets' in December 2017 amounting to ₱4.02 million and ₱0.40 million, respectively.

In December 2016, the consolidated financial statements were adjusted to effect LBCE's additional availment and settlement of bank loans amounting to ₱136.72 million and ₱246.24 million, respectively; the adjustment to reflect the increase in fair value of quoted AFS investment by ₱50.72 million for the period December 1 to December 31, 2016, and the settlement of advances to an affiliate on December 21, 2016 amounting to ₱198.00 million.

Aside from these, there were no other significant transactions that transpired between December 1, 2017 to December 31, 2017, and between December 1, 2016 to December 31, 2016.

Reverse acquisition
On September 24, 2015, the Parent Company completed the acquisition of LBCE through a cash transaction (see Note 1). For accounting purposes, the transaction was accounted for similar to a reverse acquisition following Philippine Financial Reporting Standard (PFRS) 3, *Business Combination.* LBCE was deemed to be the accounting acquirer under the principles of PFRS 3. In a reverse acquisition, the legal acquirer is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal acquiree is adjudged to be the entity that gained control over the legal acquirer. Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the consolidated financial statements of LBCE. The comparative December 31, 2015 information presented in the consolidated statements of comprehensive income are those of LBCE from December 1, 2014 to November 30, 2015 and the Parent Company from July 22, 2015 to November 30, 2015. Because the consolidated financial statements represent a continuation of the consolidated financial statements of LBCE, except for their capital structure, the consolidation will reflect the following:

Before the asset purchase transaction (as at and for the year ended December 31, 2014)

a) the assets and liabilities of LBCE recognized and measured at their carrying amounts, not at their acquisition-date fair values;
b) the retained earnings and other equity balances are that of LBCE;
c) the total equity is that of LBCE but the legal capital (common shares and additional paid-in capital) would be that of the Parent Company;
d) the resulting equity reserve represents (1) the difference between the legal capital of LBCE and the legal capital of the Parent Company; and (2) and the subsequent movement in legal capital of LBCE; and
e) the consolidated statement of comprehensive income reflects that of LBCE for the full period and that of LBCH from the date of incorporation.

After the asset purchase transaction (as at and for the year ended December 31, 2015)

a) the transferred assets and liabilities of LBCE recognized and measured at the pre-combination carrying amounts, not at acquisition-date fair values;
b) legal capital of the Parent Company;
c) the retained earnings of LBCE as of December 1, 2014 and accumulated comprehensive income of the Parent Company from July 22, 2015 to December 31, 2015 and LBCE from December 1, 2014 to November 30, 2015;
d) the comparative consolidated statement of comprehensive income reflected that of LBCE from December 1, 2014 to November 30, 2015, and the statement of comprehensive income of the Parent Company from July 22, 2015 to December 31, 2015.

Impact of the share purchase agreement which was executed on September 24, 2015 to the consolidated financial statements

The effect of the execution of the deed of transfer was reflected in the consolidated financial statements as movement in equity, as follows:

Investment recognized by the Parent Company	₱1,384,670,966
Net assets of the Parent Company	875,659
	₱1,383,795,307

The effect of pooling of interest of ₱1,383.80 million is applied against net available APIC of ₱55.42 million, and the remaining amount of ₱399.17 million is applied against retained earnings.

The rollforward analysis of Equity Reserve are as follows:

As of January 1, 2014	₱57,794,310
Movement in legal capital of LBCE arising from dividends declared closed to equity reserve	871,406,004
As of December 31, 2014	929,200,314
Effect of pooling-of-interest	(1,383,795,307)
Total	(454,594,993)
Closed to APIC	55,420,327
Closed to retained earnings	399,174,666
As of December 31, 2015	₱–

The accounting similar to a reverse acquisition applies only to the consolidated financial statements. The Parent Company financial statements will continue to represent LBC Express Holdings, Inc. as a stand-alone entity.

Basis of Consolidation
The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2017, 2017 and 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group 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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interests (NCI) represent the portion of profit or loss and net assets in subsidiaries not owned by the Group and are presented separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from the Parent Company's equity.

Any equity instruments issued by a subsidiary that are not owned by LBCH are non-controlling interests including preferred shares and options under share-based transactions.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of LBCH and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- 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 LBCH's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

The consolidated financial statements include the financial statements of LBCH and the following subsidiaries:

	Country of incorporation	Principal activities	Ownership Interest 2017	2016
LBC Express, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - MM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - CL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - NL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - VIS, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SCS, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express Corporate Solutions, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - CMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - EMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - MIN, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SEL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - WVIS, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SEM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SCC, Inc.	Philippines	Logistics and money remittance	**100%**	100%
South Mindanao Courier Co., Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - NEMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - NWMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Systems, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express Bahrain, LLC	Bahrain	Logistics	**49%**	49%
LBC Express WLL	Kuwait	Logistics	**49%**	49%
LBC Express LLC (1)	Qatar	Logistics	**49%**	49%

Note:
1) This entity is a subsidiary of LBC Express WLL which has 49% ownership interest.

There were no changes in the Parent Company's ownership interests in its subsidiaries from January 1, 2014 to December 31, 2017.

Non-Controlling Interests
As at November 30, 2017, the Group has subsidiaries with non-controlling interests. Percentage of equity held by non-controlling interests in 2017 and 2016 are as follows:

	Country of incorporation	**2017**	2016
LBC Express Bahrain, LLC	Bahrain	**51%**	51%
LBC Express WLL	Kuwait	**51%**	51%
LBC Express LLC	Qatar	**26%**	26%

Business Combination and Goodwill
Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed in the consolidated statement of comprehensive income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Each unit or group of units to which the goodwill is allocated:
- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with PFRS 8, *Operating Segment.*

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

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill or profit or loss is recognized as a result.

Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended standards and improvements to PFRS which the Group has adopted starting January 1, 2017.

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

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

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

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*

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

  The Group has provided the required information in Note 24 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the years ended December 31, 2016 and 2015.

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

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

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted. These amendments do not have any impact on the Group's financial statements.

<u>Standards issued but not yet effective</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its interim condensed consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

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

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

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

  The Group has assessed that the adoption of these amendments will not have impact to its consolidated financial statements because it does not have share-based payment arrangements.

- PFRS 9, *Financial Instruments*

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

  The Group plans to adopt the new standard on the mandatory effective date.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption is expected to impact the assessment of the Group's credit losses amount.

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

  The Group is currently assessing the impact of this Standard.

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

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

  These amendments are not expected to have any impact to the Group.

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

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

  These amendments are not expected to have any impact to the Group.

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

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

  The Group is currently assessing the impact of the adoption of the interpretation in its consolidated financial statements.

Effective beginning on or after January 1, 2019

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

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

  The amendments will have no significant impact on the Group's financial position or performance.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

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

  The Group plans to adopt the new standard on the required effective date once adopted locally. This standard is expected to significantly impact its leasing arrangements as lessee for its branches which are currently accounted for as operating leases, as the Group is already required to recognize the right of use assets and liabilities in its statements of financial position. It will also increase disclosures in the financial statements. The Standard does not have significant impact as a lessor.

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

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

  These amendments are not expected to have any impact to the Group.

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

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

  The interpretation specifically addresses the following:
  - whether an entity considers uncertain tax treatments separately
  - the assumptions an entity makes about the examination of tax treatments by taxation authorities
  - how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - how an entity considers changes in facts and circumstances

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

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

Deferred effectivity

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

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

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

  These amendments are not expected to have any impact to the Group.

Significant Accounting Policies and Disclosures

Cash and Cash Equivalents
Cash and cash equivalents are stated at face value. Cash includes cash on hand and cash in banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the dates of placement and that are subject to an insignificant risk of changes in value. Cash in banks and cash equivalents earn interest at prevailing bank deposit rates.

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

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 Group.

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

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset on the highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, 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 Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Assets and Financial Liabilities

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

Initial recognition of financial assets and financial liabilities
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets within the scope of PAS 39 in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, AFS financial assets and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the financial assets were acquired or financial liabilities incurred and whether they are quoted in an active market.

The Group determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

As of December 31, 2017 and 2016, the Group's financial assets and financial liabilities are of the nature of loans and receivables, AFS financial assets and derivative liability, bond payable and other financial liabilities, respectively.

Determination of fair value
The fair value of financial assets and financial liabilities traded in active markets is based on quoted market price at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily of listed equity investments as AFS.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. The amortization is included in the interest income in the consolidated statement of comprehensive income. The losses arising from impairment of such loans and receivables are recognized as provision for impairment losses in the Group's consolidated statement of comprehensive income.
Loans and receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2017 and 2016, the Group's loans and receivables include cash and cash equivalents, trade and other receivables (except advances to officers and employees), due from related parties, and short-term investments under prepayments and other current assets.

Available-for-sale financial assets
AFS financial assets pertain to equity investments. Equity instruments classified as AFS are those that are neither classified as held for trading nor designated as FVPL.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited to unrealized gain (loss) on AFS financial assets account until the investment is derecognized, at which time the cumulative gain or loss is recognized in other income, or the investment is determined to be impaired, when the cumulative loss is reclassified from unrealized gain (loss) on AFS financial assets account to the consolidated statement of profit or loss in other expenses. Dividend earned whilst holding AFS financial assets is reported as dividend income.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

Embedded derivatives
An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives are bifurcated from their host contracts, when the following conditions are met:
(a) the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets and liabilities at FVPL;
(b) when their economic risks and characteristics are not closely related to those of their respective host contracts; and
(c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in profit or loss. The embedded derivatives of the Group pertains to the equity conversion and redemption options components of the issued convertible debt instrument (see Note 13).

Other financial liabilities
Other financial liabilities pertain to financial liabilities not classified or designated as financial liabilities at FVPL where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral parts of the effective interest rate.

As of December 31, 2017 and 2016, the Group's other financial liabilities include accounts and other payables (excluding statutory liabilities), due to related parties, notes payable, transmissions liability, finance lease liabilities, other noncurrent liabilities and bond payable.

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

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

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

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

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

Available-for-sale financial assets
The Group assesses at each reporting date whether there is objective evidence that investment is impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Generally, the Group treats 'significant' as 20% or more and 'prolonged' as greater than twelve months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss is removed from equity and recognized in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss, but its increases in the fair value after impairment are recognized directly in other comprehensive income.

Derecognition of Financial Assets and Financial Liabilities
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:
a) the rights to receive cash flows from the asset have expired, or
b) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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

Prepayments and Other Assets
Prepayments substantially consisting of rent and advertising are recognized in the event that payment has substantially been made in advance for the purchase of goods or services for which delivery or performance has not yet occurred. Prepayments are measured at undiscounted amounts and derecognized in the consolidated statement of financial position as they expire with the passage of time, or through use and consumption.

Materials and supplies consist of the supplies, inks, packing materials and receipt used in the Group's operations. Materials and supplies are initially measured at the cost of purchase, which comprise the purchase price less trade discounts, rebates and other similar deductions. Materials and supplies are subsequently measured at the lower of cost and net realizable value. Cost is determined using average cost formula. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Materials and supplies are derecognized when consumed.

Other assets in the form of input value-added tax and creditable withholding tax are recognized as assets to the extent it is probable that the benefit will flow to the Group. These are derecognized when there is a legally enforceable right to apply the recognized amounts against the related tax liability within the period prescribed by the relevant tax laws.

Input Value-Added Taxes (VAT)
Input tax represents the VAT due or paid on purchases of goods and services subjected to VAT that the Group can claim against any future liability to the Bureau of Internal Revenue (BIR) for output VAT on sale of goods and services subjected to VAT. The input tax can also be recovered as tax credit under certain circumstances against future income tax liability of the Group upon approval of the BIR and/or Bureau of Customs. Input tax is stated at its estimated net realizable values. A valuation allowance is provided for any portion of the input tax that cannot be claimed against output tax or recovered as tax credit against future income tax liability. Input tax is recorded under current and noncurrent assets in the statement of financial position.

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

Creditable withholding taxes
Creditable withholding taxes (CWTs) are amounts withheld from income, which are applied as credit against income taxes, subject to documentary requirements. Creditable withholding taxes that are expected to be utilized as payment for income taxes within 12 months are classified as current asset.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price, taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization is calculated on a straight-line method over the following estimated useful lives of the property and equipment:

	Years
Computer hardware	3 to 5
Furniture, fixtures and office equipment	3 to 5
Transportation equipment	3 to 10
Leasehold improvements	2 to 8 or lease term (whichever is shorter)

Construction in progress is stated at cost. Construction in progress is not depreciated until such time as the relevant assets are completed and available for use.

The assets' residual value, estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment. The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the property and equipment) is credited to or charged against profit or loss in the year the property and equipment is derecognized.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the consolidated statement of comprehensive income in the period in which the expenditure is incurred.

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

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

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

Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

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

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

<u>Impairment of Nonfinancial Assets</u>
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

<u>Employee Benefits</u>
The Group has a noncontributory defined retirement benefit plan. The net defined retirement benefit liability or asset is the aggregate of the present value of the defined retirement benefit liability at the end of reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service costs
- net interest on the net defined benefit liability or asset
- remeasurements of net defined benefit liability or asset

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

Net interest on the net defined retirement benefit liability or asset is the change during the period in the net defined retirement 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 retirement benefit liability or asset. Net interest on the net defined retirement 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 retirement 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. All remeasurements recognized in OCI account, "Remeasurement gains (losses) on retirement benefit plan", are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. 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 liabilities). If the fair value of the plan assets is higher than the present value of the defined retirement benefit liability, the measurement of the resulting defined retirement 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 Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit retirement liability is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

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

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

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave credits in excess of 45 days is expected to be settled wholly within twelve months after the end of the annual reporting date. Earned leave credits of 45 days is recognized as a liability and settled when the employee leaves the Group subject to certain conditions.

<u>Equity</u>
The Group considers the underlying substance and economic reality of its own equity instruments and not merely its legal form in determining its proper classification.

Capital stock
The Group records common stocks at par value and the amount of the contribution in excess of par value is accounted for as an additional paid-in capital. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Retained earnings
Retained earnings represent accumulated earnings of the Group less dividends declared, and any adjustments arising from application of new accounting standards, policies or corrections of errors applied retrospectively. Dividends on common stocks are recognized as a liability and deducted from equity when declared.

Equity reserve
Equity reserve is the result of the application of similar to a pooling-of-interest which represents the difference between the legal capital of the legal acquiree/accounting acquirer as against the legal capital of the legal acquirer/accounting acquiree.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless when the payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, returns, rebates and sales tax. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent.

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

Service fees
The Group recognizes revenue from inbound and outbound courier, cargo and money transfer facilities when services are rendered and delivered, risk and rewards are transferred to customers and collection of amounts billed to customers are reasonably assured.

Service arising from money transfer is considered to have been rendered when the principal amount of money has been transferred to the intended branch and the same is ready for withdrawal by the intended beneficiary.

Interest income
Interest income is recognized on a time-proportion basis using the effective interest method. Interest income from bank deposits is presented net of applicable tax withheld by the banks.

Other income
Other income is recognized when earned.

<u>Cost and Expense Recognition</u>
Cost and expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be reliably measured.

Cost and expenses are recognized in the consolidated statement of comprehensive income:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:
(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or,
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date, the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognized as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Income Taxes
The tax expense for the period comprises of current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

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

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

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

Deferred tax assets are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures.

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

Deferred tax assets and 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 reporting date. Movements in the deferred tax assets and liabilities arising from changes in tax rates are credited to or charged against income for the period.

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

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

Foreign Currency-Denominated Transactions and Translations
Foreign currency transactions are recorded in Philippine Peso at prevailing exchange rates at the time of the transactions. Exchange gains or losses resulting from foreign currency transactions are credited or charged to current operations. Foreign currency-denominated monetary assets and liabilities of the Group are translated to Philippine Peso using the Philippine Dealing and Exchange Corporation closing rate at the reporting date. Foreign exchange differences arising from foreign currency translation are also credited or charged to consolidated statement of comprehensive income.

The results and financial position of all the Group's branches outside the Philippines (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
(ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognized in other comprehensive income.

Earnings Per Share ("EPS")
Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

Segment Reporting
The Executive Committee is the Group's chief operating decision-maker. Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee. The Executive Committee, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of comprehensive income net of any reimbursement. Provisions are included in current liabilities, except for those with maturities greater than 12 months after the reporting period, which are then classified as noncurrent liabilities. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is recognized in profit or loss.

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Management believes the following represent a summary of these significant judgments, estimates and assumptions:

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

Consolidation of entities in which the Group holds less than 50% ownership
LBCE has assessed that it controls the entities in Bahrain, Kuwait and Qatar even at 49% ownership due to the following reasons:
(a) it has the power to direct the relevant activities (e.g. operations, hiring of people, setting up of rates) of the entities. It has the full discretion on its day to day operations and decides on major transactions these entities enter into.
(b) it is exposed to variable returns of the entities.
(c) given its participation in the relevant activities of the entities, it is able to affect the returns of the entities.

Determining functional currency
LBCH and its subsidiaries have determined that their functional currency is the Philippine Peso, except for LBC Express WLL, LBC Express Bahrain WLL and LBC Express LLC which are in Kuwaiti Dinar, Bahraini Dinar and Qatari Riyal, respectively. It is the currency of the primary economic environment in which the entities operate.

Lease commitments - Group as lessee
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the significant risks and rewards incidental to ownership of the leased items, are classified as finance lease. Otherwise, these are considered as operating leases.

The Group has entered into various lease arrangements for its business operations (see Note 19). In determining whether the lease is cancellable or not, the Group considered, among others, the significance of the lease term as compared with the estimated useful life of the related asset. The Group has determined, based on an evaluation of the terms and conditions of the arrangement, that the lessor retains all the significant risks and rewards of ownership of the leased property and so accounts for the contract as operating lease.

For leases involving transportation equipment, the Group has determined that it retains all significant risks and rewards of ownership of the leased properties and so accounts for the contracts as finance lease.

Determining provisions and contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolutions of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

No provision for probable losses arising from legal contingencies was recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016 (see Note 26).

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Estimating allowance for doubtful accounts
The Group reviews its loans and receivables, including unbilled receivables, at each financial reporting date to assess whether an allowance for impairment should be recorded in the consolidated statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance

required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The Group evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Group uses judgment, based on available facts and circumstances, and a review of the factors that affect the collectability of the accounts including, but not limited to, the age and status of the receivables, collection experience and past loss experience. The review is made by management on a continuing basis to identify accounts to be provided with allowance. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for doubtful accounts would increase the recorded operating expenses and decrease current assets.

Trade and other receivables, net of allowance for doubtful accounts, amounted to ₱1,675.80 million and ₱1,526.72 million as of December 31, 2017 and 2016, respectively (see Note 5).

Estimating useful lives of property and equipment
The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on expected asset utilization and historical experience. 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. A reduction in the estimated useful lives of property and equipment would increase the recorded depreciation and decrease the carrying value of property and equipment.

The carrying amount of property and equipment amounted to ₱976.05 million and ₱840.48 million as of December 31, 2017 and 2016, respectively (see Note 7).

Estimating pension cost
The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and attrition. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rate of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation adjusted based on the manner of cash outflow of settling the pension liability.

The mortality rate is based on publicly available mortality tables in the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases is based on expected salary rate increase over the duration of the obligation. Attrition rate is based on historical experiences. Further details about the assumptions used are provided in Note 20.

The carrying amount of pension liabilities, net of plan assets, amounted to ₱705.33 million and ₱721.03 million as of December 31, 2017 and 2016, respectively (see Note 20).

Recognizing deferred tax assets
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Realization of future tax benefit related to deferred tax assets is dependent on the Group's ability to generate future taxable income during the periods in which they are expected to be recovered. The Group has considered factors in reaching a conclusion as to the amount of deferred tax assets recognized as at December 31, 2017 and 2016. Management believes that the Group will be able to generate future taxable income to allow for the realization of deferred tax assets.

Based on management's assessment, the Group recognized net deferred tax assets amounting to ₱289.52 million and ₱274.38 million as of December 31, 2017 and 2016, respectively (see Note 18).

Estimating fair value of embedded derivatives
The fair value of embedded derivatives, related to the issuance of convertible bond recorded in the consolidated statement of financial position as derivative liability, is measured using binomial pyramid model. The inputs to this model are taken from a combination of observable markets and unobservable market data. Changes in inputs about these factors could affect the reported fair value of the embedded derivatives and impact profit or loss (see Note 22).

The carrying value of the derivative liability amounted to ₱1,860.37 million as at December 31, 2017.

4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱264,057,974**	₱174,890,603
Cash in banks	**1,103,336,745**	939,534,180
Cash equivalents	**2,411,013,773**	213,365,944
	₱3,778,408,492	₱1,327,790,727

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

Cash in banks and cash equivalents earn interest ranging from 0.25% to 2.00% and 0.25% to 2.25% per annum in 2017 and 2016, respectively. Interest income earned from cash and cash equivalents amounted to ₱16.04 million, ₱1.91 million and ₱1.54 million in 2017, 2016 and 2015, respectively.

5. Trade and Other Receivables

This account consists of:

	2017	2016
Trade receivables - outside parties	**₱1,189,394,150**	₱1,023,354,253
Trade receivables - related parties (Note 15)	**495,476,881**	518,466,319
	1,684,871,031	1,541,820,572
Less allowance for impairment losses	**57,252,950**	55,694,985
	1,627,618,081	1,486,125,587
Other receivables:		
Advances to officers and employees	**29,587,715**	26,117,789
Others	**18,596,026**	14,475,954
	₱1,675,801,822	₱1,526,719,330

Trade receivables arise from sale of services related to inbound and outbound courier services, handling and consolidation services with normal credit terms of 30 to 90 days.

Advances to officers and employees consist mainly of noninterest-bearing advances which are subject to liquidation upon completion of the business transaction and personal advances subject to salary deductions.

Others mainly consist of SSS benefit receivable to be reimbursed within a year and accrual of interest income which is expected to be collected upon maturity of the short-term placements.

The Group performed reassessment of the collectability of its receivables and as a result, recognized additional provision for impairment losses. These were recognized under operating expenses in profit or loss.

Allowance for impairment losses pertains to results of collectability assessment of specifically identified trade receivables from outside parties.

Portion of trade receivable - outside parties as at December 31, 2016 amounting to ₱40.79 million was assigned in relation to a bank loan availed in 2016 (nil as of December 31, 2017) (see Note 12).

The amount of ₱11.62 million was written off in 2017 as these are deemed uncollectible. The accounts were previously provided with allowance.

The movements in allowance for impairment losses of trade receivables follow:

	2017	2016
January 1	**₱55,694,985**	₱39,891,364
Provisions (Note 17)	**13,179,997**	15,803,621
Write-off	**(11,622,032)**	–
December 31	**₱57,252,950**	₱55,694,985

The Group has directly written-off trade and other receivables amounting to ₱3.22 million and ₱26.64 million in 2016 and 2015, respectively (nil in 2017), where probability of collection has been determined to be remote. These were recognized under operating expenses in the consolidated statements of comprehensive income (see Note 17).

6. Prepayments and Other Assets

This account consists of:

	2017	2016
Input value-added tax (VAT)	**₱215,215,636**	₱185,641,285
Materials and supplies	**100,572,680**	104,972,605
Prepayments:		
Rent	**70,238,209**	41,012,242
Employee benefits	**20,616,772**	9,272,691
Insurance	**12,489,234**	11,576,755
Taxes	**7,418,431**	4,911,428
Advertising	**7,111,383**	11,995,164
Software maintenance	**7,049,524**	4,854,547
Company events	**4,889,415**	169,464
Dues and subscriptions	**4,404,153**	299,989
Others	**8,752,146**	6,215,625
Creditable withholding taxes (CWTs)	**51,010,831**	46,767,004
Short-term cash investments	**11,326,492**	27,340,771
Restricted cash in bank	**9,000,000**	4,000,000
Advance payment to a supplier	**9,000,000**	–
	539,094,906	459,029,570
Less allowance for impairment losses	**798,769**	789,769
	538,296,137	458,239,801
Less noncurrent portion of:		
VAT on capital goods	**60,574,886**	54,943,647
Prepaid rent	**22,590,091**	15,206,957
Advance payment to a supplier (Note 8)	**9,000,000**	–
Total noncurrent portion	**₱92,164,977**	₱70,150,604
Total current portion	**₱446,131,160**	₱388,089,197

Input VAT is applied against output VAT. Management believes that the remaining balance is recoverable in future periods.

Materials and supplies carried at cost consist of office supplies, packing materials and official receipts to be used in the Group's operations. Materials and supplies recognized under cost of services in profit or loss for the years ended December 31, 2017, 2016 and 2015 amounted to ₱334.17 million, ₱293.38 million and ₱242.11 million, respectively (see Note 16).

Prepaid advertising consists of advances for billboards and multimedia endorsements.

Other prepayments pertain to unamortized licenses and prepaid interests.

CWTs are attributable to taxes withheld by the withholding agents which are creditable against income tax payable.

Short-term cash investments are time deposits with maturity of more than three months from the date of acquisition but not exceeding one year. The interest income earned amounted to ₱0.13 million and ₱0.46 million for the year ended December 31, 2017 and 2016, respectively.

Restricted cash in bank represents time deposit, in the name of LBCE, with a maturity of one year and assigned to a specific customer as a performance guarantee.

Advance payment to a supplier pertains for the intended purchase of a software. This amount was reclassified from development in progress to other noncurrent assets.

7. Property and Equipment

The rollforward analysis of this account follows:

	2017					
	Transportation Equipment	**Leasehold Improvements**	**Furniture, Fixtures, Machinery and Office Equipment**	**Computer Hardware**	**Construction in Progress**	**Total**
Costs						
At beginning of year	**₱516,312,044**	**₱1,387,570,739**	**₱604,044,494**	**₱549,377,766**	**₱9,067,555**	**₱3,066,372,598**
Additions	**65,217,309**	**37,627,429**	**45,222,628**	**66,283,784**	**180,133,211**	**394,484,361**
Reclassifications	**2,156,919**	**155,553,817**	**8,905,950**	**5,282,446**	**(171,899,132)**	**–**
Disposals	**(84,207,204)**	**(6,173,295)**	**(716,673)**	**(424,696)**	**–**	**(91,521,868)**
At end of year	**499,479,068**	**1,574,578,690**	**657,456,399**	**620,519,300**	**17,301,634**	**3,369,335,091**
Accumulated Depreciation and Amortization						
At beginning of year	**384,704,082**	**897,410,297**	**515,934,644**	**427,846,648**	**–**	**2,225,895,671**
Depreciation (Notes 16 and 17)	**37,458,352**	**97,534,449**	**52,236,428**	**68,503,817**	**–**	**255,733,046**
Disposals	**(84,207,204)**	**(3,820,635)**	**(135,099)**	**(184,089)**	**–**	**(88,347,027)**
At end of year	**337,955,230**	**991,124,111**	**568,035,973**	**496,166,376**	**–**	**2,393,281,690**
Net Book Value	**₱161,523,838**	**₱583,454,579**	**₱89,420,426**	**₱124,352,924**	**₱17,301,634**	**₱976,053,401**

	2016					
	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures, Machinery and Office Equipment	Computer Hardware	Construction in Progress	Total
Costs						
At beginning of year	₱493,700,641	₱1,193,415,823	₱536,162,284	₱497,378,871	₱26,897,204	₱2,747,554,823
Additions	46,621,479	50,327,150	33,655,196	49,923,302	174,478,510	355,005,637
Reclassifications	5,773,437	145,597,503	34,227,014	6,710,205	(192,308,159)	–
Disposals	(29,783,513)	(1,769,737)	–	(4,634,612)	–	(36,187,862)
At end of year	516,312,044	1,387,570,739	604,044,494	549,377,766	9,067,555	3,066,372,598
Accumulated Depreciation and Amortization						
At beginning of year	357,426,671	798,498,426	466,384,919	362,222,603	–	1,984,532,619
Depreciation (Notes 16 and 17)	46,918,944	100,592,013	49,549,725	67,505,204	–	264,565,886
Disposals	(19,641,533)	(1,680,142)	–	(1,881,159)	–	(23,202,834)
At end of year	384,704,082	897,410,297	515,934,644	427,846,648	–	2,225,895,671
Net Book Value	₱131,607,962	₱490,160,442	₱88,109,850	₱121,531,118	₱9,067,555	₱840,476,927

The cost of fully depreciated assets that are still in use amounted to ₱1,160.00 million and ₱1,110.00 million as of December 31, 2017 and 2016, respectively.

Depreciation charges were recognized as follows:

	2017	2016	2015
Cost of services (Note 16)	**₱218,336,609**	₱196,497,941	₱191,503,976
Operating expenses (Note 17)	**37,396,437**	68,067,945	51,006,138
	₱255,733,046	₱264,565,886	₱242,510,114

The Group leases transportation, service and office equipment that are included in the property and equipment and under various finance arrangements ranging for a period of 24 to 60 months (see Note 19).

In 2015, the Group purchased a computer hardware on a long-term payment arrangement. The liability is noninterest bearing and payable over 60 months. As of December 31, 2017, the outstanding liability amounted to ₱34.48 million, ₱24.29 million of which is reported under 'other noncurrent liabilities' in the consolidated statements of financial position.

8. Intangible Assets

The rollforward analysis of this account follows:

	2017		
	Software	**Development in Progress**	**Total**
Costs			
At beginning of year	**₱335,393,881**	**₱63,140,574**	**₱398,534,455**
Additions	**156,491,950**	**8,654,110**	**165,146,060**
Reclassification	**58,254,684**	**(67,254,684)**	**(9,000,000)**
Disposal	**(319,900)**	–	**(319,900)**
At end of year	**549,820,615**	**4,540,000**	**554,360,615**
Accumulated Amortization			
At beginning of year	**132,486,794**	–	**132,486,794**
Amortization (Note 17)	**65,023,810**	–	**65,023,810**
At end of year	**197,510,604**	–	**197,510,604**
Net Book Value	**₱352,310,011**	**₱4,540,000**	**₱356,850,011**

	2016		
	Software	Development in Progress	Total
Costs			
At beginning of year	₱134,430,313	₱243,687,774	₱378,118,087
Additions	2,157,464	18,313,904	20,471,368
Reclassification	198,861,104	(198,861,104)	–
Disposal	(55,000)	–	(55,000)
At end of year	335,393,881	63,140,574	398,534,455
Accumulated Amortization			
At beginning of year	101,736,602	–	101,736,602
Amortization (Note 17)	30,779,219	–	30,779,219
Disposal	(29,027)	–	(29,027)
At end of year	132,486,794	–	132,486,794
Net Book Value	₱202,907,087	₱63,140,574	₱266,047,661

In 2017, the Group purchased an IT security tool, a new payroll system and a logistics software on a non-interest bearing long-term payment arrangement payable over 36 months, 60 months and 60 months, respectively. As at December 31, 2017, the outstanding liability related to the purchase of these intangible assets amounted to ₱126.70 million, of which ₱94.04 million is presented under "other noncurrent liabilities" in the consolidated statement of financial position.

Development in progress pertains to costs related to ongoing development of software, user license and implementation costs.

There were no capitalized borrowing costs in 2017 and 2016.

9. Available-for-Sale Investments

AFS investments consist of the Group's investment in unquoted unit investment trust fund and investment in the quoted shares of stock of Araneta Properties, Inc. The major categories of the Group's investment in unquoted unit investment trust fund comprise primarily of Overnight Deposit Facility and Term Deposit Facility in the Bangko Sentral ng Pilipinas.

Movement of the AFS investments follow:

	2017	2016
Unquoted:		
Balance at beginning of year	**₱250,937,154**	₱–
Additions	**1,394,016,400**	400,000,000
Redemption	**(1,206,361,295)**	(150,000,000)
Fair value gain during the year	**4,541,877**	937,154
Unrealized foreign exchange loss	**(2,370,641)**	–
	440,763,495	250,937,154
Quoted:		
Balance at beginning of year	**458,391,174**	212,596,951
Additions	–	757,920
Sale of shares	–	(332,450)
Fair value gain (loss) during the year	**(13,654,205)**	245,368,753
	444,736,969	458,391,174
	885,500,464	709,328,328
Less current portion	**₱440,763,495**	₱250,937,154
Total noncurrent portion	**₱444,736,969**	₱458,391,174

Movement in unrealized gain on AFS investments follow:

	2017	2016
Balance at beginning of year	**₱195,216,568**	(₱51,169,355)
Reclassification to profit or loss arising from redemption and sale of AFS investments	**(4,361,295)**	80,016
Changes in fair value during the year of:		
Quoted	**(13,654,205)**	245,368,753
Unquoted	**4,541,877**	937,154
Balance at end of year (Note 14)	**₱181,742,945**	₱195,216,568

The AFS investments redeemed in 2017 amounting to ₱1,202.94 million includes unrealized gain of ₱0.94 million coming from accumulated comprehensive income in prior year, which was recycled to profit or loss in 2017. Realized fair value gain on redemption of AFS investments during the year amounting to ₱3.42 million was recognized directly in profit or loss. Total charges to profit or loss of ₱4.36 million is presented under "Others - net" of "Other income (charges)" in the consolidated statement of comprehensive income.

10. Accounts and Other Payables

This account consists of:

	2017	2016
Trade payable - outside parties	**₱656,868,942**	₱573,961,146
Trade payable - related parties (Note 15)	**376,412**	10,239,262
Accruals:		
Salaries and wages	**248,425,003**	187,053,321
Contracted jobs	**121,825,685**	61,027,104
Rent and utilities	**90,793,364**	91,142,838
Software maintenance	**27,169,568**	6,638,397
Claims and losses	**26,539,218**	55,388,469
Advertising	**20,750,779**	21,393,676
Professional fees	**12,917,417**	6,980,356
Outside services	**10,968,979**	7,086,121
Taxes	**10,933,230**	8,509,450
Others	**46,508,025**	36,274,840
Deferred output VAT	**225,681,729**	127,417,798
Taxes payable	**61,810,736**	48,496,736
Government agencies contributions payables	**23,013,633**	21,971,215
Others (Note 15)	**18,528,015**	31,578,164
	₱1,603,110,735	₱1,295,158,893

Trade payable and accrued expenses arise from regular transactions with suppliers and service providers. These are noninterest-bearing and are normally settled on one to 60-day term.

Accrued salaries and wages pertain to unpaid salaries and provision for employee's allowances and benefits.

Other accruals mainly include repairs and maintenance, training costs, accrual for interest expense and purchases of motor vehicles and materials and supplies.

Deferred output VAT arises from the uncollected receivables from vatable sales.

Taxes payable includes output VAT payable and withholding taxes on payment to suppliers and employees' compensation which are settled on a monthly basis.

Government agencies contribution payable pertains to monthly required remittances to government agencies such as SSS, Pag-ibig and Philhealth.

Other payables include employees' salary loan deductions payable to third parties, guarantee fee payable to a related party and payables arising from expenses incurred in relation to transactions with nontrade suppliers.

11. Transmissions Liability

Transmissions liability represents money transfer remittances by clients that are still outstanding, and not yet claimed by the beneficiaries as at reporting date. These are due and demandable.

Transmissions liability amounted to ₱588.20 million (₱77.38 million of which is payable to an affiliate) and ₱467.28 million (₱8.94 million of which is payable to an affiliate) as at December 31, 2017 and 2016, respectively (see Note 15).

12. Notes Payable

The Group has outstanding notes payable to various local banks. The details of these notes as at December 31, 2017 and 2016 are described below:

2017

Bank	Date of Availment	Outstanding Balance	Maturity	Interest Rate	Terms
Banco de Oro	September 2017	₱85,800,000	March 2018	Fixed rate, 4.00%	Clean; Interest payable every month, principal to be paid on maturity date
Banco de Oro	Various availments in 2016	692,500,000	Various maturities in 2017 to 2021	Fixed rate, 4.00%	With mortgage; Interest payable every month, principal payable quarterly
Unionbank of the Philippines (UBP)	August 2017	50,000,000	February 2018	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
Rizal Commercial Banking Corporation (RCBC)	Various availments in 2017	213,000,000	Various maturities in 2018	Fixed rate, 4.00%	Clean; Interest payable every month, principal to be paid on maturity date
Total		₱1,041,300,000			
Current portion		₱440,050,000			
Noncurrent portion		₱601,250,000			

2016

Bank	Date of Availment	Outstanding Balance	Maturity	Interest Rate	Terms
Banco de Oro	Various availments in 2016	₱100,000,000	March 2017	Fixed rate, 4.00%	Clean; Interest payable every month, principal to be paid on maturity date
Banco de Oro	Various availments in 2016	772,500,000	Various maturities in 2016 to 2021	Fixed rate, 4.00%	With mortgage; Interest payable every month, principal payable quarterly
Unionbank of the Philippines (UBP)	Various availments in 2016	250,000,000	Various maturities in 2017	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
Rizal Commercial Banking Corporation (RCBC)	Various availment in 2015	136,715,500	Various maturities in 2017	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
China Trust Banking Corporation (CTBC)	December 20, 2016	100,000,000	January 10, 2017	Fixed rate 5.50%	With AR assignment; Interest payable every month, principal to be paid on maturity date
Total		₱1,359,215,500			
Current portion		₱666,715,500			
Noncurrent portion		₱692,500,000			

The Notes Facility Agreement entered by the Group with Banco De Oro (BDO) in May 2016 is with a credit line facility amounting to ₱800.00 million. The loan is secured with real estate mortgage on land owned by the Group's affiliate (see Note 15).

Upon loan availment in 2016, the Group, under a Deed of Assignment of Receivables, agreed to sell, assign and transfer, on a with recourse basis, unto RCBC, certain receivables under 'Trade receivables - outside parties. Total receivables assigned as at December 31, 2016 amounted to ₱40.79 million (nil as of December 31, 2017) (see Note 5).

Various short-term loans availed in 2016 with RCBC and UBP totaling to ₱223.00 million were rolled over in 2017.

Interest expense amounted to ₱55.08 million, ₱40.10 million, and ₱18.86 million in 2017, 2016 and 2015, respectively.

The loans were used primarily for working capital requirements and are not subject to any loan covenants.

13. Convertible Instrument

On June 20, 2017, the BOD approved the issuance of convertible bond. Accordingly, on August 04, 2017, the Parent Company issued, in favor of CP Briks Pte. Ltd, a seven-year secured convertible instrument in the aggregate principal amount of US$50.0 million (₱2,518.25 million) convertible at any time into 192,307,692 common shares of the Parent Company at the option of CP Bricks Pte. Ltd at ₱13.00 per share conversion price, subject to adjustments in accordance with the terms and conditions of the instrument. The instrument is also redeemable, at the option of CP Bricks Pte. Ltd, beginning on the 30th month from issuance date at the redemption price equal to the principal amount plus internal rate of return ranging from 10% to 13%.

The convertible bond is a hybrid instrument containing host financial liability and derivative components for the equity conversion and redemption options. The equity conversion and redemption options were identified as embedded derivatives and were separated from the host contract.

As at December 31, 2017, the carrying value of bond payable amounted to ₱896.19 million and the fair value of the derivative liability amounted to ₱1,860.37 million. The fair value changes of the derivative liability recognized as "Loss on derivative" amounted to ₱199.95 million in 2017. Interest expense arising from the accretion of interest on the bond payable amounted to ₱59.56 million in 2017.

The agreement related to the issuance of convertible bond indicated the following rights and obligations:

a. Within one month from August 4, 2017, the Parent Company shall discontinue any royalty payments to LBCDC for all trademarks, brands and licenses. This was already terminated in September 2017;
b. Within three months from closing date, LBCDC shall procure that the Parent Company enters into a binding sale and purchase agreement to acquire the equity interests of the 12 overseas entities. Also, within 12 months from closing date, LBCDC shall procure that the Parent Company closes the acquisition of the equity interest of the overseas entities (see Note 27);
c. Within six months following the termination of royalty payments, the Parent Company shall be permitted to make loans and advances to LBCDC and this shall not be considered a Reserved Matter. LBCDC already made an advances amounting to ₱100.00 million;
d. Within six months from closing date, LBCDC shall procure a debt for equity swap between LBCE and QUADX INC., a local affiliate; and
e. Within 3 months from closing of the acquisition of the equity interests of the overseas entity, LBCDC procure to settle all obligations to the Group.

Failure to comply with the above agreements constitute an Event of Default which results to the redemption of the convertible bond at par plus an IRR of 16%. As at December 31, 2017, the Group has complied with the above agreement.

14. Equity

Capital Stock
As of December 31, 2017, 2016 and 2015, the details of the Parent Company's capital stock follow:

	2017	
	Number of Shares of Stocks	**Amount**
Capital stock - ₱1 par value		
Authorized	**2,000,000,000**	**₱2,000,000,000**
Issued and outstanding	**1,425,865,471**	**1,425,865,471**

	2016	
	Number of Shares of Stocks	Amount
Capital stock - ₱1 par value		
Authorized	2,000,000,000	₱2,000,000,000
Issued and outstanding	1,425,865,471	1,425,865,471

	2015	
	Number of Shares of Stocks	Amount
Capital stock - ₱1 par value		
Authorized shares:		
Beginning of year	100,000,000	₱100,000,000
Increase in authorized capital stock	1,900,000,000	1,900,000,000
Balance at end of year	2,000,000,000	₱2,000,000,000
Issued and outstanding shares		
Balance at beginning of year	40,899,000	₱40,899,000
Issuances of shares	1,384,966,471	1,384,966,471
Balance at end of year	1,425,865,471	₱1,425,865,471

Increase in Authorized Capital Stock
On October 12, 2015, SEC approved the increase of the Parent Company's common stock from ₱100.00 million, divided into 100.00 million shares with par value of ₱1.00 per share to ₱2.00 billion, divided into 2.00 billion shares with par value of ₱1.00 per share.

Issuances of New Shares

- On May 18, 2015, LBCDC subscribed to 59,101,000 common shares out of the unissued authorized capital stock of the LBCH or approximately 59.10% of the total authorized capital stock of LBCH, before the approval of the increase in authorized capital stock by applying the deposits for future stocks subscription made by LBCDC amounting to ₱59,101,000 on April 22, 2015, as the consideration for the subscribed shares at one peso (₱1.00) per share. As discussed in Note 1, subsequently, on July 22, 2015, the Parent Company issued the stock certificates to LBCDC covering the 59,101,000 common shares.

- On September 18, 2015, LBCDC subscribed to 25% of 1,900,000,000 increase in authorized capital stock or equivalent to 475,000,000 common shares at the subscription price of ₱1.00 per share, in exchange for cash.

  On the same date, LBCDC subscribed to additional 671,873,632 common shares out of the unissued capital stock of the Parent Company at the subscription price of ₱1.00 per share, in exchange for cash.

- On October 2, 2015, certain individuals subscribed to a total of 178,991,839 common shares out of the unissued capital stock of the Parent Company at the subscription price of ₱1.00 per share, in exchange for cash, conditioned upon and effective immediately following the approval by the SEC of the increase in authorized capital stock.

On October 16, 2015, the Parent Company issued the stock certificates to LBCDC covering the 1,146,873,632 common shares while on October 21, 2015 the Parent Company issued the stock certificates to certain individuals covering 178,991,839 common shares.

The Parent Company's track record of capital stock is as follows:

	Number of shares registered	**Issue/offer price**	**Date of approval**	**Number of holders as of yearend**
At January 1, 2015	40,899,000	₱1/share		
Add: Additional issuance	1,384,966,471	₱1/share	July 22, October 16 and October 21, 2015	
December 31, 2015	1,425,865,471			485
Add: Movement	–			–
December 31, 2016	1,425,865,471			485
Add: Movement	–			1
December 31, 2017	1,425,865,471			486

Retained earnings
The unappropriated retained earnings include accumulated equity in undistributed net earnings of the consolidated subsidiaries of ₱909.03 million and ₱774.14 million as of December 31, 2017 and 2016, respectively. These are not available for dividend declaration until declared by the BOD of the respective subsidiaries.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2017 is nil.

Cash dividends
On April 19, 2017, the BOD of LBCH approved the declaration of cash dividends amounting to ₱827.00 million from unappropriated retained earnings as of March 31, 2017 amounting to ₱849.83 million.

On October 11, 2016, the BOD of LBCH approved the declaration of cash dividends amounting to ₱313.69 million (nil in 2015).

The dividends attributable to LBCDC was settled through application against due from LBCDC as disclosed in Note 15.

Accumulated comprehensive income
Details of accumulated comprehensive income as at December 31 follow:

	2017	2016	2015
Remeasurement gain on retirement benefit plan - net of tax (Note 20)	**₱145,282,651**	₱107,386,833	₱119,376,370
Unrealized fair value gain (loss) on AFS investments	**181,742,945**	195,216,568	(51,169,355)
Currency translation gain - net	**212,399**	3,074,001	204,135
	327,237,995	305,677,402	68,411,150
Accumulated comprehensive income (loss) attributable to:			
Shareholders of the Parent Company	**₱326,920,319**	₱309,059,077	₱69,568,040
Non-controlling interest	**₱317,676**	(₱3,381,675)	(₱1,156,890)

15. Related Party Transactions

In the normal course of business, the Group transacts with related parties consisting of its ultimate parent, LBCDC and affiliates. Affiliates include those entities in which the owners of the Group have ownership interests outside the Group. These transactions include royalty, delivery, service and management fees and loans and cash advances. Except as otherwise indicated, the outstanding accounts with related parties shall be settled in cash. The transactions are made at terms and prices agreed upon by the parties.

Details of related party transactions and balances as at and for the years ended December 31 are as follow:

	2017			
	Amount/Volume	**Receivable (Payable)**	**Terms**	**Conditions**
Due from related parties (Trade receivables)				
Affiliates - under common control				
a.) Delivery fee, management fee, financial Instant Peso Padala (IPP) fulfillment fee (Notes 5 and 23)	**₱658,034,091**	**₱495,476,881**	**Noninterest-bearing; due and demandable**	**Unsecured, no impairment**
Due from related parties (Non-trade receivables)				
Ultimate parent company				
b.) Advances	**₱192,251,895**	**₱415,144,205**	**Noninterest-bearing; due and demandable**	**Unsecured, no impairment**
Affiliates - under common control				
b.) Advances	**57,857,821**	**243,289,035**	**Noninterest-bearing; due and demandable**	**Unsecured, no impairment**
Officer				
b.) Advances	–	**9,284,395**	**Noninterest-bearing; due and demandable**	**Unsecured, no impairment**
		₱667,717,635		
Due to related parties (Trade payables)				
Ultimate Parent Company				
c.) Royalty fee (Notes 10 and 17)	**₱176,443,696**	**(₱376,412)**	**Noninterest-bearing; due and demandable**	**Unsecured**
d.) Guarantee fee (Notes 10 and 12)	**9,523,809**	–	**Noninterest-bearing; due and demandable**	**Unsecured**
		(₱376,412)		
Due to a related party (Transmissions liability)				
Affiliate - under common control				
a.) Transmissions liability (Note 11)	**₱2,295,868,178**	**(₱77,384,306)**	**Noninterest-bearing; due and demandable**	**Unsecured**
Due to a related party (Non-trade payables)				
Affiliate - under common control				
b.) Advances	**₱–**	**(₱2,542,585)**	**Noninterest-bearing; due and demandable**	**Unsecured**
Ultimate Parent Company				
e.) Dividends declared and payables	**699,465,287**	–	**Noninterest-bearing; due and demandable**	**Unsecured**
		(₱2,542,585)		

	2016			
	Amount/Volume	Receivable (Payable)	Terms	Conditions
Due from related parties (Trade receivables)				
Affiliates- under common control				
a.) Delivery fee, management fee, financial Instant Peso Padala (IPP) fulfillment fee (Notes 5 and 23)	₱400,293,543	₱518,466,319	Noninterest-bearing; due and demandable	Unsecured, no impairment
Due from related parties (Non-trade receivables)				
Ultimate parent company				
b.) Advances	₱256,403,424	₱913,895,352	Noninterest-bearing; due and demandable	Unsecured, no impairment
Affiliates - under common control				
b.) Advances	61,550,192	184,806,983	Noninterest-bearing; due and demandable	Unsecured, no impairment
Officer				
b.) Advances	12,599	9,296,994	Noninterest-bearing; due and demandable	Unsecured, no impairment
		₱1,107,999,329		
Due to related parties (Trade and other payables)				
Ultimate Parent Company				
c.) Royalty fee (Notes 10 and 17)	₱195,497,630	(₱10,239,262)	Noninterest-bearing; due and demandable	Unsecured
d.) Guarantee fee (Notes 10 and 12)	4,761,905	(4,671,229)	Noninterest-bearing; due and demandable	Unsecured
		(₱14,910,491)		
Due to a related party (Transmissions liability)				
Affiliate - under common control				
a.) Transmissions liability (Note 11)	₱302,011,617	(₱8,936,433)	Noninterest-bearing; due and demandable	Unsecured
Due to related parties (Non-trade payables)				
Ultimate Parent Company				
b.) Advances	₱–	(₱15,694,463)	Noninterest-bearing; due and demandable	Unsecured
e.) Dividends declared and payables	265,314,419	–	Noninterest-bearing; due and demandable	Unsecured
Affiliate - under common control				
b.) Advances	371,346	(2,559,566)	Noninterest-bearing; due and demandable	Unsecured
		(₱18,254,029)		

Compensation of Key Management Personnel:

	For the years ended December 31	
	2017	2016
Salaries and wages	**₱116,879,294**	₱72,217,112
Retirement benefits (Note 20)	**21,063,735**	16,791,107
Other short-term employee benefits	**18,372,497**	11,250,445
	₱156,315,526	₱100,258,664

a.) In the normal course of business, the Group fulfills the delivery of balikbayan boxes, fulfillment of money remittances and performs certain administrative functions on behalf of its affiliates. The Group charges delivery fees and service fees for the fulfillment of these services based on agreed rates.

b.) The Group regularly makes advances to and from related parties to finance working capital requirements and as part of their cost reimbursements arrangement. These unsecured advances are non-interest bearing and payable on demand.

In prior years, the Group has outstanding advances of ₱295.00 million to LBC Development Bank, an entity under common control of LBCDC. In 2011, management assessed that these advances are not recoverable. Accordingly, the said asset was written-off from the books in 2011 (see Note 26).

c.) LBCDC (Licensor), the Ultimate Parent Company, granted to the LBCE (Licensee) the full and exclusive right to use the LBC Marks within the Philippines in consideration for a continuing royalty rate of two point five percent (2.5%) for 2017 and 2016 of Licensee's Gross Revenues which is defined as any and all revenue from all sales of products and services, including all other income of every kind and nature directly and/or indirectly arising from, related to and/or connected with Licensee's business operations (including, without limitation, any proceeds from business interruption insurance, if any), whether for cash or credit, wherever made, earned, realized or accrued, excluding any sales discounts and/or rebates, value added tax.

On August 4, 2017, the LBCE and LBCDC entered into a trademark licensing agreement, which amended and restated the trademark licensing agreement entered by the same parties on November 9, 2007. Both parties agreed to discontinue royalty payment for the use of LBC Marks in recognition of LBCE's own contribution to the value and goodwill of the trademark effective September 4, 2017.

d.) As discussed in Note 12, the Group entered into a loan agreement with BDO which is secured with real estate mortgage on various real estate properties owned by the Group's affiliate. In consideration of the affiliate's accommodation to the Group's request to use these properties as loan collateral, the Group agreed to pay the affiliate, every April 1 of the year starting April 1, 2016, a guarantee fee of 1% of the face value of loan and until said properties are released by the bank as loan collateral. The guarantee fee is reported as part of interest expense in the statements of comprehensive income.

e.) On March 8, 2017 and September 30, 2016, the BOD of LBCE approved the declaration of cash dividends amounting to ₱843.36 million and ₱441.71 million, respectively. On June 09, 2017 and November 29, 2016, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to the LBCE amounting to ₱699.47 million and ₱265.31 million, respectively. The same amount was offset against the dividends payable of the Company to LBCH.

In 2016, the Group directly wrote off ₱3.09 million due from an affiliate recorded as Trade receivables - related parties under 'Trade and other receivables' in the consolidated statements of financial position.

16. Cost of Services

This account consists of:

	2017	2016	2015
Cost of delivery and remittance	**₱2,791,389,663**	₱2,202,333,121	₱1,945,639,263
Salaries and benefits	**1,971,535,268**	1,763,779,517	1,706,004,942
Utilities and supplies	**741,527,993**	661,848,568	589,283,155
Rent (Note 19)	**592,537,376**	513,079,995	481,018,056
Depreciation and amortization (Notes 7 and 8)	**218,336,609**	196,497,941	191,503,976
Repairs and maintenance	**104,274,720**	94,986,163	73,753,014
Retirement benefit expense (Note 20)	**97,492,614**	82,137,951	63,699,862
Transportation and travel	**59,625,803**	46,464,561	51,297,338
Insurance	**23,123,645**	22,953,471	14,517,977
Others	**6,188,582**	6,431,801	2,813,884
	₱6,606,032,273	₱5,590,513,089	₱5,119,531,467

17. Operating Expenses

This account consists of:

	2017	2016	2015
Salaries and wages	**₱498,926,061**	₱407,292,079	₱391,920,328
Rent (Note 19)	**239,070,492**	197,940,252	178,146,664
Professional fees	**212,871,262**	157,451,239	130,648,982
Royalty	**176,443,696**	195,497,630	183,522,384
Advertising and promotion	**169,158,792**	175,801,246	257,545,289
Utilities and supplies	**146,510,196**	150,384,187	146,961,164
Travel and representation	**137,903,579**	101,185,071	200,330,445
Taxes and licenses	**115,012,736**	97,586,343	87,375,167
Depreciation and amortization (Notes 7 and 8)	**102,420,247**	98,847,164	67,880,465
Software maintenance costs	**59,376,627**	54,359,104	53,603,820
Claims and losses	**47,785,607**	89,125,719	80,616,758
Dues and subscriptions	**31,281,219**	3,788,386	32,915,703
Retirement benefit expense (Note 20)	**30,313,927**	27,778,715	27,870,055
Commission expense	**23,213,721**	20,042,764	8,844,906
Insurance	**22,448,728**	22,927,207	9,779,212
Provision for impairment losses (Note 5)	**13,179,997**	15,803,621	31,461,519
Repairs and maintenance	**4,878,630**	5,987,934	4,567,371
Write-off of receivables (Note 5)	**–**	3,215,599	26,642,572
Others	**35,840,577**	47,790,937	27,160,186
	₱2,066,636,094	₱1,872,805,197	₱1,947,792,990

Others comprise mainly of bank and finance charges, penalties and other administrative expenses.

18. **Income Taxes**

Provision for income tax consists of:

	2017	2016	2015
Current	**₱450,239,197**	₱455,428,586	₱221,037,708
Deferred	**(31,384,734)**	(44,278,540)	49,594,466
	₱418,854,463	₱411,150,046	₱270,632,174

Details of the Group's net deferred tax assets as at December 31 follow:

	2017	2016	2015
Retirement benefit liability	**₱215,948,504**	₱212,833,851	₱192,543,624
Accrued employee benefits	**42,241,773**	34,764,344	–
Allowance for impairment losses	**17,127,718**	16,708,496	11,967,409
Deferred lease liability (Note 19)	**12,900,573**	11,062,231	11,898,523
Unrealized foreign exchange losses (gains)	**450,104**	(1,868,793)	3,756,635
NOLCO	**236,165**	209,623	5,699,047
MCIT	**110,558**	255,394	826,517
Capitalized borrowing costs	**(418,668)**	(628,002)	(1,046,671)
Others	**927,312**	1,043,226	–
	₱289,524,039	₱274,380,370	₱225,645,084

The movements in net deferred tax asset for the years ended December 31 are as follows:

	2017	2016	2015
December 1	**₱274,380,370**	₱225,645,084	₱256,860,938
Charged to profit or loss	**31,384,734**	44,278,540	(49,594,466)
Excess MCIT over RCIT	**–**	–	276,504
Applied MCIT against income tax due	**–**	(681,629)	(282,975)
Charged to other comprehensive income	**(16,241,065)**	5,138,375	18,385,083
	₱289,524,039	₱274,380,370	₱225,645,084

Details of the amount of deductible/taxable temporary differences for which no deferred tax asset/liability is recognized in the statement of financial position as at December 31 are as follows:

	2017	2016
NOLCO	**₱40,243,027**	₱15,352,593
Unrealized foreign exchange loss - net	**1,362,947**	–
Allowance for impairment losses on:		
Property and equipment	**11,699,127**	11,699,127
Inventories	**7,145,937**	7,145,937
Receivables	**1,890,260**	1,890,260
MCIT	**11,575**	2,970
Other current assets	**798,769**	798,769
	₱63,151,642	₱36,889,656

Deferred tax asset on unrealized foreign exchange loss was recognized to the extent of the deferred tax liability arising from unamortized bond transaction cost.
All unrecognized deferred tax assets arise from the standalone balances of LBCH.

As of December 31, 2017 and 2016, the NOLCO that can be claimed as deductions from future taxable income and excess MCIT over RCIT that can be credited against future tax liability follow. These NOLCO and excess of MCIT over RCIT came from LBCH and other subsidiaries.

NOLCO

2017

Year incurred	**Amount**	**Used**	**Expired**	**Balance**	**Year of expiry**
2017	**₱26,242,165**	**₱–**	**₱–**	**₱26,242,165**	**2020**
2016	**6,244,919**	**–**	**–**	**6,244,919**	**2019**
2015	**8,543,160**	**–**	**–**	**8,543,160**	**2018**
2014	**1,263,257**	**–**	**1,263,257**	**–**	**2017**
	₱42,293,501	**₱–**	**₱1,263,257**	**₱41,030,244**	

2016

Year incurred	Amount	Used	Expired	Balance	Year of expiry
2016	₱6,244,919	₱–	₱–	₱6,244,919	2019
2015	8,543,160	–	–	8,543,160	2018
2014	1,809,334	546,077	–	1,263,257	2017
2013	19,120,429	5,000,461	14,119,968	–	2016
	₱35,717,842	₱5,546,538	₱14,119,968	₱16,051,336	

2015

Year incurred	Amount	Used	Expired	Balance	Year of expiry
2015	₱8,543,160	₱–	₱–	₱8,543,160	2018
2014	41,324,735	39,515,401	–	1,809,334	2017
2013	19,120,429	–	–	19,120,429	2016
2012	75,395,901	22,665,151	52,730,750	–	2015
	₱144,384,225	₱62,180,552	₱52,730,750	₱29,472,923	

MCIT

2017

Year Incurred	**Amount**	**Used**	**Expired**	**Balance**	**Expiry Date**
2017	**₱11,627**	**₱–**	**₱–**	**₱11,627**	**2020**
2016	**110,506**	**–**	**–**	**110,506**	**2019**
2014	**147,858**	**–**	**147,858**	**–**	**2017**
	₱269,991	**₱–**	**₱147,858**	**₱122,133**	

2016

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2016	₱110,506	₱–	₱–	₱110,506	2019
2015	276,505	276,505	–	–	2018
2014	447,430	299,572	–	147,858	2017
2013	105,552	105,552	–	–	2016
	₱939,993	₱681,629	₱–	₱258,364	

2015

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2015	₱276,505	₱–	₱–	₱276,505	2018
2014	447,430	–	–	447,430	2017
2013	168,562	63,010	–	105,552	2016
2012	453,027	219,965	233,062	–	2015
	₱1,345,524	₱282,975	₱233,062	₱829,487	

The reconciliation between income tax expense at the statutory rate and the actual income tax expense presented in the consolidated statements of comprehensive income for the years ended December 31 follows:

	2017	2016	2015
Income tax at the statutory income tax rate	**₱338,030,954**	₱397,527,237	₱206,079,921
Tax effects of items not subject to statutory rate:			
Nondeductible expense	**78,770,504**	8,804,269	47,074,574
Movement in unrecognized deferred tax assets	**7,884,619**	1,465,918	1,850,435
Expired MCIT	**144,888**	–	233,062
Expired NOLCO	–	4,235,990	15,819,225
Nontaxable income	**(5,976,502)**	(883,368)	(425,043)
	₱418,854,463	₱411,150,046	₱270,632,174

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as of the reporting date.

19. Lease Commitments

(a) Operating lease

The following are the operating lease agreements entered into by the Group:

1. Operating lease agreement covering its current corporate office space for a period of five years from October 20, 2016. The lease agreement is nonrenewable and includes rental rate escalations during term of the lease. The lease agreement also requires the Group to pay additional security deposits.

2. Operating lease agreements covering various service centers and service points within the Philippines for a period of one to five years, renewable at the Group's option at such terms and conditions which may be agreed upon by both parties. These lease agreements include provision for rental rate escalations including payment of security deposits and advance rentals.

3. Operating lease agreement with a local bank covering transportation equipment for a period of three to four years. The lease agreement does not include escalation rates on monthly payments.

There are no contingent rents for the above lease agreements.

Rent expense was recognized as follows:

	2017	2016	2015
Cost of services (Note 16)	**₱592,537,376**	₱513,079,995	₱481,018,056
Operating expenses (Note 17)	**239,070,492**	197,940,252	178,146,664
	₱831,607,868	₱711,020,247	₱659,164,720

The Group maintains security deposits arising from the said operating lease agreements amounting to ₱255.43 million and ₱226.26 million as of December 31, 2017 and 2016, respectively.

The future minimum lease payments from the foregoing noncancellable operating lease agreements follow:

	2017	2016
Not later than 1 year	**₱874,762,535**	₱761,315,955
Later than 1 year but not later than 5 years	**3,894,459,968**	3,346,283,230

Deferred lease liability arising from straight line recognition of lease payments amounting to ₱43.00 million and ₱36.87 million as of December 31, 2017 and 2016, respectively, are included in the non-current portion of lease liabilities account in the consolidated statements of financial position.

(b) Finance lease

These involve leases of transportation equipment which were accounted for as finance leases.

The components of the finance lease obligation as at December 31 arising from this lease are as follows:

	2017	2016
Gross finance lease obligations		
Not later than one year	**₱37,331,796**	₱62,083,010
Later than 1 year but not later than 5 years	**50,764,603**	44,422,597
	88,096,399	106,505,607
Future finance lease charges on the finance lease		
Not later than one year	**(6,640,272)**	(11,256,327)
Later than 1 year but not later than 5 years	**(6,734,655)**	(8,054,301)
	(13,374,927)	(19,310,628)
	₱74,721,472	₱87,194,979

The present value of minimum lease payments is as follows:

	2017	2016
Not later than 1 year	**₱30,691,524**	₱50,826,683
Later than 1 year but not later than 5 years	**44,029,948**	36,368,296
	₱74,721,472	₱87,194,979

Interest expense on the above finance lease obligation charged to finance costs amounted to ₱12.65 million, ₱23.40 million and ₱24.45 million in 2017, 2016 and 2015, respectively.

20. Retirement Benefits

The Group has a funded, noncontributory defined benefit retirement plan covering all qualified employees. The retirement plan is intended to provide for benefit payments to employees equivalent to 100% to 130% of the employee's final monthly basic salary for every year of credited service. Benefits are paid in lump sum upon retirement or separation in accordance with the terms of the Plan. Any qualified employee who voluntarily resigns from the service of the Group after completing at least 10 years of service, shall receive a benefit equal to a percentage of his accrued retirement benefits. The Group updates the actuarial valuation every year by hiring the services of a third party qualified actuary. The latest actuarial valuation report was as of reporting date.

The Retirement Plan Trustee, as appointed by the Group in the Trust Agreement executed between the Group and the duly appointed Retirement Plan Trustee, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund. The Retirement Plan Trustee may seek the advice of a counsel and appoint an investment manager or managers to manage the Retirement Fund, an independent accountant to audit the Fund and an actuary to value the Retirement Fund. The Group has no transaction either directly or indirectly through its subsidiaries or with its employees' retirement benefit fund.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any 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 Group's retirement plan meets the minimum retirement benefit specified under Republic Act 7641.

Changes in net defined benefit liability in 2017 and 2016 are as follow:

	2017												
		Net benefit cost in statements of comprehensive income					**Remeasurements in other comprehensive income**						
	January 1, 2017	**Current service cost**	**Net interest**	**Subtotal**	**Benefits paid from plan assets**	**Benefits paid by the Group**	**Return on plan assets**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Experience adjustments**	**Subtotal**	**Contributions**	**December 31, 2017**
Present value of defined benefit obligation	**₱743,821,499**	**₱83,223,807**	**₱47,677,570**	**₱130,901,377**	**(₱11,094,950)**	**(₱46,996,553)**	**₱–**	**₱17,706,715**	**₱–**	**(₱74,134,354)**	**(₱56,427,639)**	**₱–**	**₱760,203,734**
Fair value of plan assets	**(22,794,838)**	**–**	**(3,094,836)**	**(3,094,836)**	**11,094,950**	**–**	**2,290,757**	**–**	**–**	**–**	**2,290,757**	**(42,374,000)**	**(54,877,967)**
Net defined benefit liability	**₱721,026,661**	**₱83,223,807**	**₱44,582,734**	**₱127,806,541**	**₱–**	**(₱46,996,553)**	**₱2,290,757**	**₱17,706,715**	**₱–**	**(₱74,134,354)**	**(₱54,136,882)**	**(₱42,374,000)**	**₱705,325,767**

	2016												
		Net benefit cost in statements of comprehensive income					Remeasurements in other comprehensive income						
	January 1, 2016	Current service cost	Net interest	Subtotal	Benefits paid from plan assets	Benefits paid by the Group	Return on plan assets	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Subtotal	Contributions	December 31, 2016
Present value of defined benefit obligation	₱655,439,842	₱77,208,449	₱33,905,162	₱111,113,611	(₱39,100,905)	₱–	₱–	(₱12,687,351)	(₱130,324,876)	₱159,381,178	₱16,368,951	₱–	₱743,821,499
Fair value of plan assets	(13,627,763)	–	(1,196,945)	(1,196,945)	39,100,905	–	758,958	–	–	–	758,958	(47,829,993)	(22,794,838)
Net defined benefit liability	₱641,812,079	₱77,208,449	₱32,708,217	₱109,916,666	₱–	₱–	₱758,958	(₱12,687,351)	(₱130,324,876)	₱159,381,178	₱17,127,909	(47,829,993)	₱721,026,661

The major categories of the Group's plan assets follow:

	2017	2016
Cash and cash equivalents	**₱25,101,182**	₱10,968,876
Equity instruments	**2,277,436**	1,431,516
Debt instruments:		
Government bonds	**26,736,546**	9,348,163
Other bonds	**1,421,339**	893,558
Others	**(658,536)**	152,725
	₱54,877,967	₱22,794,838

All equity and debt instruments held have quoted prices in active market.

The equity instruments are investment in stocks of a holding company of a conglomerate listed in the Philippines stock market engaged in various businesses.

The Retirement Trust Fund assets are valued by the fund manager at fair value using the mark-to-market valuation.

The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund are at the Group's discretion. However, in the event a benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable by the Group to the Retirement Fund.

The Retirement Plan Trustee monitors regularly the status of the plan assets and liabilities to ensure availability of funds upon retirement of personnel.

The Group expects to contribute ₱73.95 million to the retirement plan in 2018. The retirement plan does not have a formal funding policy. The funding requirement is mainly driven by the availability of excess fund from the Group's operations.

The movement in actuarial gain recognized in other comprehensive income follows:

	2017	2016	2015
Beginning of year	**(₱153,409,762)**	(₱170,537,671)	(₱231,821,281)
Actuarial loss (gain) from defined benefit obligation	**(56,427,639)**	16,368,951	59,937,337
Plan asset remeasurement loss	**2,290,757**	758,958	1,346,273
End of year, gross	**(207,546,644)**	(153,409,762)	(170,537,671)
Deferred tax liability	**62,263,993**	46,022,929	51,161,301
	(₱145,282,651)	(₱107,386,833)	(₱119,376,370)

The principal assumptions used in determining retirement for the defined benefit plans are shown below:

	2017	2016	2015
Discount rate	**5.86% to 5.99%**	5.77% to 6.20%	4.71% to 6.12%
Salary increase	**5.00%**	5.00%	5.00%
Attrition rate	**22.20%**	14.31%	22.81%

Discount rate
The discount rate is determined by reference to market yields at the end of the reporting period based on high quality bonds with currency and term similar to the estimated term of the benefit obligation. There is no deep market in high quality corporate bonds in the Philippines and therefore, the Group used as reference the yields in long-term Philippine Treasury Bonds and adjusted to reflect the term similar to the estimated term of the benefit obligation as determined by the actuary.

Salary increase
This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increase comprises of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Attrition rate
The attrition rate is determined based on historical experience of the Group.

Demographic assumptions
Assumptions regarding mortality experience are set based on published statistics and experience in the Philippines.

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

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which change other than those assumed may be deemed to be more reasonable.

		2017	2016
	Increase (decrease)	**Net defined benefit liability**	Net defined benefit liability
Discount rate	+1.00%	**(₱80,215,705)**	(₱85,375,618)
	-1.00%	**94,741,834**	101,845,033
Salary increase	+1.00%	**86,389,537**	97,741,926
	-1.00%	**(74,820,303)**	(83,780,167)

The weighted average duration of the defined benefit obligation at the end of the reporting period is 11.82 years.

Shown below is the maturity analysis of retirement benefit payments up to ten years:

	2017	2016
Less than 1 year	**₱54,235,190**	₱34,032,237
More than 1 year to 5 years	**255,728,891**	191,385,358
More than 5 years to 10 years	**440,294,461**	474,100,134
	₱750,258,542	₱699,517,729

21. **Financial Risk Management Objectives and Policies**

The Group has various financial assets such as cash and cash equivalents, trade and other receivables (excluding advances to employees), due from related parties, available-for-sale investments and 'short-term investments' under other current assets.

The Group's financial liabilities comprise of accounts and other payables (excluding statutory liabilities), due to related parties, notes payable, transmissions liability, finance lease liabilities, other noncurrent liabilities, derivative liability and bond payable. The main purpose of these financial liabilities is to finance the Group's operations.

The use of derivative financial instruments, if any, is solely for management of the Group's financial risk exposures. It is the Group's policy not to enter into derivative transactions for speculative purposes.

The main risks arising from the Group's financial instruments are price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. The BOD reviews and approves policies for managing each of these risks which are summarized below.

Price risk

The Group closely monitors the prices of its equity securities as well as macroeconomic and entity-specific factors which could directly or indirectly affect the prices of these instruments. In case of an expected decline in its portfolio of equity securities, the Group readily disposes or trades the securities for replacement with more viable and less risky investments.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers, or factors affecting all instruments traded in the market.

The following table shows the effect on OCI should the change in the close share price of quoted equity securities and change in the net asset value (NAV) of the unquoted unit investment trust fund occur as of December 31, 2017 and 2016 with all other variables held constant.

	Effect on OCI	
	2017	2016
Change in share price		
+5.00%	**₱22,236,848**	₱22,919,559
-5.00%	**(22,236,848)**	(22,919,559)
Change in NAV		
+5.00%	**₱22,038,175**	₱12,565,750
-5.00%	**(22,038,175)**	(12,565,750)

The Group is also exposed to equity price risk in the fair valuation of the derivative liability due to the embedded equity conversion feature. The following table shows the effect on net income should the change in the close share price of the underlying equity security in the convertible instrument occur as at December 31, 2017 with all other variables held constant.

	Effect on net income
	December 31, 2017
Change in share price	
Increase by 5%	₱106,563,899
Decrease by 5%	217,826,174

Interest rate risk and credit spread sensitivity analysis

Except for the credit spread used in the valuation of the convertible redeemable bond, the Group is not significantly exposed to interest rate risk as the Group's interest rate on its cash and cash equivalents and notes payable are fixed and none of the Group's financial assets and liabilities is measured at fair value. Further, the impact of fluctuation on interest rates on the Group's finance leases will not significantly impact the results of operations.

The value of the Group's convertible redeemable bond is driven primarily by two risk factors: underlying stock prices and interest rates. Interest rates are driven by using risk-free rate, which is a market observable input, and credit spread, which is not based on observable market data. The following table demonstrates the sensitivity to a reasonably possible change in credit spread, with all other variables held constant, on the fair value of the Group's embedded conversion option of the convertible redeemable bond.

	Credit spread +1%	Credit spread -1%
Effect in fair value	**(₱2,616,426)**	(₱8,033,086)

Liquidity risk

Liquidity risk is the risk from inability to meet obligations when they become due because of failure to liquidate assets or obtain adequate funding. The Group ensures that sufficient liquid assets are available to meet short-term funding and regulatory capital requirements.

The Group has a policy of regularly monitoring its cash position to ensure that maturing liabilities will be adequately met.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Management believes that cash generated from operations is sufficient to meet daily working capital requirements.

Surplus cash is invested into a range of short-dated money time deposits and unit investment trust fund which seek to ensure the security and liquidity of investment while optimizing yield.

The following summarizes the maturity profile of the Group's financial assets based on remaining contractual undiscounted collections:

	2017		
	Due in less than one year	**Due in more than one year**	**Total**
Cash and cash equivalents			
Cash on hand	**₱264,057,974**	**₱–**	**₱264,057,974**
Cash in bank	**1,103,336,745**	**–**	**1,103,336,745**
Cash equivalents	**2,411,013,773**	**–**	**2,411,013,773**
Receivables			
Trade	**1,684,871,031**	**–**	**1,684,871,031**
Others	**18,596,026**	**–**	**18,596,026**
Due from related parties	**667,717,635**	**–**	**667,717,635**
Available-for-sale investments			
Quoted	**–**	**444,736,969**	**444,736,969**
Unquoted	**440,763,495**	**–**	**440,763,495**
Short-term investments	**11,326,492**	**–**	**11,326,492**
	₱6,601,683,171	**₱444,736,969**	**₱7,046,420,140**

	2016		
	Due in less than one year	Due in more than one year	Total
Cash and cash equivalents			
Cash on hand	₱174,890,603	₱–	₱174,890,603
Cash in bank	939,534,180	–	939,534,180
Cash equivalents	213,365,944	–	213,365,944
Receivables			
Trade	1,541,820,572	–	1,541,820,572
Others	14,475,954	–	14,475,954
Due from related parties	1,107,999,329		1,107,999,329
Available-for-sale investments			
Quoted	–	458,391,174	458,391,174
Unquoted	250,937,154	–	250,937,154
Short-term investments	27,340,771	–	27,340,771
	₱4,270,364,507	₱458,391,174	₱4,728,755,681

Except as indicated, the Group's financial liabilities based on undiscounted cash flows as shown below are due and expected to be paid within 12 months after the reporting period, which is the earlier of the contractual maturity date or the expected settlement date:

	2017		
	Due in less than one year	**Due in more than one year**	**Total**
Accounts payable and accrued expenses			
Trade payable	**₱657,245,354**	**₱–**	**₱657,245,354**
Accruals	**605,898,038**	**–**	**605,898,038**
Others	**18,528,015**	**–**	**18,528,015**
Due to a related party	**2,542,585**	**–**	**2,542,585**
Notes payable	**441,705,549**	**614,513,699**	**1,056,219,248**
Transmissions liability	**588,203,656**	**–**	**588,203,656**
Derivative liability	**–**	**1,860,373,479**	**1,860,373,479**
Bond payable	**–**	**896,185,059**	**896,185,059**
Lease liabilities	**37,331,796**	**50,764,603**	**88,096,399**
Other noncurrent liabilities	**–**	**118,327,055**	**118,327,055**
	₱2,351,454,993	**₱3,540,163,895**	**₱5,891,618,888**

	2016		
	Due in less than one year	Due in more than one year	Total
Accounts payable and accrued expenses			
Trade payable	₱584,200,408	₱–	₱584,200,408
Accruals	472,985,122	–	472,985,122
Others	31,578,164	–	31,578,164
Due to related parties	18,254,029	–	18,254,029
Notes payable	705,273,544	796,882,740	1,502,156,284
Transmissions liability	467,284,795	–	467,284,795
Lease liabilities	62,083,010	44,422,596	106,505,606
Other noncurrent liabilities	–	34,477,440	34,477,440
	₱2,341,659,072	₱875,782,776	₱3,217,441,848

Notes payable and lease liabilities include future interest payments.

Payable to government agencies amounting to ₱321.43 million and ₱206.40 million as at December 31, 2017 and 2016, respectively, are considered nonfinancial liabilities (see Note 10).

The Group expects to generate cash flows from its operating activities mainly on sale of services. The Group also has sufficient cash and adequate amount of credit facilities with banks and its ultimate parent company to meet any unexpected obligations.

Foreign currency risk

Foreign currency risk is the risk that the future cash flows of financial assets and financial liabilities will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities when revenue or expenses are denominated in a different currency from the Group's functional currency.

The Group operates internationally through its various international affiliates by fulfilling the money remittance and cargo delivery services of these related parties. This exposes the Group to foreign exchange risk primarily with respect to Euro (EUR), Hongkong Dollar (HKD), Australian Dollar (AUD) Taiwanese Dollar (TWD), US Dollar (USD) and Great British Pound (GBP). Foreign exchange risk arises from future commercial transactions, foreign currency denominated assets and liabilities and net investments in foreign operations.

The Group enters into short-term foreign currency forwards, if needed, to manage its foreign currency risk from foreign currency denominated transactions.

Information on the Group's foreign currency-denominated monetary assets and liability recorded under 'trade and other receivables' and 'bond payable', respectively, assets and liabilities related to convertible instrument in the consolidated statements of financial position and their Philippine Peso equivalents follow:

	2017	
Assets:	**Foreign currency**	**Peso equivalent**
Euro	**3,001,837**	**₱178,939,504**
Hongkong Dollars	**15,118,598**	**96,607,841**
Australian Dollars	**1,234,425**	**48,031,477**
Taiwanese Dollars	**56,818,370**	**95,454,862**
US Dollars	**577,108**	**28,809,231**
Great British Pound	**33,453**	**2,260,419**
Liabilities:		
US Dollars	**(18,189,640)**	**(908,026,829)**

The translation exchange rates used were ₱59.61 to EUR 1, ₱6.39 to HKD 1, ₱38.91 to AUD 1, ₱1.68 to TWD 1, ₱49.92 to USD 1 and ₱67.57 to GBP 1 in 2017.

	2016	
Assets:	Foreign currency	Peso equivalent
Euro	2,851,734	₱150,600,073
Hongkong Dollars	17,813,579	114,363,177
Australian Dollars	2,768,961	103,033,039
Taiwanese Dollars	59,719,397	93,759,453
US Dollars	1,249,172	62,171,290
Great British Pound	194,844	12,039,411

The translation exchange rates used were ₱52.81 to EUR 1, ₱6.42 to HKD 1, ₱37.21 to AUD 1, ₱1.57 to TWD 1, ₱49.77 to USD 1 and ₱61.79 to GBP 1 in 2016

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) as at December 31, 2017 and 2016.

Reasonably possible change in foreign exchange rate for every two units of Philippine Peso	Increase (decrease) in income before tax	
	2017	2016
₱2	**₱116,945,908**	₱169,195,374
(2)	**(116,945,908)**	(169,195,374)

There is no impact on the Group's equity other than those already affecting profit or loss. The movement in sensitivity analysis is derived from current observations on fluctuations in dollar average exchange rates.

The Group recognized ₱91.98 million, ₱143.23 million and ₱108.11 million foreign exchange gains - net, for the years ended December 31, 2017, 2016 and 2015, respectively, arising from settled transactions and translation of the Group's cash and cash equivalents, trade receivables, trade and other payables and bond payable.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk is monitored and actively managed by way of strict requirements relating to the creditworthiness of the counterparty at the point at which the transactions are concluded and also throughout the entire life of the transactions, and also by way of defining risk limits.

The maximum credit risk exposure of the Group's financial assets is equal to the carrying amounts in the consolidated statements of financial position.

There are no collaterals held as security or other credit enhancements attached to the Group's financial assets.

As of December 31, 2017 and 2016, the credit quality per class of financial assets is as follows:

	2017				
	Neither Past Due nor Impaired			**Past due and/or Individually Impaired**	
	High Grade	**Standard**	**Substandard Grade**		**Total**
Cash in banks and cash equivalents	**₱3,514,350,518**	**₱–**	**₱–**	**₱–**	**₱3,514,350,518**
Trade and other receivables	**1,555,860,432**	–	–	**147,606,625**	**1,703,467,057**
Due from related parties	**667,717,635**	–	–	–	**667,717,635**
Short-term investment	**11,326,492**	–	–	–	**11,326,492**
	₱5,749,255,077	**₱–**	**₱–**	**₱147,606,625**	**₱5,896,861,702**

	2016				
	Neither Past Due nor Impaired			Past dueand/or Individually Impaired	
	High Grade	Standard	Substandard Grade		Total
Cash in banks and cash equivalents	₱1,152,900,124	₱–	₱–	₱–	₱1,152,900,124
Trade and other receivables	1,431,015,515	–	–	125,281,011	1,556,296,526
Due from related parties	1,107,999,329	–	–	–	1,107,999,329
Short-term investment	27,340,771	–	–	–	27,340,771
	₱3,719,255,739	₱–	₱–	₱125,281,011	₱3,844,536,750

The Group's basis in grading its receivables are as follow:

High grade - these are receivables which have a high probability of collection (i.e., the counterparty has the apparent ability to satisfy its obligation and the security on receivables readily enforceable).

Standard - these are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a certain period of time.

Substandard - these are receivables that can be collected provided the Group makes persistent effort to collect them.

Cash in banks and cash equivalents are deposited/placed in banks that are stable as they qualify either as universal or commercial banks. Universal and commercial banks represent the largest single group, resource-wide, of financial institutions in the country the Group is operating. They offer the widest variety of banking services among financial institutions. These financial assets are classified as high grade due to the counterparties' low probability of insolvency.

As of December 31, 2017 and 2016, the aging analyses of the Group's past due and/or impaired receivables are as follows:

	2017				
	Past Due but not Impaired			**Impaired Financial Assets**	
	1 to 30 days	**31 to 90 days**	**Over 90 days**		**Total**
Trade and other receivables	**₱64,705,065**	**₱16,556,165**	**₱9,092,445**	**₱57,252,950**	**₱147,606,625**

	2016				
	Past Due but not Impaired			Impaired Financial Assets	
	1 to 30 days	31 to 90 days	Over 90 days		Total
Trade and other receivables	₱32,384,030	₱8,880,741	₱28,321,255	₱55,694,985	₱125,281,011

There are no collaterals held by the Group with respect to trade receivables that have been identified as past due but not impaired.

Capital Management
The Group's objectives in managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide shareholder returns and to maintain an optimal capital structure to reduce the cost of capital and thus, increase the value of shareholder investment.

In order to maintain a healthy capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debts. Management has assessed that the Group is self-sufficient based on historical and current operating results.

The capital that the Group manages is equal to the total equity as shown in the consolidated statements of financial position at December 31, 2017 and 2016 amounting to ₱2,365.47 million and ₱2,462.99 million, respectively.

22. Fair Values and Offsetting Arrangements

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

The carrying amounts of cash and cash equivalents, trade and other receivables, due from/to related parties, short-term cash investments, accounts and other payables, transmissions liability, and the current portion of notes payable and lease liabilities approximate their fair value. These financial instruments are relatively short-term in nature.

The fair value of quoted AFS investment is the current closing price while the unquoted AFS investment is based on the published net asset value per unit as of reporting date.

The estimated fair value of long-term portion of notes payable is based on the discounted value of future cash flow using applicable interest rates ranging from 4.14% to 4.20% for 2017 and 2016.

The fair value of the long-term portion of lease liabilities is based on the discounted value of future cash flow using applicable interest rates ranging from 7.50% to 9.91% for 2017 and 2016.

The estimated fair value of derivative liability as at December 31, 2017 is based on an indirect method of valuing multiple embedded derivatives. This valuation technique using binomial pyramid model uses stock prices and stock price volatility. This valuation method compares the fair value of the option-free instrument against the fair value of the hybrid convertible instrument. The difference of the fair values is assigned as the value of the embedded derivatives. The significant unobservable input in the fair value is the stock price volatility of 42.16% in 2017. A 5% increase (5% decrease) in the stock price volatility would increase by ₱5.04 million (decrease by ₱153.42 million) the fair value of the derivative liability.

The estimated fair value of bond payable as at December 31, 2017 is based on the discounted value of future cash flow using applicable rate of 17%.

The estimated fair value of other noncurrent liabilities is based on the discounted value of future cash flow using applicable rate of 3.85% to 12.28%.

Fair Value Hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

For Level 3, inputs used in discounted cash flows include cash flows, discount rates and other market data. The fair values of quoted AFS investments are classified as Level 1 and the unquoted AFS investments are classified as Level 2.

The quantitative disclosures on fair value measurement hierarchy for assets as of December 31, 2017 and 2016 follow:

	2017				
		Fair value measurements using			
	Carrying values	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets measured at fair value					
Quoted equity securities	**₱444,736,969**	**₱444,736,969**	**₱444,736,969**	**₱–**	**₱–**
Unquoted unit investment trust fund	**440,763,495**	**440,763,495**	–	**440,763,495**	–
Liability measured at fair value					
Derivative liability	**1,860,373,479**	**1,860,373,479**	–	–	**1,860,373,479**
Liabilities for which fair value are disclosed					
Bond payable	**896,185,059**	**896,185,059**	–	–	**896,185,059**
Long-term notes payable	**601,250,000**	**614,312,040**	–	–	**614,312,040**
Non-current lease liabilities	**87,031,857**	**93,766,512**	–	–	**93,766,512**
Other noncurrent liabilities	**118,327,055**	**136,075,877**	–	–	**136,075,877**

	2016				
		Fair value measurements using			
	Carrying values	Total	Quoted prices in active markets for identical assets (Level 1)	Significant offer observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Quoted equity securities	₱458,391,174	₱458,391,174	₱458,391,174	₱–	₱–
Unquoted unit investment trust fund	250,937,154	250,937,154	–	250,937,154	–
Liabilities for which fair value are disclosed					
Long-term notes payable	692,500,000	695,225,295	–	–	695,225,295
Non-current lease liabilities	73,242,401	77,401,097	–	–	77,401,097
Other noncurrent liabilities	34,477,440	36,807,633	–	–	36,807,633

For the years ended December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where the Group currently has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the net asset settles the liability simultaneously.

The following table represents the recognized financial instruments that are offset as of December 31, 2017 and December 31, 2016, and shows in the 'Net' column what the net impact would be on the Group's consolidated statements of financial position as a result of the offsetting rights.

	December 31, 2017		
	Gross Amount	**Offsetting**	**Net Amount**
Due from related parties	**₱1,367,182,922**	**₱–**	**₱1,367,182,922**
Dividends payable	**–**	**(699,465,287)**	**(699,465,287)**
	₱1,367,182,922	**(₱699,465,287)**	**₱667,717,635**

	December 31, 2016		
	Gross Amount	Offsetting	Net Amount
Due from related parties	₱1,373,313,748	₱–	₱1,373,313,748
Dividends payable	–	(265,314,419)	(265,314,419)
	₱1,373,313,748	(₱265,314,419)	₱1,107,999,329

The Parent Company's dividends payable to LBCDC has been offset against due from LBCDC. The Parent Company and LBCDC have the intention of settling on a net basis.

23. Segment Reporting

Management has determined the operating segments based on the information reviewed by the executive committee for purposes of allocating resources and assessing performance.

The Group's two main operating segments comprise of logistics and money transfer services. The executive committee considers the business from product perspective.

The Group's logistics products are geared toward both retail and corporate clients. The main services offered under the Group's logistics business are domestic and international courier and freight forwarding services (by way of air, sea and ground transport).

Money transfer services comprise remittance services (including branch retail services, prepaid remittance cards and online and mobile remit) and bills payment collection and corporate remittance payout services. Money transfer services include international presence through its branches which comprises international inbound remittance services.

The Group only reports revenue line item for this segmentation. Assets and liabilities and cost and expenses are shared together by these two segments and, as such, cannot be reliably separated.

The Group has no significant customer which contributes 10.00% or more to the revenue of the Group.

The following table presents the amount of revenues generated from these segments:

	2017	2016	2015
Logistics			
Retail	**₱5,751,655,749**	₱4,964,000,749	₱4,091,284,562
Corporate	**3,229,513,847**	2,557,865,998	2,199,007,266
	8,981,169,596	7,521,866,747	6,290,291,828
Money transfer services			
Domestic	**907,122,704**	1,058,448,930	1,186,850,428
International inbound	**131,824,186**	115,086,945	209,332,208
	1,038,946,890	1,173,535,875	1,396,182,636
	₱10,020,116,486	₱8,695,402,622	₱7,686,474,464

The revenue of the Group consists mainly of sales to external customers. Revenue arising from service fees charged to affiliates amounted to ₱658.03 million and ₱400.29 million in 2017 and 2016, respectively.

Seasonality of Operation

The Group's operation experiences increased volume in remittance transmission as well as cargo throughout the second quarter and fourth quarter of the year, particularly during the start of the school year and during the holiday season.

24. Note to Consolidated Statement of Cash Flows

In 2017, the Group has the following non-cash transactions under:

Investing activities

a.) Unpaid acquisitions of property and equipment and intangibles amounting to ₱39.58 million and ₱126.70 million.

b.) Offsetting of due from LBCDC against dividends payable amounting to ₱699.47 million recorded under "Due from related parties".

Details of the movement in cash flows from financing activities are as follow:

	December 31, 2016	Cash Flows	Leasing arrangements	Interest	Dividends declared	Offsetting of dividends	Foreign exchange movement	Fair value changes	December 31, 2017
Notes payable	₱1,359,215,500	(₱317,915,500)	₱–	₱–	₱–	₱–	₱–	₱–	₱1,041,300,000
Lease and other non-current liabilities	158,546,524	(45,924,991)	123,428,903	–	–	–	–	–	236,050,436
Convertible bond (bond and derivative liability)	–	2,505,658,750	–	59,559,636	–	–	(8,610,668)	199,950,820*	2,756,558,538
Payments of dividends	–	(127,536,686)	–	–	827,001,973	(699,465,287)	–	–	–
Interest paid	–	(75,601,767)	–	77,257,316	–	–	–	–	1,655,549
Due to related parties	18,254,029	(15,711,444)	–	–	–	–	–	–	2,542,585
Total liabilities from financing activities	₱1,536,016,053	₱1,922,968,362	₱123,428,903	₱136,816,952	₱827,001,973	(₱699,465,287)	(₱8,610,668)	₱199,950,820	₱4,038,107,108

**Relates to fair value changes of derivative liability*

In 2016, the Group has the following non-cash transactions under:

Investing activities

a.) Unpaid acquisitions of property and equipment amounting to ₱60.75 million during the year.

b.) Offsetting of due from LBCDC against dividends payable amounting to ₱265.31 million recorded under 'Due from related parties'.

Financing activities

a.) Accrued interest amounting to ₱1.72 million.

The Group made certain reclassifications to the consolidated statements of cash flows for 2016 and 2015 to align with 2017 classification. Movements in due from related parties were transferred to investing activities from operating activities while movements in due to related parties were moved to financing activities from operating activities. Below is the summary of movements:

	December 31, 2016		
	Previous balance	Reclassification	Revised balance
Net cash flows provided by (used in):			
Operating activities	₱757,318,877	₱51,595,739	₱808,914,616
Investing activities	(559,383,236)	(51,967,086)	(611,350,322)
Financing activities	154,552,975	371,346	154,924,321

	December 31, 2015		
	Previous balance	Reclassification	Revised balance
Net cash flows provided by (used in):			
Operating activities	₱596,808,625	₱336,284,003	₱993,092,628
Investing activities	(1,722,162,509)	(523,484,110)	(2,245,646,619)
Financing activities	1,566,970,849	187,200,107	1,754,170,956

25. Basic/Diluted Earnings Per Share

The following table presents information necessary to calculate earnings per share (EPS) on net income attributable to owners of the Parent Company:

	Years Ended December 31		
	2017	2016	2015
Net income attributable to equity holders of the Parent Company	**₱703,876,073**	₱921,605,612	₱439,811,552
Divided by the weighted average number of common stocks outstanding	**1,425,865,471**	1,425,865,471	1,425,865,471
Basic/diluted earnings per share	**₱0.49**	₱0.65	₱0.31

The basic and dilutive earnings per share are the same due to the absence of dilutive potential common shares.

26. Other Matters

Closure of LBC Development Bank, Inc.

On September 9, 2011, the BSP, through Monetary Board Resolution No. 1354, resolved to close and place LBC Development Bank Inc.'s (the "Bank") assets and affairs under receivership.

On December 8, 2011, the Philippine Deposit Insurance Company (PDIC), as the official receiver and liquidator of closed banks, demanded on behalf of the Bank that LBC Holdings USA Corporation (LBC US) pay for its alleged outstanding obligations to LBC Bank amounting to approximately ₱1.00 billion, a claim that LBC US has denied as being baseless and unfounded. No further demand on this matter has been made by the PDIC since then, although there are no assurances that the claim has been waived or abandoned in whole or in part, or that the PDIC will not institute relevant proceedings in court or serve another demand letter to LBC US.

In relation to the Bank's closure and receivership, the receivables amounting to ₱295.00 million were written-off in 2011.

On March 17 and 29, 2014, the PDIC's external counsel sent letters to LBCE, demanding collection of the alleged amounts totaling ₱1.79 billion. On March 24 and 29, 2014, July 29, 2014, June 17, 2015 and June 26, 2015, the same legal counsel sent collection letters addressed to LBC Systems, Inc. [Formerly LBC Mundial Inc.] [Formerly LBC Mabuhay USA Corporation], demanding the payment of amounts aggregating to ₱911.59 million, all on behalf of the Bank.

On November 2, 2015, the Bank, represented by the PDIC, filed a case against LBC Express, Inc. (LBCE) and LBC Development Corporation (LBCDC), together with other respondents, before the Makati City Regional Trial Court (RTC) for a total collection of ₱1.82 billion. The case is in relation to the March 17, 2014 demand letter representing collection of unpaid service fees due from June 2006 to August 2011 and service charges on remittance transactions from January 2010 to September 2011. In the Complaint, the PDIC justified the increase in the amount from the demand letter to the amount claimed in the case due to their discovery that the supposed payments of LBCE were allegedly unsupported by actual cash inflow to the Bank.

On December 28, 2015, the summons, together with a copy of the Complaint of LBC Development Bank, Inc., and the writ of preliminary attachment were served on the former Corporate Secretary of LBCE. The writ of preliminary attachment resulted to the (a) attachment of the 1,205,974,632 shares of LBC Express Holdings, Inc. owned by LBCDC and (b) attachment of various bank accounts of LBCE totaling ₱6.90 million. The attachment of the shares in the record of the stock transfer agent had the effect of preventing the registration or recording of any transfers of shares in the records, until the writ of attachment is discharged.

LBCE and LBCDC, the ultimate Parent Company, together with other defendants, filed motions to dismiss the Complaint on January 12, 2016. On January 21, 2016, LBCE and LBCDC filed its Urgent Motion to Approve the Counterbond and Discharge the Writ of Attachment.

On February 17, 2016, the RTC issued the order to lift and set aside the writ of preliminary attachment. The order to lift and set aside the preliminary attachment directed the sheriff of the court to deliver to LBCE and LBCDC all properties previously garnished pursuant to the writ. The counterbond delivered by LBCE and LBCDC stands as security for all properties previously attached and to satisfy any final judgment in the case.

In a Joint Resolution dated June 28, 2016, the RTC denied the motions to dismiss filed by all the defendants, including LBCE and LBCDC. Motions for reconsideration filed by the defendants were subsequently denied by the RTC in the Resolution dated February 16, 2017.

After filing motions for extension of time, LBCE and LBCDC filed their Answer with Counterclaims on April 10, 2017. In the Resolution dated June 15, 2017, the RTC denied the third motion for extension, declared all of the defendants including LBCE in default and ordered PDIC to present evidence ex-parte. LBCE and LBCDC filed a Verified Omnibus Motion for reconsideration and to lift the order of default. The other defendants filed similar motions, including a motion for inhibition. On July 21, 2017, LBCE received the Joint Resolution dated July 20, 2017, granting the Verified Omnibus Motions and the Motion for Inhibition, thereby lifting the order of default and admitting the Answers filed by all defendants.

The PDIC filed a Motion for Reconsideration dated August 7, 2017, seeking to reconsider the Joint Resolution dated July 20, 2017. The defendants, including LBCE and LBCDC have filed their respective comments thereto and the motion is currently pending resolution.

From August 10, 2017 to January 19, 2018, LBCE, LBCDC, the other defendants and PDIC were referred to mediation and Judicial Dispute Resolution (JDR) but were unable to reach a compromise agreement. The RTC ordered the mediation and JDR terminated and the case raffled to a new judge who will preside over the trial. To date, the parties are still awaiting the case to be raffled to another branch of the Makati RTC.

On April 24, 2017, LBCE and LBCDC filed a Petition for Certiorari with the Court of Appeals, challenging the RTC's June 28, 2016 Joint Resolution. The PDIC, LBCE, and LBCDC have filed their respective Comment, Reply, and Memoranda. The Petition for Certiorari was deemed submitted for resolution as of October 26, 2017 and is still pending. The ultimate outcome of the case cannot presently be determined.

In relation to the above case, in the opinion of management and in concurrence with its legal counsel, any liability of LBCE is not probable and estimable at this point in time.

27. **Subsequent Events**

On February 28, 2018, the BOD of the Group approved the incorporation of Diez Equiz Pte. Ltd. (the Company), a Singaporean private limited Company, through subscription of 862 shares or 86% of the total outstanding shares of Diez Equiz Pte. Ltd. at USD 1.00 per share. This is to diversify the businesses of the Group and to house possible or future investment opportunities. The Group has control over Diez Equiz Pte. Ltd. in accordance with PFRS 3, Business Combination.

On March 7, 2018, the BOD of the Group approved the purchase of shares of some international affiliates in line with the conditions to the issuance of convertible bond as discussed in Note 10. The acquisition is expected to benefit the Group by contributing to its global revenue streams. On the same date, the share purchase agreements were executed by LBCH and the international affiliates with a total share purchase price amounting to USD 8.55 million, subject to certain closing conditions.

Below is the list of entities that were acquired by the Group:

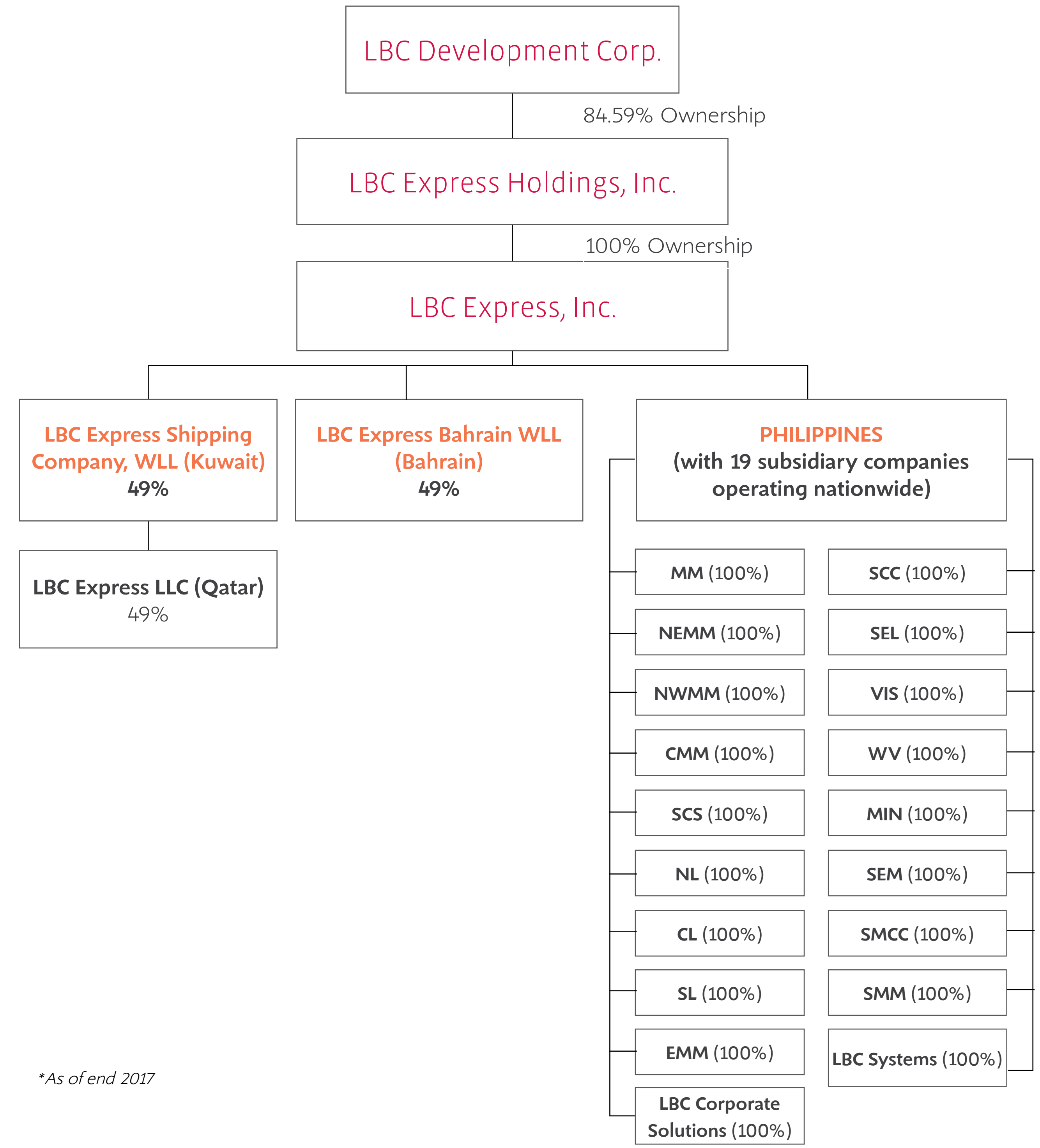
a. LBC Mabuhay Saipan, Inc. which operates as a cargo and remittance Company in Saipan. LBCH purchased 120,000 shares or 100% of the total outstanding shares of the acquiree at purchase price of USD 207,652. The transfer of the ownership of the shares and all rights, titles and interest thereto shall take place following the payment of the consideration.
b. LBC Mabuhay Hawaii Corporation which operates as a cargo and remittance Company in Hawaii. LBCH purchased 1,536,408 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation
c. LBC Mundial Corporation which operates as a cargo and remittance Company in California. LBCH purchased 4,192,546 shares or 100% or the total outstanding shares from LBC Holdings USA Corporation.
d. LBC Mabuhay North America Corporation which operates as a cargo and remittance Company in New Jersey. LBCH purchased 1,605,273 shares or 100% or the total outstanding shares from LBC Holdings USA Corporation.

LBC Mabuhay Hawaii Corporation, LBC Mundial Corporation and LBC Mabuhay North America Corporation (the Companies) were purchased by LBC Express Holdings, Inc. at a purchase price of USD 8,342,000. The transfer of the ownership of the shares and all rights, titles and interests thereto shall take place following the payment of the consideration defined and shall be subject to the necessary approvals of the US regulatory bodies that oversee and/or regulate the Companies.

Corporate Structure

LBC's strong commitment to continually expand has contributed immensely to the company's success in growing its reach across the globe, providing customers convenience while creating a reliable and strong connection with loved ones that kababayans, "Ka-LBCs," can trust.

As the country's number one express delivery, courier, and logistics company, our corporate structure is critical to LBC's strategic direction.



**As of end 2017*

2017 Milestones

A Catalyst for Local eCommerce Growth

Online sellers, "Social sellers," and other micro, small and medium enterprises (MSMEs) have become an integral part and catalysts of the Philippine economy—and LBC's unique proposition provides relevant payment solutions, tailor-fit for every entrepreneur.

With PAYCOLLECT, online sellers can use LBC as a payment collection station. Upon registration of a seller's complete automated accounting details,

LBC consolidates all payments for settlement to the designated account.

With REFUNDS, an online seller can use LBC to disburse refunds to buyers. In the event a customer is unsatisfied with the purchase, the customer can return the item through LBC, and likewise receive a full refund from the seller.

LBC also provides PAYROLL DISBURSEMENT for entrepreneurs; likewise, LBC branches are also available as LOADING AND UNLOADING (Withdrawal) Stations or can avail of Prepaid Cash Cards of Banks and other Non-Bank Card Issuers.

"LBC is committed not only to address the needs of our retail customers, but we are also extending our suite of services to companies and start-up entrepreneurs like online sellers and social sellers, who require payment and refund services. With LBC's over 1,300 branches nationwide, business to consumer (B2C) and customer to customer (C2C) transactions are faster and convenient."

Oliver L. Valentin, Senior Vice-President
Philippine Retail Operations, LBC Express, Inc.

Expanding Remittance Reach Even Further

LBC has forged an alliance with Landbank, "Ang Bangkong May Damdaming Bayan" to make encashment easier and more convenient for the latter's thousands of patrons.

Recognizing LBC's strong presence in key cities and provinces, the partnership seeks to continue to bring convenience to every Filipino by giving them more financial access.

LBC & iRemit: Creating Alliances Anchored on Bringing Joy

Overseas Filipinos can now count on a more convenient way to send remittances to their loved ones in the Philippines—thanks to LBC and iRemit signing a partnership agreement, allowing remittances sent via iRemit to be encashed at any LBC branch across the country.

The enhanced tie-up is especially beneficial for Overseas Filipino families who depend on LBC's reliability and accessibility, backed by its extensive network, and its reputation as the largest Filipino-owned non-bank remittance service provider.

Expanding Facilities for Better Efficiency

LBC Business Solutions got even bigger with the recent inauguration of their newest warehouse facility,dubbed "Kalayaan" in Carmona, Cavite.

The covered facility, which boasts of 4,966 square meters and an open expanse of 1,000 square meters is accessible via SLEX-Carmona Exit; Molino Road; R1-R2 Imus; and, MCX-Trece Martires. It is 45 minutes away from Pasay; an hour and a half away from Makati, Manila Port and Batangas Port; and, two hours away from CAMANAVA and Quezon City.

Equipped with state of the art machinery, it boasts a total lifting capacity of 41,000 kg. It can also hold hundreds of containers and has more than ample facilities like elevated loading bays and parking for container vans.

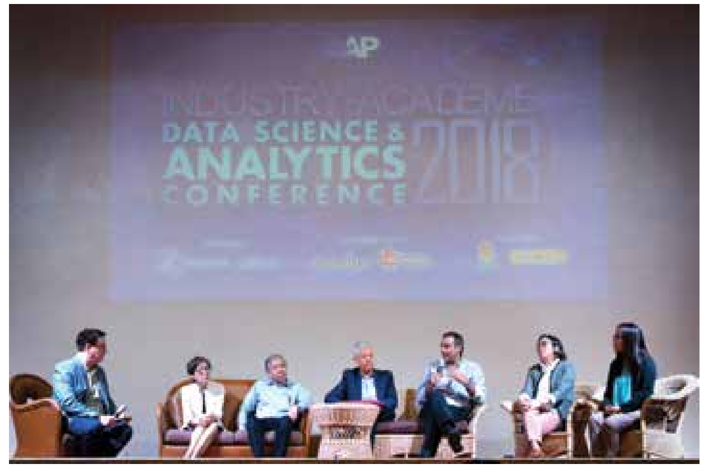
Achieving Consecutive Recognitions in Service of Filipinos

For the third time in a row, LBC is recognized as the Preferred Freight Forwarding Company at The Filipino Times (TFT) Awards 2017.

The award bestowed upon LBC, was in recognition of the above-par service and happiness they consistently bring to Overseas Filipinos and the customers they hold closest to their hearts.

"We are very proud of the achievements given to me, and most of all, LBC. This honor speaks of the goals we uphold and share with TFT, which is to provide good service to the Filipino community and the mission of bridging customers to their loved ones through their hard-earned "padala".
Mark V. Agalo-os, Vice-President, Middle East Operations, LBC Express, Inc.

Empowering the Development of Future Leaders

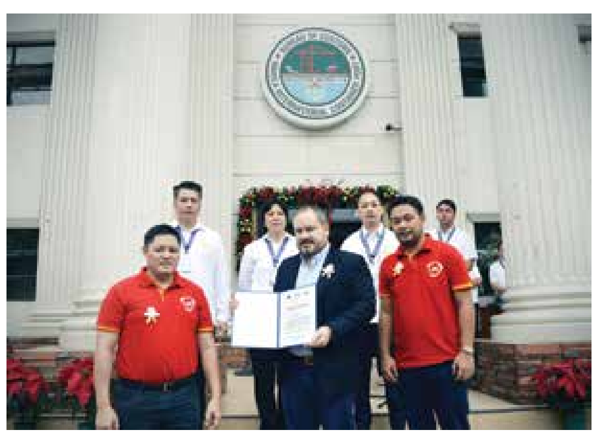


LBC continues to look for ways to prepare their customers, stakeholders and target markets for the new demands of the future.

To that end, their in-depth insight into the evolving needs of the industry was recently shared to some 300 university students and members of the academe at the 2018 Industry-Academe Analytics conference held at the University of Asia and the Pacific, with the theme "Bridging the Industry-Academe Analytics Gap through the APEC Data Science and Analytics Competencies."

The forum, organized by the newly formed Analytics Association of the Philippines (AAP), is intended to help academic institutions craft and deliver Business Analytics programs that are relevant for students and help various industries gain access to graduates ready for business analytics jobs.

"Undergraduate courses need to be able to incorporate the study of analytics more as demand for data analysts worldwide increase. For students, there must also be the willingness to understand and appreciate data." - Javier C. Mantecon, Chief Marketing Officer, LBC Express, Inc.



MICP Recognizes LBC's Highest Revenue Contribution in 2017

LBC was named the highest revenue contributing door-to-door consolidator for 2017-- a recognition was given to LBC by the Manila International Container Port (MICP) during their 39th Founding Anniversary.

LBC was honored alongside other importers, exporters, brokers, consolidators, MICP personnel and other stakeholders who contributed to the increased revenue collection of MICP from January 1 to November 30 of 2017.

"It's an honor to be able to help our government achieve its target revenues while providing our overseas Filipinos with an invaluable service." - Rene E. Fuentes, Senior Vice-President, Overseas Retail and Systems Operations, LBC Express, Inc.

Forging Strategic Ties with Japan Remit Finance

A partnership between LBC Express and Japan Remit Finance (JRF) now allows Filipinos working in Japan to send their remittances to loved ones back home safer and faster.

Established in 2011, JRF is an international money transfer and currency exchange company whose remittance reach extends to no less than 83 countries. As it seeks to be more globally-oriented, JRF has now teamed up with Business Logistics experts like LBC to cater to the needs of Filipinos living and working in Japan.

Money remitted by Overseas Filipinos via JRF can now be encashed at any LBC branch.

Supporting Education in Creative Ways

In the pursuit of their mission to make a difference in the lives of our many kababayans, LBC has strengthened its partnership with Returning Waves (RW), a group which promotes education through surfing.

Founded and established in the U.S. by Lynn Bryant ten years ago, RW grants surfboards to underprivileged kids who have shown love for the sport. Since then, the surfing localities that have benefitted from RW have reached 12; with LBC sponsoring the shipment of 25 surfboards annually from North America to the Philippines since 2015.

"We are happy to have found an ally in LBC. Not only is their network extensive, they have also consistently delivered our shipments in very good condition." - Victoria Fabella, Executive Director and Co-Founder of RW

LBC Allies with PNP-HPG Towards Safer Roads

LBC and the Philippine National Police Highway Patrol Group (PNP-HPG) has renewed another fruitful year of partnership, demonstrating how private companies and the government can work together in making a difference in the lives of the public they serve.

Led by LBC Senior Vice-President Oliver L. Valentin and HPG Director Atty. Arnel Escobal, 40-50 LBC delivery managers, supervisors, drivers, and riders underwent training with the HPG-PNP staff under the "The Disiplinadong Driver- Road Safety Marshal Orientation" program.

The partnership is essential to operations because LBC moves almost 96,000 parcels and cargo daily through their 1,800 combined fleet of motorcycles and trucks. In 2017, HPG was able to train 560 NCR-based drivers of LBC, which significantly reduced the number of recorded vehicular accidents.

"We are well aware of our civic duty to adopt and adhere strictly to public safety policies. By advocating safer roads, we want to impart the message that entities can do their job both successfully and responsibly, if they set their minds to it." - Atty. Arnel Escobal, Director, Highway Patrol Group

A Reliable Partner Here and Abroad

LBC Singapore (LBC-SG) was honored by the Philippine Overseas Labor Office (POLO) for being a reliable ally in extending services and assistance to distressed workers housed at the Migrant Workers and Other Overseas Filipinos Resource Center (MWOFRC).

The organization, which awards Philippine entities for their selfless and inspirational work for others, recognized LBC-SG's Express Airfreight service for being deliberate and efficient in delivering the Balikbayan boxes of OFWs.

"We are very thankful for this prestigious award. This motivates us to raise our services even more -- while making sure that we give our beloved Overseas Filipinos the joy and care they deserve." - Joel T. Mesina, Vice-President, Asia-Pacific Operations, LBC Express, Inc.

Moving Nations Forward

"Mahal Kita, Future Bayan!", an initiative by led Museong Pambata, sought to inspire younger generations through its powerful visual representation of unity and growth. In true bayanihan spirit, LBC joined others to showcase how the salient characteristics of this value continue to drive the country forward.

Their participation stems from how much they value nationalism, volunteerism, cooperation, community—all of which are critical to LBC's growth.

"We have long searched for partners and initiatives that share the same principles as a way to contribute to nation-building, progress, and economic vitality. And through this event, we were fortunate enough to have been given an opportunity to shine the spotlight on a symbolic initiative that will hopefully resonate with Filipinos on a wider scale." - Rea L. Gomez, Corporate Affairs, LBC Express, Inc.

Empowering Peace of Mind and Safety for All Filipinos

For LBC, it's not just about providing logistics solutions, but also about caring for the welfare of their customers. This is the message LBC communicated when it strengthened its partnership with Malayan Insurance to provide affordable micro insurance for every family.

For just PhP25, the Kaagapay Insurance offers coverage of up to PhP20,000.00 for accidental deaths; total permanent disability due to accident; and, disablement and dismemberment due to accident. It also provides for P5,000.00 insurance for murder and unprovoked assault; burial assistance in case of accident; and, fire assistance.

"Our role of giving joy to our loyal patrons extend well beyond our usual services. Because we value them, we also value their security and safety, as well as that of their families. We know that through the help of Malayan Insurance, we have opened the doors for everyone to protect themselves and their loved ones more affordably". - Oliver L. Valentin, Senior Vice-President, Philippine Retail Operations, LBC Express, Inc.

A Step Forward Towards Digital Transformation

LBC finalized a partnership with Ramco Systems to begin implementation of the latter's HR and payroll solution.

In an effort to streamline internal operations, LBC is leveraging on an automated system of HR, time and attendance, leave management, employee self service and recruitment. Initially rolled out locally, it will eventually be implemented across LBC's global operations in an effort to strengthen engagement and efficiency of the internal team team.

Moving towards a unified solution is a concrete step towards LBC's goal of achieving complete digital transformation.

"Anchored on LBC's service-centric values, and bolstered by our intent to focus on delivering value and joy in every aspect of our business, LBC looks forward to how we can continue to grow the business with partners who share our interest by our side." - Jhayner V. Bufi, Chief People Officer, LBC Express, Inc.

Making A Huge Step Forward for Education

With a focus on empowering access to education, LBC worked with key partners to deliver educational materials to communities in Marawi following their commitment to rebuild with stronger foundations through literacy.

Over 100 boxes of books—totalling around 5,000 volumes—were gathered by RT Good Samaritan Foundation, Adarna Foundation, Sari Sari Storybooks and Mr. Chris Mills; 1 computer donated by Ms. Rebecca Bustamante and family; and 10,000 books as well as 5 DVDs from Flipside publishing were gathered and delivered to five communities for the Library Renewal Partnership (LRP).

In addition, seven balikbayan boxes containing 1000 books from the Ortigas Foundation and Ortigas Library was delivered by LBC Foundation and Soar High Foundation to benefit several primary and elementary schools.

"Books matter. In fact, we believe they are an important part of anyone's learning journey and be game changing when it comes to overcoming some of the broader deficits related to educational access. This project is just a single, but no less relevant part of the whole educational experience and it's fortunate that we have found partners who share the same vision and understand its impact." - Christine L. Wuthrich, Executive Director, LBC Foundation

Ensuring Convenience and Expanding Reach

LBC seals partnership with PERA HUB as sub-agent of Western Union to further expand the company footprint and serve more Filipinos. The alliance is a timely move anchored not just on LBC thrust to offer reliability and convenience for kababayans all over the country, but also to support the rising volume of remittances sent by overseas Filipinos to families back home.

According to recent data provided by Bangko Sentral ng Pilipinas, remittances from January to July 2017 totaled $16.1 billion, an increase of 5.0%. With this collaboration, services will now be available across LBC's 1,300 branches nationwide, making it much more convenient for customers to receive money transfers received from Western Union.

"Our goal has always been to create more avenues for Filipinos to experience the convenience and reliability offered by LBC. This partnership with one of the most respected and trusted names in money remittance will definitely bring us a step closer to this overall vision."

Contributing to the Nation's Disaster Preparedness through Technology

LBC goes above and beyond their services to ensure that Filipinos are informed, assisted and safeguarded, no matter what season.

A new partnership with WeatherPhilippines! saw the launch of an app providing accurate weather forecasts all over the Philippines. The platform operates around 800 automated weather stations across the country, some of which are installed in select LBC branches.

The WeatherPhilippines app also gives the public a detailed weather forecast and enables the user to track typhoons and even determines which areas will be most affected.

"Our goal is to find ways to leverage on our network and capabilities that goes beyond our scope of services to serve Filipinos better. Disaster preparedness starts with awareness and information, and through digital technology, we're making a concrete step forward to achieving our vision." - Christian Guidotti, Vice-President, Administration, LBC Express, Inc.

Celebrating LBC's 1300th Branch

LBC continues to mark new milestones and opened its 1300th branch, located in Ligaya, Eastlink Center, Caniogan, Pasig.

The branch aptly symbolized LBC's renowned campaign - "AMING LIGAYA" which brings to light the whole thrust of LBC-- to bring joy to every Filipino they serve.

"We are humbled that we have grown this fast and this strong over the years. Our resolve to serve Filipinos across the globe by bringing their gifts of love across huge distances, is a commitment we will continue to pursue until the next generations." - Jesus Venice Arias, Vice-President, NCR Branch Operations, LBC Express, Inc.

Empowering Growth of eCommerce by Expanding eBay Philippines Services

eBay Philippines, one of the leading e-commerce sites in the world, is now working with LBC Business Solutions to give their merchants ways to deliver their goods (to their buyers) safely and efficiently.

As the country's biggest express delivery company with reliable money services, LBC is uniquely positioned to offer new capabilities to bolster the growth of eCommerce in the Philippines. Under the partnership, LBC's services to eBay merchants and their customers will not be limited to pickup and delivery of goods, but now includes cash on delivery (COD).

"Our vision is to evolve the current eCommerce industry model and tailor-fit our services based on the needs of each and every seller. It may be a challenge—but one that LBC is ready take on." - Jet. S. Paulo, Assistant Vice-President, Corporate Sales, LBC Express, Inc.

Reaching Significant Milestones in Air Cargo

The country's flagship carrier, Philippine Airlines (PAL) honored Over LBC with the coveted Diamond Award. While LBC has been consistently recognized for the significant volume of cargo loaded with the carrier since 2008, this year's award marks LBC's second consecutive win of PAL's highest recognition.

The Diamond Award is given to partners who have contributed over P100M to the carrier in net revenues and the millions in cargo and parcels sent through LBC and transported by PAL.

"It's an honor to receive this recognition from PAL and we look forward to growing our partnership further as we continue linking our customers across the miles. " - Dinna B. Tiongson, Vice-President, Systems Operations, LBC Express, Inc.

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