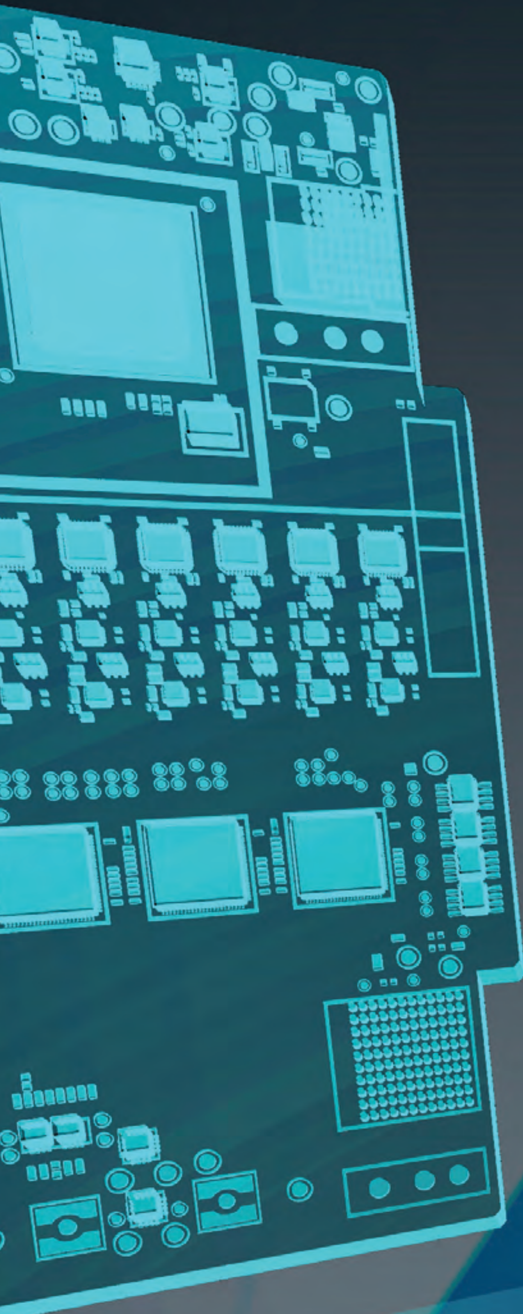
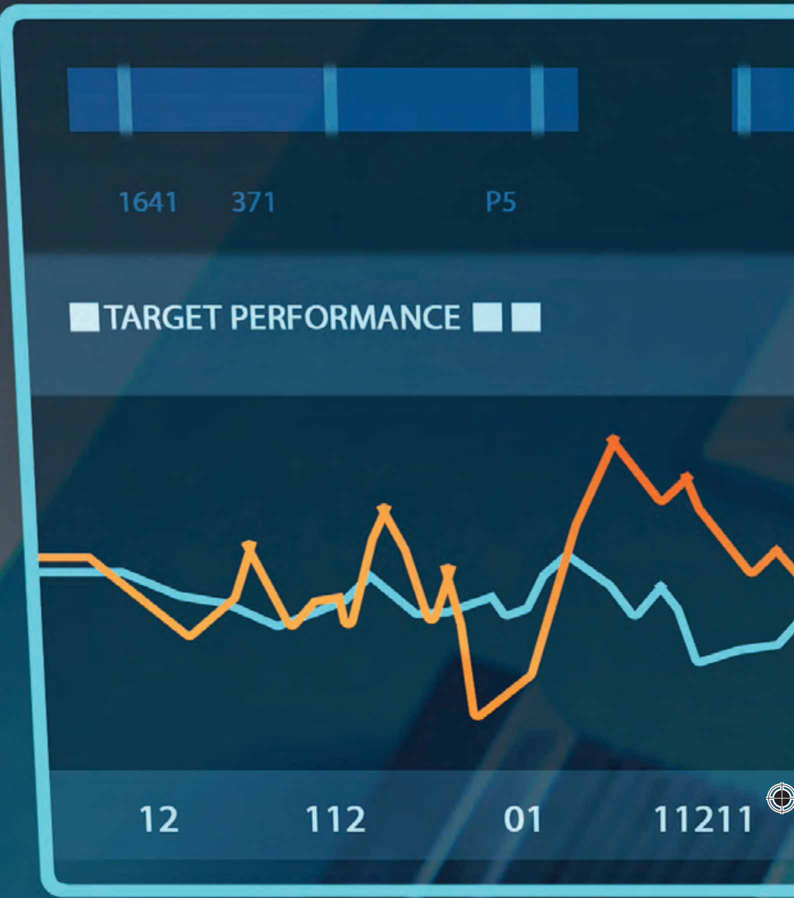
TRANSFORM TOMORROW

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TARGET PERFORMANCE
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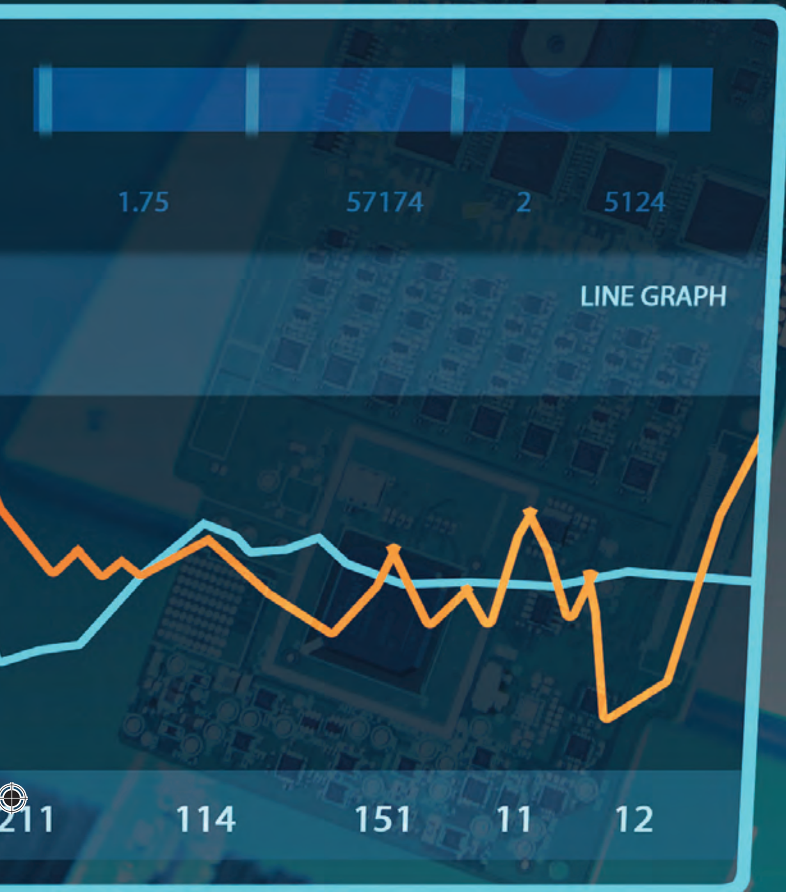

IMI IS MOVING TO TRANSFORM TOMORROW

We believe that enlightened innovation is transforming IMI in positive, meaningful ways. We are fully committed to our vision of responsible growth as we move quickly to expand our global presence. Significant advances in areas like robotics, artificial intelligence, and augmented reality applications are perceived as emerging challenges to our industry. We, however, see these disruptions as opportunities to future-proof our business, stay ahead of our competitors, and preserve the momentum we now have to pursue not just market, but thought leadership in everything we do.

2017 Annual Report

ABOUT IMI

At Integrated Micro-Electronics Inc. (IMI), we are committed to delivering global manufacturing solutions, including innovative electronics manufacturing services (EMS) and power semiconductor assembly and test services (SATS), and primarily serving original equipment manufacturers (OEMs) for diversified markets such as those in the automotive, industrial, aerospace, and other industries.

As the manufacturing arm of AC Industrial Technology Holdings Inc. (AC Industrials), we are part of Ayala Corporation's vision to assemble a portfolio of businesses across various platforms to capture opportunities in the domestic and global markets. AC Industrials is Ayala's newest subsidiary housing its current and future investments in automotive and industrial technologies.

We rank 20th in the list of top 30 EMS providers in the world by the Manufacturing Market Insider, based on 2016 revenues. In the automotive segment, we are the sixth largest EMS provider in the world per New Venture Research.

While specializing in highly reliable and quality electronics for long product life cycle segments such as automotive and industrial electronics, our presence is felt in eight countries with 19 manufacturing sites in the Philippines, China, Bulgaria, Czech Republic, Germany, United Kingdom, Mexico, and the United States along with its engineering facilities and sales offices across continents.

OUR VISION

The Leading INNOVATIVE Partner for CUSTOMIZED Solutions. Our PEOPLE deliver the HIGHEST quality experience.

OUR MISSION

Passionately create a unique product realization experience that our partners love.

OUR CORE VALUES

INTEGRITY	Honesty, trustworthiness, and consistency in words and actions
CUSTOMER FOCUS	Building strong partnership with customers by providing excellent and mutually beneficial solutions
CONCERN FOR OTHERS	Caring for co-employees, community, and country
EXCELLENCE	Doing the best and continuously exceeding expectations

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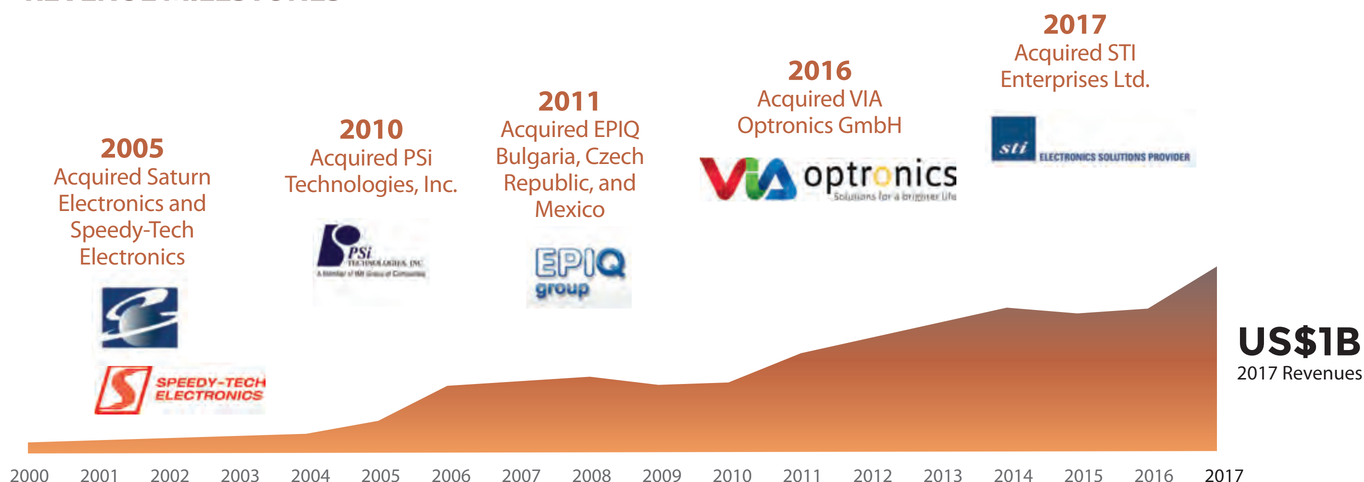
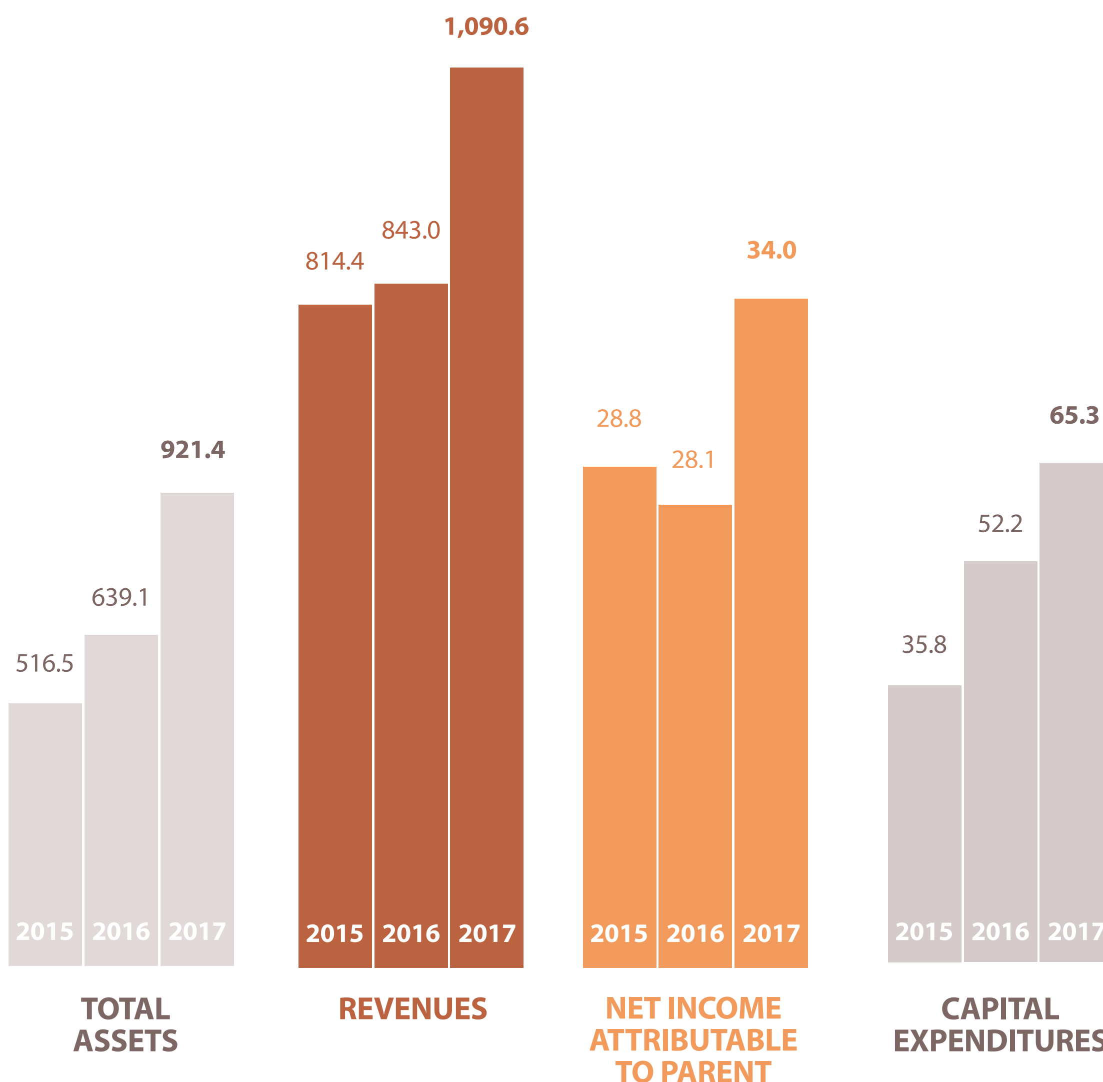
PERFORMANCE HIGHLIGHTS

REVENUE MILESTONES

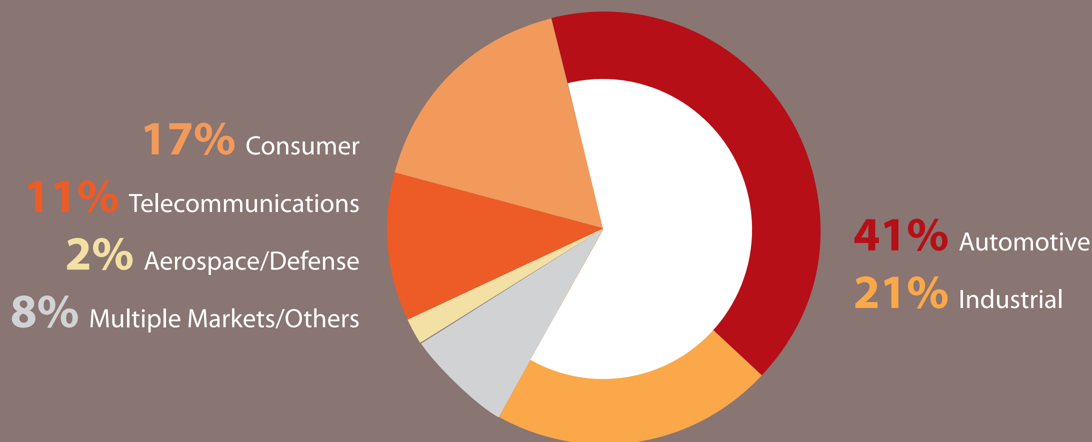




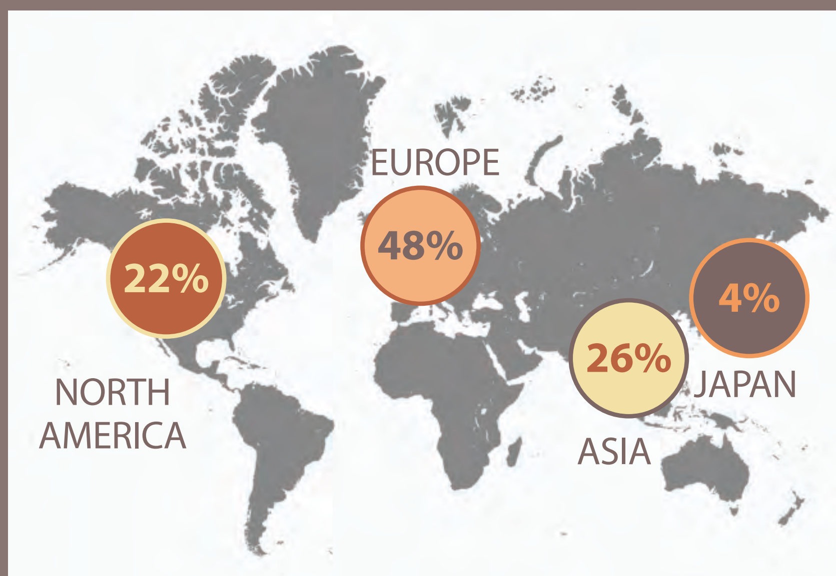
(All figures in US$ millions)

KEY PERFORMANCE INDICATORS	**2017**	2016	2015
Revenue growth	**29%**	4%	-4%
Gross profit margin	**11.9%**	12.0%	11.5%
Net profit margin	**3.1%**	3.3%	3.5%
EBITDA margin	**6.4%**	7.7%	7.2%
Return on assets	**3.7%**	4.4%	5.6%
Return on equity	**13.3%**	12.0%	12.8%
Earnings per share	**$0.018**	$0.015	$0.015
Current ratio	**1.28**	1.51	1.54
Debt/Equity ratio	**1.08**	0.74	0.48

REVENUE PER INDUSTRY



REVENUE BY CUSTOMER NATIONALITY



GLOBAL FOOTPRINT

Not many Philippine-based multinational companies are able to stay strong and resilient after 37 years. Now with 19 manufacturing sites in eight countries, IMI has proved that it can develop its people across boundaries and beyond borders.

USA

Tustin, California

MEXICO

Guadalajara

Total manufacturing space of +287,000m²
in 19 manufacturing sites across 8 countries

UNITED KINGDOM

Poynton, Cheshire

Hook, Hampshire

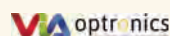
CHINA

Kuichong, Shenzhen

Pingshan, Shenzhen

Chengdu

Jiaxing

Suzhou 

GERMANY

Nuremberg

CZECH REPUBLIC

Třemošná

Botevgrad

BULGARIA

PHILIPPINES

Lapu-Lapu, Cebu

Biñan, Laguna

Rosario, Cavite

Calamba, Laguna

16,748

Employees worldwide

Message from the Chairman

MAINTAINING A POSITION OF STRENGTH

Over the past year, IMI remained focused on expanding its capabilities in the light of digital transformations taking place globally. Through test systems, automation, robotics, customized process flows, and platform development, IMI is laying the groundwork that will allow it to take advantage of opportunities in a rapidly changing global manufacturing industry.

IMI remains among the top 20 EMS providers in the world, and has maintained its rank as the world's sixth largest automotive EMS provider. This position of strength bolsters IMI's role as the foundation for AC Industrials, a new grouping we formalized in 2017 as the Ayala group's platform in industrial technologies.

With the Ayala group's industrial technologies and automotive interests consolidated under one pillar, AC Industrials is well-positioned to capitalize on opportunities arising from disruptive technological shifts, changing industry landscapes, and increasing demand from end-users.

This new ownership structure provides IMI with opportunities to participate in global disruptions and megatrends, while building on its core expertise in manufacturing. For instance, our automotive manufacturing strategy is anchored around trends that can dramatically transform the industry, including rising electrification and increasing "intelligence" of vehicles.

This is part of the company's drive to keep reinventing itself, ensuring that it stays relevant amid the volatility of the global electronics industry and the rapid pace of technological breakthroughs. IMI is determined to grow its high-value segments within automotive, industrial, and aerospace while further expanding its product offerings.

As a leading global manufacturing solutions partner, IMI continues to be a conduit to tap different markets and technologies around the world. Our manufacturing plants in the Philippines, China, Bulgaria, Czech Republic, Germany, United Kingdom, Mexico, and the United States have created a platform from which we can expand and grow into other regions.

With the company's global footprint, and a window into the disruptive technologies of the future, IMI is primed to adapt to technological transformation in the global manufacturing industry. This unique vantage point—built around a strong track record and an understanding of the new technologies and applications reshaping business models, production systems, and even entire organizations—will be instrumental in our strategy for years to come.

As a final word, IMI is doing its part in contributing to the Ayala group's commitment to the United Nations' Sustainable Development Goals. IMI's success as a company is anchored on the relationships we have with our people, the communities in which we operate, our customers, and the overall environment. Sustainability underpins our innovation philosophy—a forward-looking approach that allows us to stay ahead of the competition, while offering better products to our customers and providing solutions to today's challenges. As we move into the future, IMI remains committed to creating and sharing value to all our stakeholders.

What the company has achieved in the past year would not have been possible without the continued support of our Board of Directors, Management Committee, employees, partners, customers, and shareholders. It is thanks to you that IMI has become a formidable player in the electronics manufacturing space—with even greater potential to be realized in the years to come.

Thank you, as always, for your commitment.

"IMI is primed to adapt to technological transformation in the global manufacturing industry."

JAIME AUGUSTO ZOBEL DE AYALA
CHAIRMAN

FORESIGHT, FOCUS, AND PASSION

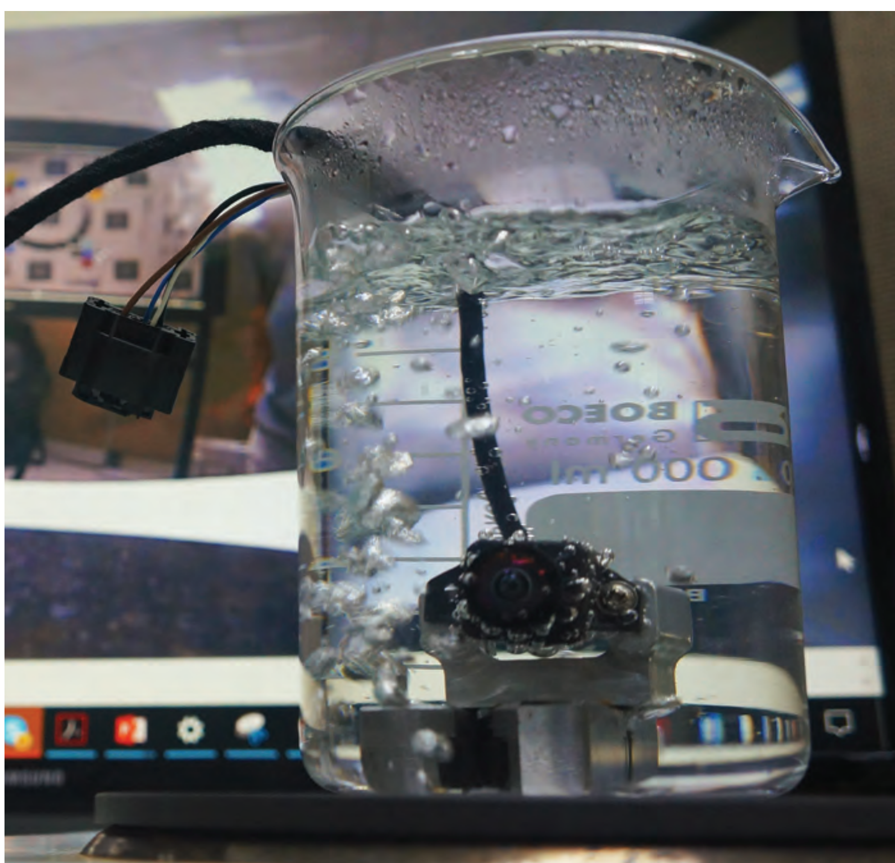
Indeed, 2017 was a robust year for IMI. We have evolved through the changing world of electronics and its challenging environment, while never losing sight of the reason we are here—to serve our customers and our communities across the globe and to maximize value for our shareholders. We have become stronger and more focused with a clear vision of how we intend to develop the business over the coming years.

2017: Another year of momentum

The year 2017 was a milestone for IMI as we broke the billion-dollar threshold and grew by 29 percent from the previous year. We ended the year with 19 manufacturing sites in eight countries. Total shareholder return, a measure that combines the change in share price plus dividends, reached 215 percent, outperforming the Philippine Stock Exchange index (PSEi) at 27 percent over the same period.

Portfolio growth and technology leadership

As important as our financial performance is to us, we have also pursued a strategic agenda. We have grown organically as well as through further acquisition, allowing us to move both vertically and horizontally in fast-growing markets while increasing our presence in the world.



Each of our operations in the Philippines, China, Bulgaria, Czech Republic, Germany, United Kingdom, Mexico, and US brings a unique, yet cohesive portfolio of capabilities and skill sets. Although each operation is successful on its own, the collective group is one of the key reasons our customer base is expanding and our value proposition world-class.

Ten years ago, we already decided to invest in and focus on the automotive sector. Today, that decision has led IMI to becoming the sixth largest automotive electronics manufacturing services (EMS) company in the world. As a partner-of-choice in building technologies like sensing cameras, advanced driver assistance systems, lighting, body control modules, battery management, and displays, we will be a critical contributor to the digital car of tomorrow.

With megatrends such as climate change, mobility, and the rise of cleaner and greener technologies in industry and transportation, we know that our significant achievements today will enable us to be more involved in the future of manufacturing.

I am particularly excited by the investments we are making in growth areas such as displays and satellite communications. Our acquisitions of VIA Optronics in 2016 and Surface Technology International (STI) Enterprises Ltd. in 2017 are central to these technologies. Mirror replacement systems in automotive, next-generation satellite communications, robotics and machine learning—these are important elements that IMI continues to build on as the digital environment of today revolutionizes the Human Machine Interface (HMI) systems of tomorrow.

Moving forward with confidence

In my time in the industry, I have seen many cycles. And in each cycle, unprecedented challenges and opportunities are coming from multiple directions. All in all, what has become clear to me is that only organizations with foresight, focus, and passion, like ours, will prevail over time.

In view of this, I am entirely realistic about the complexity of the challenges ahead. What remains important is that we continue to create an excellent platform for future growth—whether internally or through our parent company, AC Industrials. We seek to integrate and support the businesses we have acquired so we can access new customers and ensure that they experience the benefit of our expanded network and offerings. Through our parent company AC Industrials, while remaining as a catalyst for the Ayala group, IMI will continue to leverage our manufacturing expertise to capture opportunities arising from new business ventures, like KTM AG and Misslbeck Technologies—both envisioned to provide growth and enhanced capabilities to IMI.

On behalf of the Board and Management Committee, I would like to welcome our colleagues who have joined us recently and to thank our stakeholders for their trust, our employees around the world for their commitment, and you, our shareholders, for investing in IMI.

"All in all, what has become clear to me is that only organizations with foresight, focus, and passion, like ours, will prevail over time."

ARTHUR R. TAN
CHIEF EXECUTIVE OFFICER - IMI
GROUP PRESIDENT
AND CEO - AC INDUSTRIALS

BOARD OF DIRECTORS

JOSE IGNACIO A. CARLOS
Director

FERNANDO ZOBEL DE AYALA
Director

JAIME AUGUSTO ZOBEL DE AYALA
Chairman

ARTHUR R. TAN
Chief Executive Officer

RAFAEL MA. C. ROMUALDEZ
Director

JAIME AUGUSTO ZOBEL DE AYALA, Filipino, 58, has served as chairman of the Board of Directors of IMI since January 1995. He holds the following positions in publicly listed companies: chairman and CEO of Ayala Corporation; chairman of Globe Telecom Inc. and Bank of the Philippine Islands; and vice chairman of Ayala land Inc. and Manila Water Company Inc. He is also the chairman of Ayala Education, Ayala Retirement Fund Holdings Inc., AC Industrial Technology Holdings Inc. and Asiacom Philippines Inc.; co-chairman of Ayala Foundation Inc. and Ayala Group Club Inc.; director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy Holdings Inc., Ayala Healthcare Holdings Inc., LiveIt Investments Limited, AI North America Inc., and AG Holdings Limited; chairman of Harvard Business School Asia-Pacific Advisory Board; and member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, and Endeavor Philippines. He was the Philippine Representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council from 2010 to December 2015. He graduated with B.A. in Economics (Cum Laude) from Harvard College in 1981 and obtained an MBA from the Harvard Graduate School of Business Administration in 1987. In 2007, he received the Harvard Business School Alumni Achievement Award, the school's highest recognition. He was a recipient of the Presidential Medal of Merit in 2009 for enhancing the prestige and honor of the Philippines both at home and abroad. In 2010, he was bestowed the Philippine Legion of Honor, with rank of Grand Commander, by the President of the Philippines in recognition of his outstanding public service. In 2015, he received the Order of Mabini, with rank of Commander, for his vital contributions during the Philippines' hosting of the Asia Pacific Economic Cooperation (APEC) Summit.

FERNANDO ZOBEL DE AYALA, Filipino, 57, has served as a director of IMI since January 1995. He holds the following positions in publicly listed companies: director, president, and chief operating officer of Ayala Corporation; chairman of Ayala Land Inc. and Manila Water Company Inc.; and director of Bank of The Philippine Islands and Globe Telecom Inc. He is the chairman of AC International Finance Ltd., Ayala International Holdings Limited, Accendo Commercial Corporation, Alabang Commercial Corporation, Automobile Central Enterprises Inc., AC Industrial Technology Holdings Inc., Liontide Holdings Inc., AC Energy Holdings Inc., Ayala Healthcare Holdings Inc., and Hero Foundation Inc.; co-chairman of Ayala Foundation Inc. and Ayala Group Club Inc.; Vice Chairman of Ceci Realty Inc., Vesta Property Holdings Inc., Aurora Properties Inc., Columbus Holdings Inc., Emerging City Holdings Inc., Fort Bonifacio Development Corporation, and Bonifacio Land Corporation; Director of LiveIt Investments Ltd., Asiacom Philippines Inc., AG Holdings Limited, Ayala International Holdings Limited, AI North America Inc., AC Infrastructure Holdings Corporation, Ayala Retirement Fund Holdings Inc. , Honda Cars Philippines Inc., Isuzu Philippines Corporation, Pilipinas Shell Petroleum Corp., Manila Peninsula, and Habitat for Humanity International; member of the INSEAD East Asia Council, World Presidents' Organization, Habitat for Humanity International, Asia Philanthropy Circle, TATE Asia Pacific Acquisitions Committee, and The Metropolitan Internal Council; chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; and member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, National Museum, Asia Society. He graduated with B.A. Liberal Arts at Harvard College in 1982 and holds a CIM from INSEAD, France.

ARTHUR R. TAN, Filipino, 58, is a member of the Board of Directors of IMI since July 2001. He has been the chief executive officer of IMI since April 2002. Concurrently, he is a senior managing director of Ayala Corporation and a member of the Ayala Group Management Committee. He is also the chairman of the board and chief executive officer of PSi Technologies Inc., president and chief executive officer of Speedy-Tech Electronics Ltd.; and president and chief executive officer of AC Industrial Technology Holdings Inc. He was the president of IMI from April 2002 to June 23, 2016. Prior to IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts, USA), from 1994 to 1998, of which he became the managing director for Asia Pacific Region/Japan from 1998 to 2001. He graduated with B.S. in Electronics Communications Engineering degree from Mapua Institute of Technology in 1982 and attended post graduate programs at the University of Idaho, Singapore Institute of Management, IMD and Harvard Business School.

JOSE IGNACIO A. CARLOS, Filipino, 48, has been a director of IMI since December 2006. Concurrently, he is the president of Polymer Products Philippines Inc. and AVC Chemical Corporation. He is also a member of the Board of Directors of Resins Inc., Riverbanks Development Corporation, Mindanao Energy Systems, Inc., Cagayan Electric Power and Light Co., and Philippine Iron Construction and Marine Works Inc. He earned a BS Management degree from the Ateneo de Manila University in 1991 and finished Master of Business Administration at the Johnson Graduate School of Management Cornell University in 1999.

RAFAEL MA. C. ROMUALDEZ, Filipino, 54, has been a director of IMI since May 1997. He is presently a director of Resins Inc., RI Chemical Corporation, Chemserve Incorporated, Claveria Tree Nursery Inc., Lakpue Drug Incorporated and La Croesus Pharma Incorporated. He is also the chairman of the Philippine Iron Construction and Marine Works Inc., Pacific Resins Inc., and MC Shipping Corp. He earned a degree in B.A. Mathematics from Boston College in 1986 and took Master in Business Administration at the George Washington University in 1991.

BOARD OF DIRECTORS

EDGAR O. CHUA
Independent Director

ALELIE T. FUNCELL
Independent Director

HIROSHI NISHIMURA
Independent Director

GILLES BERNARD
President and
Chief Operating Officer

DELFIN L. LAZARO
Director

JOSE TEODORO K. LIMCAOCO
Director

GILLES BERNARD, French, 60, has been a director and the president of IMI since June 23, 2016, and the global chief operating officer of IMI since February 2016. He holds this position on top of his role as head of Global Operations Support. Concurrently, he is also the president of PSi Technologies 51 Inc., a semiconductor assembly and test subsidiary of IMI. Before this movement, he was the COO for Europe and Mexico operations and head of Global Operations Support overseeing global Materials Management, Quality, Sales and Key Strategic Accounts Management. Prior to joining IMI, he was the general manager of EPIQ NV from 1995 up to 2001, before he assumed the CEO post in 2001. He held this position until EPIQ NV's acquisition in 2011. He started his career as a development engineer and later on became D & D manager of passive components division of Thomson. He then moved to the SMEE subsidiary of Mitsubishi Corporation as quality manager of SMEE. He finished a degree in Engineering and obtained a master's degree in Physics and Chemistry from Paris 13th University in 1976.

DELFIN L. LAZARO, Filipino, 71, has served as member of the Board of IMI since May 2000. He holds the following positions in publicly listed companies: director of Ayala Corporation, Ayala Land Inc., Manila Water Company Inc., and Globe Telecom Inc. His other significant positions include: chairman of Philwater Holdings Company Inc. and Atlas Fertilizer & Chemicals Inc.; chairman and president of A.C.S.T. Business Holdings Inc.; vice chairman and president of Asiacom Philippines Inc.; director of AC Industrial Technology Holdings Inc., Ayala International Holdings Ltd., AYC Holdings Inc., Bestfull Holdings Limited, and Probe Productions Inc.; and Trustee of Insular Life Assurance Co., Ltd. He graduated with BS Metallurgical Engineering at the University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

JOSE TEODORO K. LIMCAOCO, Filipino, 55, has been a director of IMI since April 8, 2016. He also holds the following positions in publicly listed companies: chief finance officer and Finance Group head of Ayala Corporation, director of Globe Telecom Inc., and an independent director of SSI Group Inc.. He is the chairman of Darong Agricultural and Development Corporation, and Zapfam, Inc. He is the chairman, president, and CEO of Water Capital Works Inc. He is the president of Liontide Holdings Inc. and of Philwater Holdings Company Inc. He is a director of Ayala Hotels Inc., AC Energy Holdings Inc., Ayala Healthcare Holdings Inc., Ayala Aviation Corporation, Ayala Education Inc., Asiacom Philippines Inc., AG Counselors Corporation, Michigan Holdings Inc., AC Industrial Technology Holdings Inc., LICA Management Inc., and Just For Kids Inc. He joined Ayala 52 Corporation as a managing director in 1998. Prior to his appointment as CFO in April 2015, he held various responsibilities including president of BPI Family Savings Bank, president of BPI Capital Corporation, officer-in-charge for Ayala Life Assurance Inc., and Ayala Plans Inc., trustee and treasurer of Ayala Foundation Inc., president of myAyala.com, and CFO of Azalea Technology Investment Inc. He served as the president of the Chamber of Thrift Banks from 2013-2015. He has held prior positions with JP Morgan & Co. and with BZW Asia. He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

ALELIE T. FUNCELL, Filipino, 62, has been an independent director of IMI since April 2010. She is the founder, CEO, and president of Renewable Energy Test Center. She served as chief operating officer and senior vice president of Quality at Solaria Inc., a manufacturer of c-Si Photovoltaic products and vice president of Supplier Management and Manufacturing Operations of Xilinx Inc., a billion-dollar semiconductor company. She is not a director of any publicly listed company. Prior to Xilinx, she also worked in several semiconductor companies, including Intel, IDT, and Silicon Systems. She is credited with numerous patents in the Semiconductor Packaging and Solar Industry. She is twice a recipient of the S.C. Valley YWCA "Tribute to Woman in the Industry" (TWIN) Award in 1994 while at IDT and in 2000 while at Xilinx. She was president of the Filipino-American Association of Milpitas, California in 1994 to 1996, a very active Bay area Filipino organization. She received an award from the FWN, as one of the 100 Most Influential Filipino Women in the United States in 2009. She finished a degree in Chemical Engineering at University of Santo Tomas in 1977.

HIROSHI NISHIMURA, Japanese, 65, has been an independent director of IMI since April 2010. He is the chairman and president of Linkwest International Consultancy Services, Inc. He also serves as the executive vice president of All Purpose Appliances & Multi-Products Inc. He served as president of Panasonic Communications Philippines Corporation (PCP), formerly known as Kyushu Matsushita Electronics Philippines (PKME), from 2000-2007. He finished a degree in Electronics Engineering course at Kurame University in 1976.

EDGAR O. CHUA, Filipino, 61, has been an independent director of IMI since April 2014. He is the chairman of Pilipinas Shell Petroleum Corporation, a publicly listed company; and currently in the advisory boards of Mitsubishi Motors & Coca-Cola FEMSA Philippines. He is also the chairman of the Makati Business Club and trustee of various civic and business organizations including the National Competitiveness Council and the Trilateral Commission. He held senior positions outside the Philippines as Transport analyst in Group Planning in the UK and as general manager of the Shell Company of Cambodia, and various regional positions in Shell Oil Products East. Mr. Chua earned his Bachelor of Science degree in Chemical Engineering from De La Salle University in 1978 and attended various international seminar and courses including the senior management course in INSEAD, France.

MANAGEMENT COMMITTEE

MONINA C. MACAVINTA
Global Head,
Human Resources

JEROME S. TAN
Chief Finance Officer

ARTHUR R. TAN
Chief Executive Officer

GILLES BERNARD
President and
Chief Operating Officer

TIMOTHY PATTERSON
Global Head, Advanced
Manufacturing Engineering

OLAF GRESENS
Global Head, Strategic
Business Development /
Mergers and Acquisitions

MARY ANN S. NATIVIDAD
Global Head, Sales
and Marketing

LINARDO Z. LOPEZ
Global Head,
Materials Management

MANAGEMENT TEAM

OPERATIONS GROUP
PHILIPPINES
Mario Bernardo N. Santos
Andrew C. Carreon
Jawaharlal K. Milanes

CHINA
Yeung Hin Wai (Jacky)
Sze Chee Pheng (Joseph)
Yang Gong Xiao (Jack)
Joselito S. Bantatua
Tian Kia Ko (T.K.)

BULGARIA
Eric De Candido

CZECH REPUBLIC
Jean-Marie Penven

MEXICO
Juan Jose Herran

SINGAPORE
Kot Yui Kuen (Alex)

USA
Timothy Patterson

GLOBAL AUTOMATION GROUP
Elanchezhiyan Natarajan (EU)
Galland Tolentino (Asia)

TECHNOLOGY & INNOVATION GROUP
Philippe Marquet
Lucrecio B. Mendoza
Dominador P. Leonida III

SUPPORT GROUP
FINANCE
Jaime G. Sanchez
Anthony Raymond P. Rodriguez

SALES
Thibaut de Vaureix
David Chavez
Ma. Alicia Carla G. Buencamino
Qing Cheng Ren
Jeremy Cowx

SUPPLY CHAIN
Johan van der Knokke
Fraser Clydesdale
Zheng Xianlai (Peter)
Philippe Antunez
Joy A. Bondoc

CORPORATE QUALITY
Leonorina G. Cada

FACILITIES
Geronimo B. Magsombol

ICT
Rosalyn O. Tesoro

PSi Technologies, Inc.
Gilles Bernard
Jaime G. Sanchez
Mario Bernardo N. Santos

VIA Optronics GmbH
Jürgen Eichner
Daniel Juergens

STI Enterprises, Ltd.
Simon Best
Craig Petrie

A FUTURE FORCE

IMI, Your Global Manufacturing Solutions Partner

INCREASING MOMENTUM

It was another good year for IMI as the company reached new milestones along with new opportunities in the pipeline. IMI increased its momentum as it exceeded US$1 billion in revenues while also expanding its customer base. Our core business, focused mainly on the automotive and industrial sectors, closed 2017 with revenues of US$897 million, representing growth of +9 percent versus 2016. Total sales from the two recent acquisitions, VIA Optronics and STI Enterprises, Ltd., accelerated IMI's global revenue growth by contributing a combined US$194 million. Consolidated revenues stood at US$1.1 billion, outperforming last year by +29 percent.

We have positioned IMI in three core strategic markets: automotive, industrial, and—most recently—aerospace. We are doing this to deliver more stable, long-term businesses and high operational profits. And the benefit of this strategy is now coming through in our results. Our industrial business ended the year with record high growth of +25 percent, while our revenues in the automotive sector grew +18 percent year-on-year.

IMI Jiaxing

Net income reached US$34 million, up +21 percent year-on-year. Net income margin of our core business registered 4.0 percent, strengthened by increased demand in the automotive and industrial segments. Meanwhile, the newly acquired enterprises delivered positive results operationally, while still being trimmed down by acquisition-related expenses. Overall, net income margin stood at 3.1 percent, still within the industry average.

Because we want to modernize our infrastructure and production facilities, we invested in automation and upgraded machinery to improve productivity and efficiency. We also spent on new production lines and production extensions in our Europe and Mexico plants to further expand our capacity. For 2017, we spent US$65.3 million in capital expenditures to support these expansion programs and to undertake new innovative platforms. We also made every effort to attract and retain highly skilled engineers who are experts in their fields amidst the increasing war for global talent. These efforts gave us an edge as demonstrated by gains in our customer satisfaction, productivity, and sales growth.

We invested in big customer projects, which we believe will deliver sustainable returns in the long run. These projects will pave the way for the technological prerequisites of electronic advanced driver-assisted systems (ADAS), electric and hybrid vehicles (EV), and demanding applications in the field of power electronics. Building the technology in collaboration with our customers helps us provide the right solutions and improve our services. This opportunity-building ensures that IMI stays ahead of its competition.

"All we have accomplished in 2017 has not distracted us from preparing for the future."

All we have accomplished in 2017 has not distracted us from preparing for the future. Our sales team worked closely with the operations group to deliver US$314 million in new awards, half of which are customers in the European region. About 58 percent of the newly awarded projects are from the automotive segment and 17 percent from the industrial segment, which will go into mass production in the next three years. At IMI, we manage our sales pipeline effectively by focusing on opportunities that will create value to the company and to our stakeholders.

Sustainable Growth

Year after year, we demonstrate our business stability by ensuring we maintain profitability targets despite significant investments that have not materialized but are expected to reach optimum capacity in the coming years, and continuing to live our vision, mission, and values. We have the long term support of all our shareholders, a global presence in design and manufacturing, and the flexibility to act fast before any opportunity arises. These are the reasons why we can achieve sustainable success, and effectively assess what we can do differently to raise the bar and build a culture of excellence.

We recently strengthened our technical expertise in our industrial and automotive segments through our acquisition of VIA Optronics and STI Enterprises. The acquisition of VIA enables the group to introduce patented technology into automotive camera monitor systems for better safety and to build highly reliable and efficient touch screen displays for the next generation of cars. STI Enterprises, which provides electronics design and manufacturing solutions in both printed circuit board assembly and full box-build manufacturing for high-reliability industries, will help strengthen IMI's industrial and automotive manufacturing competencies, broaden its customer

base, and will also provide access to the UK market. There are opportunities for improved operations due to increased scale and for supply chain optimization leading to stronger price negotiations.

When we invest, we take a long view. With this approach, we have produced our own customized components for AC/AC, AC/DC, or DC/DC applications in partnership with the leading global semiconductor die producer. Combined with our legacy in engine control unit design and manufacturing, the significant investments in power module components that we have made in the last three years plus the recruitment of key experts have resulted in our success and proven ability to execute on our vision. These developments reap exciting opportunities based on our investments in automation and power module, as well as our recent acquisitions. We expect significant sales growth in our core businesses—automotive and industrial markets—in the next three years, in addition to more than US$600 million per year awarded to IMI during the last two years.

In line with IMI's strategy to strengthen our global footprint, we are also developing a facility in Niš, Republic of Serbia. The opening of this new production facility in southeastern Europe offers significant growth potential that will support the growing market for automotive components in Europe. The construction of the manufacturing facility is expected to be completed in the second half of 2018.

"When we invest, we take a long view."

IMI's Organization Management

Three years ago, we started an alignment and integration in our global operations. The integration of business processes with our supply chain allowed strategies to be matched within the group and the establishment of execution standards across the organization. This opened the door for similar project awards to be granted to our different manufacturing plants. The strategy enabled the sharing of insights and best practices, ensuring that internal processes are well-coordinated and issues are resolved in real time. This alignment will provide faster and cost-efficient new product introduction which is precisely what the customer needs.

IMI Bulgaria

Our organization remains bent on creating an atmosphere and working environment that encourages collaboration—sharing skills and talents across all sites. We maintain a global pool of talent that allows cross-posting and assignment in any of our manufacturing plants as needs arise. To help us measure our corporate strengths, we monitor people engagement and employee satisfaction through an annual Employee Engagement Survey. In 2017, our survey results improved from the previous year with all engagement factors exceeding Philippine norms, global high-performance norms, and Ayala Group PH norms. We also maintain a succession planning program to ensure that the business will continue to run smoothly by identifying and training high-potential employees for key management roles. All these activities promote quality and development of skills across different sites, and ensure better performance.

Challenges in a Competitive Environment

One of the challenges I face is overseeing 19 manufacturing sites across eight countries. This means trying to ensure that each different culture reacts in exactly the same way, getting all the required information of any project at the same time from different locations, and executing the same procedures and discipline to deliver the same quality to our customers.

We operate in a global market, and our customers demand consistency in our negotiations and relevant communications in real time. Communication must be kept simple and accurate. Best practices and risk analysis must be aligned for each project's success. At IMI, we have created a function industrial excellence (IE) group focused precisely on managing challenges like these.

IMI Czech Republic

IMI Jiaxing

IE also coordinates the selection of future processes needed by our cross functional teams. In coordination with our Advanced Manufacturing Engineering group, IE ensures that a new process explored in plant A will be duplicated in plant B. Our IE team evaluates and prepares us while integrating new and emerging technologies, such as robotics and the Internet of Things (IoT).

The great demand from emerging markets such as ADAS or EV, where IMI has begun to play a major role, created pressure in components allocation that led to challenging sales and on-time delivery goals. The flexibility of our operations driven by a recently strengthened central materials team, however, lessened the effect for our Tier 1 and OEM customers.

Another challenge is how to respond to the many newcomers in the electronics industry offering low-priced solutions to Tier 1 and OEM customers. IMI believes that in a technology-driven market, quality and safety is of great importance. We can never compromise on safety and our commitment to quality in exchange for mere profits.

Collaborative Coordinated Effort (CCE) at IMI

For me, CCE can be considered as one of our core values, joining integrity, customer focus, concern for others, and excellence. Each day we appreciate its benefits, particularly when project teams face unexpected challenges, including global crises like electronic components, materials, and supply shortages. Facing these difficulties, I encourage a collective team performance from everyone, of whatever rank, giving priority to supporting each other while dedicating the necessary time and energy over accomplishing individual Key Performance Indicators (KPIs). At the end of the day, focus must be on reaching global KPIs that ensure we deliver outstanding value to our customers.

We are always in the same business and the Company's goal each year is to deliver targets, be it from core businesses or new ventures. There will always be disruptive changes along the way, and many factors can change the market, from new competitors to new technologies and innovations. We at IMI are ready for this impact. Through investments and permanent search of flexibility without compromising profits, we will be able to move ahead more rapidly and create added value for our customers. I perceive IMI to be on the right track, driven by a high performance team that is ready to go the extra mile. As we move forward, I invite all our shareholders, the IMI workforce and management, and our partner communities to experience this exciting journey with us.

GILLES BERNARD
PRESIDENT AND
CHIEF OPERATING OFFICER

#IMIisFutureReady

AUTOMOTIVE

Automotive sensing cameras used in advanced driver assistance systems (ADAS) are projected to increase from about 90 million units to more than 200 million from 2016 to 2021 with a CAGR of 18 percent. *(Source: Techno Systems Research)*

Worldwide sales of electric vehicles (EV) will continue to grow at almost 30 percent CAGR from about 1.2 million units in 2017 to above 20 million by 2030. *(Source: Bloomberg New Energy)*

INDUSTRIAL

The market of Industry 4.0 would have a CAGR of 12 percent from 2016 to 2022 from $67 Billion to $152 Billion with a global adoption rate of about 70 percent of global companies by 2020. *(Sources: PWC, Markets & Markets)*

In the digital era, the global electronic access control system (EACS) market will have a CAGR of more than 10 percent from 2017 to 2023, from $20.5 Billion fueled by the need for more security and safety. *(Source: Zion Market Research)*

AEROSPACE

The market of internet of things (IoT) in satellite communications (SATCOM) will have the fastest growth rate in any satellite segment at 20 percent CAGR from 2015 to 2022. *(Source: Frost & Sullivan)*

STRONG AND RESILIENT

As the relentless parade of disruptive technologies unfolds, IMI continues to prepare for major shifts in key market segments by building capabilities and finding niche opportunities.

ERIC DE CANDIDO
HEAD, EUROPE OPERATIONS

"The electronic content in vehicles is increasing at a fast pace, offering a number of opportunities for automotive EMS. With the onset of global digitalization and megatrends, IMI is gearing up for the disruptive technologies now emerging in autonomous driving, electrification and connectivity through internal advanced development, automation, creating new capacity, partnerships, and acquisitions."

Automotive

As vehicles become more electric, intelligent, and connected, the expertise needed in the supply chain becomes more complex, requiring partners and suppliers to have extended geographic footprints in NAFTA, Europe, and Asia. This strategy drives IMI's direction in serving Tier 1 and 2 automotive suppliers, targeting areas of high quality and reliability, such as electronic control units (ECU) in steering systems, body control, engine control, and power train as well as ADAS, which includes sensing cameras.

One of the areas that continue to have potential is the manufacturing and supply of sensing cameras. With the implementation of government-mandated policies to address safety issues, demand for ADAS continues to rise with the camera as the central element. Applications include passive and active warning signals; distance, pedestrian, and lane detection; collision prevention; and automatic emergency braking. Cameras inside the vehicle can even detect if a driver is drowsy.

In 2017, IMI assembled 4.3 million automotive cameras, twice more than the previous year.

Today, IMI is involved in the development of mirror replacement technologies that use cameras in lieu of side mirrors for a more accurate and clearer display for the driver.

In 2017, IMI's Camera Vision Technology (CVT) group synced with the Advanced Manufacturing Engineering (AME) and Test and Systems Development (TSD) groups to become a one-stop shop solution partner for camera design, prototype development, and mass production.

The group also established partnerships with D3 Engineering and UKC Electronics for new camera platform developments. D3 is an outsourced product development firm that specializes in embedded design solutions for performance-critical products. They incorporate advanced vision, sensor, power, and control technologies, using the IMI camera platform for the development of their DesignCore™ Development Kit for ADAS. D3 is also IMI's value-added reseller of prototype minicube camera samples in the North American market. Meanwhile, UKC Electronics is an IMI value-added reseller for Asia, Australia, and New Zealand. They aim to bridge customers and manufacturers,

ensuring high-trust relationships. Through UKC, IMI was able to establish a solid partnership with a leading Japanese OEM, enabling IMI to gain access to the latest sensor technology designed for the automotive market.

The CVT group is also working with VIA Optronics to fuse their competency in automotive displays with IMI's camera capabilities, eyeing towards a systems approach and eventual offering.

In our plants in Jiaxing and Mexico, investments have been laid out in the production of electronic power steering systems, expected to reap significant returns as manufacturing ramps up. The new models will feature automatic driver assistance and provide command requirements on the wheel.

Regulatory and environmental pressures on internal combustion engines and stricter pollution regulations are driving the demand for electric vehicles in China, by far the world's largest electric car market, which has set a target of producing two million EV per year by 2020. This coincides with the rising demand in ECUs needed to drive and control the motors and embedded systems of the EV. A collaboration of two major Tier 1 automotive suppliers has begun working with IMI in Jiaxing for this project.

IMI's TSD group expanded its footprint in innovative test solutions for automotive electronics, EV boards, and power electronics in 2017. A major Tier 1 customer collaborated with the TSD team in Jiaxing to build a fully automated tester for power train boards for EVs that will soon launch in China.

LUCRECIO B. MENDOZA
HEAD, CAMERA VISION TECHNOLOGY

"The CVT group aims to be a one-stop shop solution partner for camera design, prototype development, and mass requirements of major Tier 1 players in the global automotive market. The group focuses on programs involving camera design and manufacturing, while zeroing in on a wholistic platform approach at the systems level. CVT also collaborates with key camera component suppliers, system developers, and distributors to help promote the IMI camera platform."

Industrial

IMI continues to thrive in strategic areas of the industrial segment that possess long-term growth prospects across our global sites. These include EV charging, security, Industrial Internet of Things (IIoT), automation, robotics, and testing.

EV Charging. With the surge in EV demand, an equal need for accessible charging infrastructure arises. With less than 200 thousand charging stations in China to date, the Chinese government aims to install at least two million electric charging stations across the country by year 2020. One of IMI's major customers in Chengdu is a top service provider of charging solutions for all electric vehicles, capable of capturing about 46 percent of China's total market share. IMI's involvement in this segment will pave the way for more opportunities in new vehicle technologies.

Security. Among the many advanced technologies being utilized in the electronic access market under security, the use of biometrics continues to grow and replace legacy systems that lack the features needed to mitigate associated risks. For more than a decade, IMI has continued to do business with a leading global security and access OEM. This has led to new partnership opportunities with adjacent products and systems with new niche players that address markets in Asia, North America, and Europe. Various security applications using IIoT features can be utilized in different industry sectors such as healthcare, education, banking, manufacturing, government, civil defense, and transportation.

IIoT. These connected devices and machines are used in the industrial space and use cloud networking to provide information that facilitates efficient, fast, and intelligent processes. In the logistics segment, asset tracking is one of the new technologies being employed not just to monitor shipments, but to eventually gather data around environments and conditions in real time. IMI works with several OEMs in China that provide these systems.

Automation. Many manufacturers today have been integrating automated lines to drive efficiency and quality at many levels. The Jiaxing site as well as the automation backend (ABE) team developed and deployed over a dozen related products that integrate function testing, machine vision inspection, laser marking, and the handling of devices under testing (DUT) using robots of various automotive electronic PCB assemblies, like ECUs, window lifters, rotor position sensors, hall devices, and light controllers for major OEMS. Some of these were exported to IMI operations in Mexico as the business expanded.

The Design and Development group also had complex automation deployments in various internal segments, business units, and external customers. These include applications such as automated handling, dispensing, screwing, and customized auto feeding systems for mass production. Overall, seven successful deployments were conducted in 2017.

JACKY YEUNG
HEAD, CHINA OPERATIONS

"As China leads in global production of EVs, the need for a robust charging infrastructure will boost IMI's partnership with a leading charging solutions provider in the region. This business will also strengthen the industrial coverage of IMI which includes systems in the Industrial Internet of Things (IIoT) and 5G telecommunications network equipment."

Aerospace

Quality and safety demands in the EMS aerospace and defense segments as mandated in required certifications like AS9100, remain the highest to date. This is a new segment which was entered via IMI's acquisition of STI Enterprises in 2017. The UK-based company has been supplying the defense and aerospace market for over 20 years, including products to a range of helicopters, multiple fast jet platforms, transport aircraft and drones.

STI provides satellite communications systems, sonar, navigation, and radar systems to land, air, and sea installations, including the Her Majesty Ship Queen Elizabeth, the recently launched UK aircraft carrier. On land, STI supplies systems for manpack radios, night vision, vehicle vision systems, thermal imaging, detection systems, and vehicle management systems.

SIMON BEST
MANAGING DIRECTOR,
STI ENTERPRISES LTD.

"The future is more about electronic protection and prevention systems along with the ever-increasing cyber threat, creating a new market for detection, suppression, and elimination of such risks. The need to 'protect' has seen a rise in the demand for robotics and remote-controlled vehicles—areas we are deeply involved in."

MARIO BERNARDO SANTOS
HEAD, PHILIPPINE OPERATIONS

"The increasing demand for power semiconductors that can manage high power requirements in industrial, automotive, and renewable energy is a key growth driver today. With the rise of electric vehicles leading the trend, we at IMI, design, build and test, using advanced materials and processes, complex and next generation power modules, where high performance and reliability are essential."

Beyond our core competencies

In 2017, IMI won a total of US$314 million new projects. Among these include applications in power systems, steering and braking systems, automotive battery management, smart metering, and solar energy. These are the adjacent, non-traditional markets that we first targeted in 2013 that are now being realized. IMI has also invested in co-engineering with our partner-customers on products that are being manufactured in our plants in the Philippines, Mexico, and China.

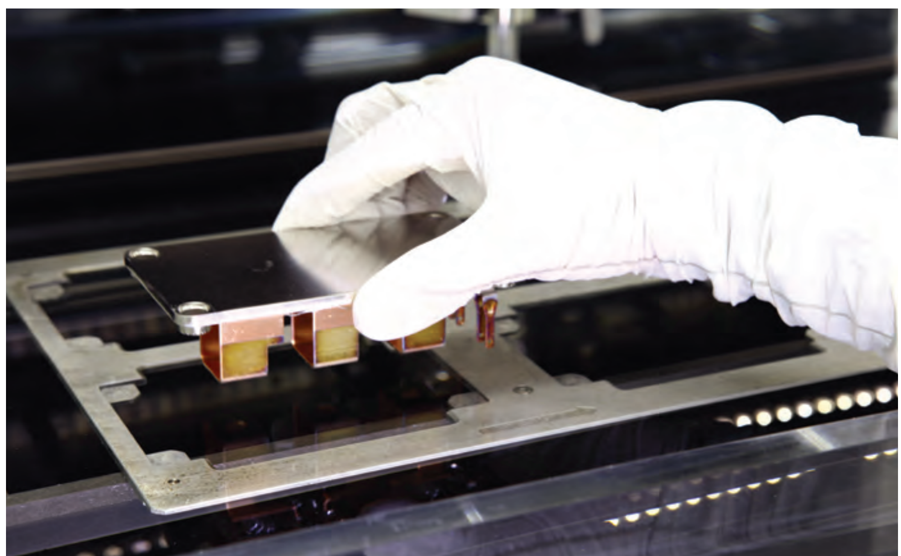
Several power module project bids for high-power applications from major multinational electronics and semiconductor manufacturers of both industrial and automotive products were also won in 2017. The need for more cost-effective energy management systems will continue to rise due to the increasing demand in high-power application in cars, motor drives, charging and heating systems, inverters, welding tools, climate control systems, and uninterrupted power supplies, among others.

Outside the EMS core business, IMI undertook new initiatives under the umbrella of AC Industrials, including motorcycle assembly.

In the first quarter of 2017, the company built and inaugurated a state-of-the-art manufacturing facility in Laguna for KTM, which continues to ramp up production today. The facility includes a semi-automated line with all process traceability derived from IMI's unique experience. To date, KTM has established 23 dealership networks and 72 sub-dealership hubs across the country. It also began exporting its locally produced KTM motorcycles to Thailand in December 2017 and recently shipped around 300 units to China.

The high level of product and process knowledge, including improvements in quality and yield, enables IMI to manufacture motorbikes competitively. For 2018, the target is to sell 4,000 motorcycles in the local market plus another 4,000 units overseas.

To support manufacturing, IMI has also strengthened its plastic injection capabilities in Bulgaria, China, and Mexico plants. Today, IMI has an average output of 100 molds per year, providing full assembly services to its customers in the automotive, industrial, and consumer segments.



Technology and Engineering

Collaboration with a German multinational steel conglomerate also began for a steering wheel ECU project, which IMI co-engineered, enabling IMI to create customized solutions from concept to product realization. After designing and building the prototype, new product introduction and product verification, including related reliability testing, were done in-house subject to required automotive standards.

In 2017, the ATC Laboratory invested in additional capabilities with the purchase of three new high temperature ovens for reliability testing to support our current customers.

In the Philippines, the TSD team designed and implemented a new line of testers for power module devices which include a compact function tester for MOSFET-based (metal-oxide-semiconductor field-effect transistor) custom power modules for automotive applications and a suite of modules for power module reliability testing. A major Tier 1 customer also collaborated with the TSD team in Jiaxing to build a fully automated tester for power train boards for electric vehicles.

TSD operations from different regions were consolidated in 2017 enabling cross-site collaboration and facilitating more innovation in complex tester projects for key customer accounts.

The Advanced Manufacturing and Engineering (AME) center in Tustin, California continues to support all manufacturing sites by working on reducing non-recurring engineering (NRE) costs. Approaches include faster prototyping using 3D printers, new materials and upgraded processes. The group is currently working on automotive crash sensor Micro-Electro-Mechanical Systems (MEMs), PC assembly in credit cards, implants of patients with incontinence (for medical application), radiation monitors, and flip-chip on lens assembly for automotive camera.

GLOBAL OPERATIONS UPDATES

IMI's motorcycle manufacturing facility marked the **assembly of 1000th motorcycle** in 2017. The facility also received a certification to export from the China Quality Certification Centre (CQC)—a professional certification body under the China Certification & Inspection Group (CCIG).

IMI Shenzhen (SZ) site was in expansion mode and relocated to a bigger floor area at Pingshan, Shenzhen, under a new wholly owned entity IMI Technology (Shenzhen) Co. Ltd. The new facility is 57 percent larger in floor area, providing a better lean manufacturing layout with new equipment investment to enhance manufacturing processes. The relocation was executed smoothly without disruption to customer delivery dates or production quality.

Arthur R. Tan, IMI chief executive officer, won the **Global Filipino Executive of the Year award at the Asia CEO Awards** 2017. Asia CEO Awards is the largest business awards event in the Philippines and Southeast Asia.

IMI Philippines received the ISO 9001:2015 and IATF 16949:2016 certificates in 2017. IMI Jiaxing also passed the IATF16949 audit in December 2017, reaffirming continuous customer trust and further qualifying IMI's capabilities in the automotive market. The certification strengthens IMI's image and credibility, while simultaneously promoting risk-based thinking in the site's processes and proactively driving continuous improvement throughout the organization.

IMI Mexico won the National Exportation Award (Premio Nacional de Exportación 2017) during the XXIV National Trade Congress in Oaxaca, Mexico, in September 2017. This is the highest recognition given by the Mexican president to companies, institutions, and organizations operating in the country and are involved in international trade that contributes significantly to the country's strong economy.

IMI Serbia continues construction of a new manufacturing plant for automotive parts in the City of Niš, Republic of Serbia, after receiving the grant incentives for financial support from the local government. The facility will allow IMI to expand its global footprint and support the growing market for automotive components in the European region. The manufacturing plant is expected to commence production in 2018.

In 2017, **Surface Technology International was awarded the prestigious Nadcap Merit status for electronic circuit card assembly.** Nadcap rewards superior performance in Nadcap audits, which are stringent processes recognized by members of the aerospace supply chain for outstanding quality and engineering processes. Being a merit program member is an industry-wide recognition for top class suppliers.

VIA Optronics relocated its headquarters to Nuremberg in 2017 and is already fully operational. Its focus is on high-technology applications for displays in the automotive, industrial, and consumer market. These include sunlight-readable interactive display solutions using touch functions, curved cover lenses, dual and multiple display bonding, to enable high design freedom especially for automotive interior display applications.

IMI Bulgaria (BG) celebrated its 20th anniversary in April 2017. The site inaugurated its factory extension in Botevgrad, a new 8,500-square-meter operational shop floor that houses the warehouse, plastic injection, tool shop areas, and another 2,000 square meters for factory administration.

IMI Bulgaria was recognized as the second Most Profitable Company in the Machines Sector in Bulgaria.

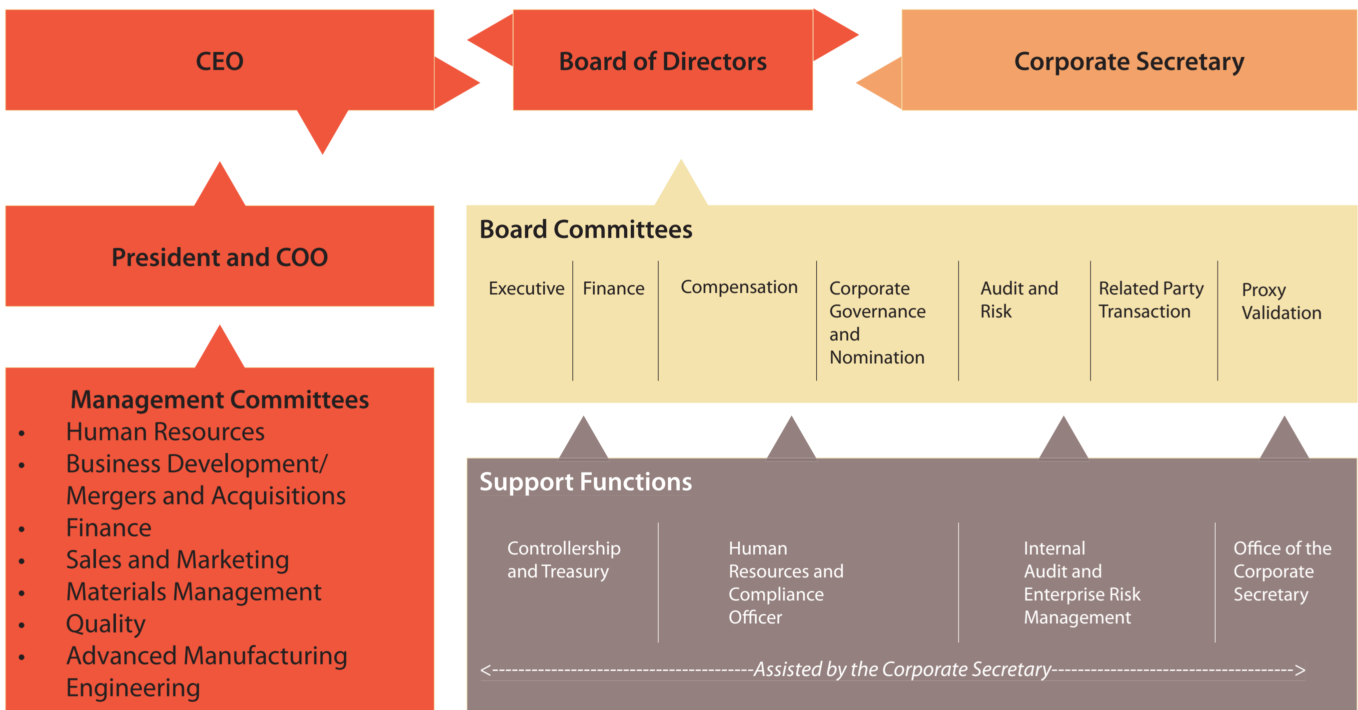
Corporate Governance Report

COMMITMENT TO GOOD GOVERNANCE

IMI remains committed to transparency in our priorities, goals, initiatives, and performance of global business. Our commitment to the highest level of good governance throughout the organization is anchored on the belief in a strong link between quality governance and the creation of shareholder value and long-term growth.

IMI is in full compliance to code of corporate governance practices which are contained in our Articles of Incorporation, By-laws, and Manual of Corporate Governance which are based on the rules and regulations promulgated and enforced by the Philippine Stock Exchange, Securities and Exchange Commission, and ASEAN Corporate Governance Scorecard. We submitted our revised Corporate Governance Manual last May 2017 in compliance with SEC Memorandum Circular No. 13, series of 2016 intended to raise the corporate governance standard of Philippine corporation to a level at par with its regional and global counterparts. The Company and its respective directors, officers, and employees have complied with the best practices and principles on good corporate governance as embodied in its Corporate Governance Manual. An evaluation system has been established by the Company to measure or determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance.

Corporate Governance Structure



THE BOARD OF DIRECTORS

The Board of Directors is the supreme authority in matters governing and managing the business of the Corporation. Within their authority under the Corporation Code and other applicable laws and the By-laws of the Corporation, the Directors, acting as a Board, have the fullest powers to regulate the concerns of the Corporation according to their best judgment.

The Board is responsible to promote and adhere to the principles and best practices of corporate governance, to foster long-term success of the Corporation and to ensure its sustained competitiveness in the global environment in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders.

To ensure good governance, the Board formulates and continuously reviews the Corporation's vision, mission, strategic objectives, policies and procedures that guides its activities, including the means to effectively monitor the management's performance. The Board reviews the vision and mission statement every year and oversees the implementation of the corporate strategy.

The Board also ensures the adequacy of internal controls and risk management practices, accuracy and reliability of financial reporting, and compliance with applicable laws and regulations, together with the implementation of the Company's Code of Ethics.

Board Composition

The Board is composed of eleven (11) members who are elected by the Corporation's stockholders and shall hold office for one year until their successors are elected in the next annual stockholders' meeting. Among the board members are three independent non-executive directors. The Corporation is committed to having a diverse Board with the members possessing varied ages, educational backgrounds, nationalities, work experience, expertise, and skills. The Corporate Governance and Nomination Committee encourages the selection of a mix of competent directors ensuring that female candidates are included for consideration, each of whom can add value and independent judgment in the formulation of sound corporate strategies and policies. The Committee also uses professional search firms or other external sources of candidates to search for qualified candidates to the Board.

Independent Directors

The Board currently includes three independent directors—Edgar O. Chua, Hiroshi Nishimura, and Alelie T. Funcell.

Independent directors, apart from their fees and shareholdings, hold no interests or relationship with the Corporation that may hinder their independence from the Corporation's management that could reasonably be perceived as interfering with their exercise of independent judgment in carrying out their responsibilities as directors.

As of 2017, none of the independent directors has served the company for more than nine years.

Training of Directors

Prior to assuming office, all new directors shall undergo orientation program on the Corporation's business and corporate structure, its vision, mission and corporate strategy, the By-Laws and Manual of Corporate Governance, and other relevant matters essential for the effective performance of their duties and responsibilities. Directors shall likewise attend at least once a year, a four-hour annual continuing training program involving courses on corporate governance matters relevant to the Corporation.

CORPORATE GOVERNANCE PROGRAMS ATTENDED IN 2017

Director	Program	Training Institute	Date of Training
Jaime Augusto Zobel de Ayala (NED), Chairman Fernando Zobel de Ayala (NED) Edgar O. Chua (ID) Jose Ignacio A. Carlos (NED) Hiroshi Nishimura (ID) Jose Teodoro K. Limcaoco (NED)	Corporate Governance and Risk Management Summit	Institute of Corporate Directors	August 11, 2017
Rafael Ma. C. Romualdez (NED) Delfin L. Lazaro (NED)	Distinguished Governance Speaker Series	Institute of Corporate Directors	May 10, 2017
Arthur R. Tan (ED), CEO	Seminar on Corporate Governance	Sycip Gorres Velayo & Co. (SGV)	December 6, 2017
Alelie T. Funcell (ID) Gilles Bernard (ED), President and COO	Permanently Exempted Pursuant to SEC MC No. 2, series of 2015		

Board Meetings and Attendance

All members of the Board, including independent directors, should attend and actively participate in all of the Board, Committee and Shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission. The director should review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

The Board may, to promote transparency, require at least one independent director in all of its meetings. However, the absence of an independent director shall not affect the quorum requirement if he is duly notified of the meeting but notwithstanding such notice fails to attend.

The Board meets at least six (6) times each calendar year. Two-thirds (2/3) of the number of directors as fixed in the articles of incorporation shall constitute a quorum for the transaction of corporate business. Non-executive directors have periodic meetings without any executive directors present to ensure that proper checks and balances are in place within the Corporation.

Director	Meetings Attended	Meetings Held	Percent Present
Jaime Augusto Zobel de Ayala	7	7	100%
Fernando Zobel de Ayala	7	7	100%
Delfin L. Lazaro	6	7	86%
Arthur R. Tan	7	7	100%
Jose Ignacio A. Carlos	6	7	86%
Rafael Ma. C. Romualdez	7	7	100%
Jose Teodoro K. Limcaoco	6	7	86%
Gilles Bernard	6	7	86%
Hiroshi Nishimura	6	7	86%
Alelie T. Funcell	7	7	100%
Edgar O. Chua	7	7	100%

Board Remuneration

In accordance with the company's By-Laws, each director is entitled to receive from the Corporation fees and other compensation for his services as director. The Board of Directors shall have the sole authority to determine the amount, form, and structure of the fees and other compensation as directors. In no case shall the total yearly compensation of directors exceed five percent (5%) of the net income before income tax of the Corporation during the preceding year.

Non-executive and independent directors receive a per diem of ₱100,000 for each Board meeting attended and a per diem of ₱20,000 for each Committee meeting attended.

In 2017, the following directors receive gross remuneration as follows:

Director	Gross Remuneration (in ₱)
Jaime Augusto Zobel de Ayala	₱700,000
Fernando Zobel de Ayala	700,000
Delfin L. Lazaro	660,000
Jose Ignacio A. Carlos	640,000
Rafael Ma. C. Romualdez	980,000
Jose Teodoro K. Limcaoco	800,000
Hiroshi Nishimura	720,000
Alelie T. Funcell	740,000
Edgar O. Chua	860,000
TOTAL	**₱6,800,000**

None of the non-executive directors and independent directors has been contracted and compensated by the Company for services other than those provided as a director.

As executive directors, Arthur R. Tan and Gilles Bernard do not receive remuneration for attending Board meetings.

BOARD COMMITTEES

The Board created seven committees to give support in the performance of its functions in accordance with the By-Laws, Manual of Corporate Governance, and Board Charter of the Corporation and to aid in good governance. The Board has delegated specific responsibilities to each of these Committees and are guided by their respective committee charters available in the Corporation's official website.

Executive Committee

The Executive Committee, in accordance with the authority granted by the Board, or during the absence of the Board, shall act by majority vote of all its members on such specific matters within the competence of the Board of Directors as may from time to time be delegated to the Executive Committee in accordance with the Corporation's By-Laws, subject to the limitations provided by the Corporation Code.

Finance Committee

The Finance Committee oversees the financial risk management, including risk related to capital structure, acquisitions, divestments, treasury activities, tax strategy and compliance. They are responsible for reviewing and evaluating the financial affairs of the Corporation from time to time and carry out such other duties that may be delegated by the Board of Directors.

Compensation Committee

The Compensation Committee's duties and responsibilities as defined in its charter is to establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Corporation's culture, strategy and control environment, while remaining competitive against the market.

Corporate Governance and Nomination Committee

The Committee shall review and monitor the structure, size, and composition of the Board and make recommendations to ensure compliance with applicable laws, rules, and regulations as well as the Corporation's By-Laws and the Manual of Corporate Governance. The Committee also installs and maintains a process to ensure that all Directors to be nominated have the qualifications and none of the disqualifications as stated in the Company's Corporate Governance Manual, reviews the succession plans for members of the Board and senior executives, oversees the implementation of the corporate governance framework and the periodic performance evaluation of the Board and its committees as well as executive management, and other functions as stated in its charter which is available in the company's website.

Audit and Risk Committee

The Audit and Risk Committee oversees matters relating to the financial statements and financial reporting process, external auditors, internal auditors, internal control, and compliance with applicable legal and regulatory requirements, develops and oversees the implementation of a formal enterprise risk management plan which contain the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures. Complete details of its functions and responsibilities can be found in the Company's website.

Related Party Transaction (RPT) Committee

The Committee was assigned by the Board to review all material RPTs for endorsement to the Board to ensure that these are at arm's length, the terms are fair, and they will inure to the best interest of the company and its subsidiaries or affiliates and their shareholders. They shall ensure that related party transactions are disclosed, reviewed and approved in accordance with its policy consistent with the principles of transparency and fairness.

Proxy Validation Committee

The Committee is responsible for ensuring that the validating process of the proxies and ballots is transparent, fair and in accordance with applicable laws, regulations and company policies.

BOARD COMMITTEE MEMBERS AND MEETING ATTENDANCE

Board Committee	Director	Designation	No. of Meetings Attended/Held	% Present
Executive	Arthur R. Tan	Chairman (ED)	3/3	100%
	Rafael Ma. C. Romualdez	Member (NED)	3/3	100%
	Jose Teodoro K. Limcaoco	Member (NED)	3/3	100%
Finance	Delfin L. Lazaro	Chairman (NED)	3/6	50%
	Jose Teodoro K. Limcaoco	Member (NED)	6/6	100%
	Rafael Ma. C. Romualdez	Member (NED)	6/6	100%
Compensation	Alelie T. Funcell	Chairman (ID)	1/1	100%
	Gilles Bernard	Member (ED)	1/1	100%
	Delfin L. Lazaro	Member (NED)	1/1	100%
Corporate Governance and Nomination	Alelie T. Funcell	Chairman (ID)	2/2	100%
	Edgar O. Chua	Member (ID)	2/2	100%
	Jose Ignacio A. Carlos	Member (NED)	2/2	100%
Audit and Risk	Edgar O. Chua	Chairman (ID)	4/4	100%
	Hiroshi Nishimura	Member (ID)	4/4	100%
	Rafael Ma. C. Romualdez	Member (NED)	4/4	100%
Related Party Transaction	Hiroshi Nishimura	Chairman (ID)	2/2	100%
	Edgar O. Chua	Member (ID)	2/2	100%
	Jose Teodoro K. Limcaoco*	Member (NED)	1/1	100%
	Rafael Ma. C. Romualdez*	Member (NED)	1/1	100%
Proxy Validation	Solomon M. Hermosura**	Chairman	2/2	100%
	Jaime G. Sanchez**	Member	2/2	100%
	Neilson C. Esguerra**	Member	2/2	100%

**Elected last April 7, 2017 organizational board meeting.* ***May not be members of the Board of Directors*

DISCLOSURE AND TRANSPARENCY

IMI ensures that timely and accurate disclosure is made on all material matters regarding the Corporation, including financial information, performance, ownership, and governance of the Company.

a. Transparent Ownership

Name of Shareholder and Beneficial Owner	Total Share Outstanding*	% to Total Share
AC Industrial Technology Holdings, Inc.	945,537,873	50.64%
Resins, Inc.	239,412,533	12.82%
EPIQ, NV	200,000,000	10.71%
TOTAL	**1,384,950,406**	**74.17%**

**Based on the Public Ownership Report as of December 31, 2017*

b. Directors' and Reportable Officers' Dealings in Company Shares

		Number of Shares			
	Security	As of Dec. 31, 2016	Acquired	Disposed of	As of Dec. 31, 2017
Directors					
Jaime Augusto Zobel de Ayala	Direct	100	-	-	100
Fernando Zobel de Ayala	Direct	100	-	-	100
Arthur R. Tan	Direct	1,955,452	-	-	1,955,452
	Indirect	18,218,100	-	-	18,218,100
Jose Teodoro K. Limcaoco	Direct	100	-	-	100
Edgar O. Chua	Direct	100	-	-	100
Alelie T. Funcell	Direct	115	-	-	115
Jose Ignacio A. Carlos	Direct	115	-	(114)	1
Delfin L. Lazaro	Direct	100	-	-	100
Rafael Ma. C. Romualdez	Direct	115	-	(114)	1
Hiroshi Nishimura	Direct	115	-	-	115
	Indirect	600,000	-	-	600,000
Gilles Bernard	Direct	100	-	-	100
	Indirect	1,280,475	-	-	1,280,475
Officers					
Jerome S. Tan	Indirect	3,241,033	-	-	3,241,033
Linardo Z. Lopez	Direct	645,126	-	(645,126)	-
	Indirect	3,441,899	-	(3,062,274)	379,625
Jaime G. Sanchez	Direct	340,891	-	(258,000)	82,891
	Indirect	80,004	-	(70,000)	10,004
Solomon M. Hermosura	Direct	15,915	-	(15,915)	-
	Indirect	320,500	-	(320,485)	15
Joanne M. Lim	Direct	-	-	-	-
TOTAL		**30,140,455**	**-**	**(4,372,028)**	**25,768,427**

c. Disclosure of Related Party Transactions (RPT)

The Company discloses the names of all related parties, degree of relationship, nature and value of significant RPT. Details are found in Note 31to the Consolidated Financial Statements.

d. External Auditor and Auditor Report

The external auditor of the Company is the auditing firm of SyCip Gorres Velayo and Co. (SGV) with Mr. Carlo Paolo V. Manalang as the Partner-in-Charge for the 2017 audit year.

Audit and Audit-related fees:
The aggregate fees billed for the current year and each of the last two years for professional services rendered by SGV & Co.:

	2017	2016	2015
Audit and Audit-related fees*	9.55	3.70	3.60
All other fees**	3.27	2.07	0.17
TOTAL	**12.82**	**5.77**	**3.77**

In P Millions
**Audit and Audit-Related Fees. This category includes the audit of annual financial statements and 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. These are exclusive of out-of-pocket expenses incidental to the independent auditors' work.*

***All Other Fees. This category includes other services rendered by SGV & Co. such as financial and accounting advisory, financial reporting valuation reviews, assessment of compliance with the Data Privacy Act, tax advisory services, and validation of votes during annual stockholders' meetings.*

e. Medium of Communications

Quarterly Reports

The Company submits its quarterly and full-year financial results to SEC and PSE to provide shareholders, the investors, and the public a timely and accurate information of its performance during the period.

Analysts Briefings

Quarterly after the release of financial results, the CEO, CFO, and the Investor Relations Officer conduct a briefing for both media and credit analysts. A teleconference facility is also provided for those who are unable to attend in person.

Presentation materials used in the briefings are posted in the Company's official website.
https://www.global-imi.com/investors

Conference Calls

The Company engages investors and analysts through one-on-one conference calls about two to three times a month. This is to answer their general queries pertaining to the company and its performance.

Roadshows

The Company conducts regional roadshows about twice or thrice a year to engage analysts and potential investors face to face. This is often a good opportunity to introduce our company and to show our role in the industry. The activity opens doors for prospective institutional investors in a given region.

Media Interviews

The Company entertains and allows local and international media for scheduled interviews either live (face to face), by phone, by email, or by conference call. Usually a short press conference is conducted after a major event such as the Annual Stockholders' Meeting. This is to make sure there is consistency in the messaging that will come out from their respective outfits.

Annual Stockholders' Meeting

This is normally held in the premises of our headquarters once a year. It is attended by all Board of Directors of IMI and major stockholders. Jaime Augusto Zobel de Ayala (JAZA) presides over the proceedings as chairman of the board of directors.

Tours and Company Visits

Analysts and investors schedule company visits to know more about the company and see the manufacturing facilities at headquarters (in Laguna Technopark Biñan).

Official Website

The Company's official website (www.global-imi.com) provides information on its compliance to Corporate Governance, matters related to the Board, and investor relations program.

RISK MANAGEMENT

IMI's commitment to strengthening its ERM allows the company to respond effectively to uncertainties and threats and, at the same time, recognize opportunities. Its ERM organization helped IMI to better align the company's strategy and performance, and managed to maintain IMI's profitability. The company continues to improve its ERM system, making it a more competitive to business not just locally, but globally as well.

IMI's ERM implementation is carried out across boundaries—among all of IMI's manufacturing sites. It is patterned after the characteristics of a risk intelligent enterprise—incorporating and embedding risk intelligence into every business decision.

We make sure that the risk management remains relevant and up-to-date through documentation of our significant risks, revisiting our risk profile and risk evaluation criteria, and re-assessing and prioritizing risks. Defining controls and developing risk treatment plans for the identified significant risks are key activities, making these available for continuous monitoring and review.

Risk Culture Building and Infrastructure

Culture is shaped mostly by how leaders act, so we continuously conduct risk management awareness to the top management down to the level of middle management. This is where we started revisiting and re-affirming the risks and determining again our significant risks globally. Furthermore, a Computer-Based Training module designed for the supervisors, engineers, rank and file, and operators was developed to intensify and spread the building of risk culture for IMI.

An ERM intranet site is created where each IMI site can view the company's risk management policies and procedures. This is another key channel for communicating to people the risk management programs and activities. Also, a risk assessment database was developed and is used to allow a more efficient process for the Site Risk owners to do risk assessment—risk analysis and evaluation using a web-based and secured online platform.

IMI also uses Risk Heat Map as a tool to report various risks and their implications. This map helps in determining the type of risks, thereby, guiding the risk owners in planning for risk treatments and controls.

Risk Reporting

Reporting of the identified significant risks is regularly done. IMI has clear lines of reporting to encourage accountability and ownership of risk in every IMI site. The ERM department ensures that regular internal reporting on the implementation of the ERM framework, its effectiveness and outcomes are done. The ERM leader provides updates of the status of program initiatives to the Risk Management Executive Committee (RMEC). The Chief Risk Officer (CRO) and ERM leader communicate with the Site Risk owners and appointed Risk leads on the changes and improvements being implemented.

IMI's ERM Intranet Site
is a major part of IMI's risk information and communication system. It utilizes IMI's common risk language known among its various manufacturing sites. This is where risk information is stored.

Log in to
IMI Enterprise Risk Management System
Risk Assessment Database

Username
Password
Login Reset

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Integrated Micro-Electronics Incorporated (IMI)

Code	Risk	Description	Impact	Likelihood	Speed of Onset	Risk Score
O01	Sales and Marketing	Inability to price and sell products to key target markets in order to achieve the company's strategic and financial goals. Inability to develop and execute a sales and marketing strategy to maximize revenue/contribution margin and /or market share, and provide a consistent and compelling incentive for potential consumers and a return on investment to shareholders.	4	4	3	48
O02	Sourcing and Procurement	Inability to source alternative parts in a timely manner due to existing source's limitations can compromise the company's commitment. Inability to ensure the availability of required quantity of materials to meet customer demands	4	4	3	48
O03	Customer Concentricity	Risk that too much of our current review/business plan lies with a limited number of accounts. IMI's revenue plan does lie too much with our few captive customers. A lack of focus on customers threatens the company's ability to meet customer expectation.	4	2	2	16
O04	Product/Service Quality	The risk of building products/parts with unclear customer requirements / product application and with undefined suitable processes and methods relative to product and functional safety	5	4	4	80

IMI's Risk Assessment Database
allows a more efficient process for the Site Risk owners to do risk analysis and evaluation using a web-based and secured online platform.

IMI's 2017 Key Risks

In line with the organization's strategies and objectives, we maintain a comprehensive list of risks that consider four major areas: Strategic, Operations, Compliance, and Financial. As such, we do the following:

To stay focused, we address market risks such as macro-economic factors by continuously strengthening our relationships with customers, leveraging our organizational capabilities, and taking advantage of business opportunities. In the business that we are in, where competition is tough, we must be ready for the many challenges coming our way and that of the entire industry.

We believe that it is essential that our critical business functions continue to operate despite the many adverse events and incidents happening around us. It is imperative that the whole organization is risk-prepared and is business ready when fortuitous disaster occurs, hence, we due diligently develop business continuity plans for any business interruption risks.

Ensuring the operations' continuity to serve customer requirements and constantly finding ways to provide our customers with quality product and guarantee adherence to product safety standards are a must and therefore, we strictly review and monitor our major operational risks, and product quality risks.

We also recognize the company's exposure to information security and cyber risks. Thus, we ensure strong and adequate information security controls to safeguard confidentiality, integrity, and loss of our critical information.

Moreover, as we run the business in different geographical locations and carry out international transactions, we recognize our high exposure to foreign currency risk, the risk of possible reduced operating cash flows and earnings resulting from movements in foreign exchange rates. We then make certain that we have strategic financial responses for such risk.

We understand that all these risks continue to happen in areas that we manage and operate. To counter these, management ensures that appropriate responses are in place. Organizationally, we continue to review existing controls, to make available risk treatment plans, and to improve the way we manage our risks.

CREATING AND SHARING VALUE

TECHNOLOGY AND ENGINEERING

- Co-Design and Co-Engineering with the Customers

MATERIALS MANAGEMENT

- Vendor Accreditation, Qualification and Certification
- Greening the Supply Chain
  - Adherence to Conflict-Free Sourcing Initiative
  - Hazardous Substance Free-Process Management

MANUFACTURING

- Industrial Excellence
- Lean Manufacturing / Value-Stream Mapping
- Business Excellence Program
- Best Practices Sharing
- Risk-Based Thinking Strategy
- Green Manufacturing

OTHER SERVICES

- Employee Training through IMI University
- Volunteering Program Initiatives and Humanitarian Activities
- Academe and International Funding Institutions Engagement
- Collaboration with Industry Associations

KEY FACTORS AFFECTING PERFORMANCE:

- Cost erosion of hardware inputs and components
- Government regulations in regional and global markets
- Rising demand for complex manufacturing
- Competitive market for talent acquisition and retention

CAPITAL	2017	2016
Financial		
Capital	US$ 273.7M	US$ 236.6M
Bank Borrowings	US$ 295.1M	US$ 174.2M
Manufactured		
Assets	US$ 921.4M	US$ 639.1M
Manufacturing Plants	19	14
SMT Lines	132	118
Capital Expenditures	US$ 65.3M	US$ 52.2M
Intellectual		
Capabilities	Automotive, Industrial, Medical, Telecommunications, Consumer, Aerospace, Multiple Markets	Automotive, Industrial, Medical, Telecommunications, Consumer, Multiple Markets
Research & Development (R & D) Geographic Presence	Philippines, China, Bulgaria, Czech, Germany, UK, US	Philippines, China, Bulgaria, US
Engineering-Oriented Services	200 Technical Personnel	195 Technical Personnel
Human		
Employees	16,748	14,580
Competency-Based Training for Employees	333	313
Social and Relationship		
Key Customers	22	16
Total Annual Revenue of Key Customers	US$ 695M	US$ 515M
Partners and Other Relationships	Suppliers, Regulatory Agencies, Industry Associations, Academe	Suppliers, Regulatory Agencies, Industry Associations, Academe
Natural		
Electricity	144,349,909 kw-hr	50,355,209 kw-hr*
Fuel of Facilities Equipment and Company Vehicles	265,294 liters	Not available

** Philippine Data Only*

OUTLOOK:

- Half of the world's population now lives in cities. By 2050, this figure is predicted to rise up to 75 percent. The largest movements toward urban centers are taking place in Asia, Africa, and Latin America.
- Cars are becoming increasingly connected; by 2020, a quarter of a billion cars will be hooked up to the internet. There will be 75 billion connected devices by 2020. (IHS)
- Computers are now able to learn in much the same way as we humans do, and this leap in Artificial Intelligence (AI) capabilities has been made possible by the massive increases in data and computing power. The more data an AI system has, the quicker it can learn and the more accurate it becomes.
- The unstoppable freight train that is automation. The more intelligent machines become, the more they can do for us. That means even more processes, decisions, functions, and systems can be automated and carried out by algorithms or robots.

THE PILLARS OF SUSTAINABILITY

Environment, Social, and Economic Data

IMI continues to find opportunities to measure our sustainability impact. The coverage for this set of indicators and data represents the whole IMI — IMI Philippines, China, Bulgaria, Czech Republic, and Mexico.

ENVIRONMENT	
Energy Efficiency (Consumption/ Value-Add Revenue)	0.281 Kw-hr / Value-Add Revenue $
Weight of Hazardous Wastes	721,831kg
Greenhouse Gas (GHG) Emissions	96,904 Liters (Fuel of Facilities Equipment) 169,200 Liters (Fuel of Company Vehicle)
SOCIAL	
Attrition Rate	28%
No. of Communication Programs/Year	300
No. of Attendees on Communication programs	15,388
No. of Accidents/Injuries Occupational Health & Safety (OHS)	37
Absentee Rate (OHS)	0.025%
Training hours by Gender	
Male	229,358 hrs
Female	274,891 hrs
Training hours by Employee category	
Management – All Managers and up	18,980 hrs
Supervisors and Engineers	92,487 hrs
Rank and File – Technicians, Inspectors, Operators, Clerks, Secretaries, Assistants	413,766 hrs
ECONOMIC	
Capital Expenditures	US$65.3M
Investments on Mergers and Acquisitions	US$29.8M
Value Generated - Revenues	US$1.091Billion
Value Generated - NIAT	US$34M (3.1%)

OUR MANAGEMENT APPROACHES

ENVIRONMENT

IMI recognizes that environmental responsibility is integral to producing world-class products. All IMI sites adapt an international management systems standard, ISO 14001.

Energy Management

The company saves energy through energy management programs implemented in various IMI sites, among them:

- Use of energy-efficient lighting systems in all IMI sites;
- Reduction of operating hours on cooling tower through regular cleaning and removal of scales on its filter;
- Optimization of operating hours of selected Compressed Dry Air equipment;
- Optimization of operating hours of different exhaust blowers and utilization of back up blower fume scrubber during skeletal operations (week-ends and holidays); and
- Installation of ducting links on air-conditioning units.

Water Management

IMI saves water through:

- Optimization of de-ionized water system operations by decreasing the frequency of regeneration and increasing the life cycle of resin;
- Re-use of treated water and recovery of excess water from Reverse Osmosis De-Ionized system for gardening and domestic applications; and
- Rain water capture.

Waste Management

IMI has been implementing a policy on the handling, storage and disposal of wastes since 2000. Regular and monitoring activities include:

- Going beyond compliance to applicable laws and regulations related to wastes;
- Judicious enforcement of the Reduce-Reuse-Recycle program in disposing of chemicals in manufacturing processes, waste segregation, and waste composition;
- Periodic conformance audits and safety inspections; and
- Assurance of proper disposal of wastes through accredited waste haulers, treaters, and recyclers.

Nitrous Oxides (NOx), Sulfur Oxides (Sox), Particulate Matter

IMI conducts regular emission testing and monitoring of significant parameters of air pollutant in compliance to Clean Air Act, as well as in similar programs in countries where IMI is present.

Effluents (Wastewater)

IMI administers regular effluent sampling and monitoring of significant parameters on water quality, in compliance to General Effluent Guidelines.

Recycling and Recovery

IMI monitors due diligence in the implementation of:

- Segregation of waste at the source, and reuse of reusable materials; and by
- Requiring its haulers to provide material recovery facility, and to segregate the recoverable materials, thereby, reducing the dumping of residual waste to municipal land fill.

Restricted Materials Management

IMI has developed a comprehensive policy on green manufacturing and procurement and has adopted a system on Hazardous Substances Process Management (HSPM). The policy monitors hazardous substances in manufacturing operations and adheres to all applicable laws, regulations, and other customer-specific requirements on the prohibition or restriction of specific substances in products and in manufacturing. These include compliance to Restriction of Hazardous Substances (RoHS) in Electrical and Electronic Products; Registration Evaluation, Authorization and Restriction of Chemicals (REACH); Automotive industries' compliance requirement on International Material Data System (IMDS) and Chinese Automotive Material Data System (CAMDS).

Responsible Sourcing of Minerals

The company closely monitors its compliance to Conflict Mineral Reporting. IMI supports responsible sourcing of minerals to ensure that Tantalum, Tin, Tungsten and Gold (3TG) in the products that IMI manufactures do not directly or indirectly finance or benefit armed groups that are perpetrators of serious human rights abuses.

IMI exercises due diligence in the sourcing of such minerals. Information is available to customers upon request.

SOCIAL

IMI and its subsidiaries strive that all its employees, officers, and directors conduct themselves in ways that demonstrate ethical standards in all dealings with customers, suppliers, government, the public and with each other at all times.

The company's Code of Conduct ensures that working conditions in the company are safe and that workers are treated with respect and dignity.

Freedom of Association

IMI respects the rights of employees, officers, and directors to associate freely, to join labor organizations, to seek representation or join workers' councils in accordance with local laws. Employees are able to communicate openly with management regarding working conditions without fear of reprisal, intimidation or harassment. The company believes that open communication and direct engagement between employees and management are the most effective ways to resolve workplace issues.

Working Hours

The company's workweek will not exceed the maximum set by local law, i.e., one (1) rest period of not less than twenty-four (24) consecutive hours for every six (6) consecutive normal work days. Further, a workweek is defined to be 60 hours per week inclusive of overtime, except in emergency or unusual situations necessitated by exigencies of business operations or catastrophic cases or as maybe required by the customers.

Freely Chosen Employment

IMI will not use forced, bonded or indentured labor or involuntary prison labor. All work will be voluntary and employees are free to leave upon reasonable notice in accordance with the company's policies on Attendance and Working Hours and Retirement. Workers shall not be required to pay employers' or agents' recruitment fees or other related fees for their employment.

Recruitment and Employment

Young Workers

The company's minimum hiring age follows the mandatory requirement in the country where it operates, e.g., at least 18 years old in the Philippines. The company does not use child labor in any stage of its manufacturing process.

Wages and Benefits

The company pays no less than the applicable minimum wage in all sites where it operates. Compensation paid to employees shall comply with all applicable wage laws, including those relating to overtime hours and legally mandated benefits. In compliance with local laws, employees shall be compensated for overtime. Deductions from wages as a disciplinary measure shall not be permitted.

Non-Discrimination

IMI commits to a workforce free from harassment and unlawful discrimination. IMI is a non-discriminatory employer and does not discriminate on the basis of race, color, age, gender, sexual orientation, ethnicity, disability, pregnancy, religion, political affiliation, labor organization membership or marital status in hiring and employment practices such as promotion, rewards, and access to training. Workers shall be provided with reasonable accommodation for religious practices. In addition, workers or potential workers should not be subjected to medical test or physical examinations that could be used in a discriminatory manner.

Humane Treatment

The company does not tolerate harsh and inhumane treatment, sexual harassment, sexual abuse, corporal punishment, mental or physical coercion or verbal abuse of employees nor does it tolerate threat of any such treatment. Policies and procedures in support of those requirements are communicated to workers.

Temporary Workers

The company hires project-based employees to lessen workload for specific projects or certain circumstances after determining that the current number of existing employees can no longer absorb the additional load. This takes place if there is an upcoming or existing project that needs to be satisfied or events that would require temporary replacement due to unforeseen manpower lost.

Disclosure of Information

Information regarding business activities, structure, financial situation and performance in IMI is to be disclosed in accordance with applicable regulations and prevailing industry practices. Falsification of records or misinterpretation of conditions or practices is unacceptable.

Intellectual Property (IP)

IMI has a policy on Intellectual Property and Confidential Information Protection. Intellectual property rights are to be respected; transfer of technology and know-how is to be done in a manner that protects intellectual property rights.

CORPORATE SOCIAL RESPONSIBILITY

IMI remains committed to the larger, global community, evident in its faithful dedication to good governance and corporate social responsibility (CSR).

Community Relations

In 2017, there was an increased engagement in many IMI sites across the various range of CSR-related activities particularly in outreach programs, livelihood projects, industry-academe collaboration activities along with tie-ups with academic institutions where IMI is located.

Other CSR programs include book drive and clean-up campaign for public schools, medical missions, blood-letting donations, and fund-raising projects for victims of natural calamities, disasters, rebel siege as well as children's fund programs.

Collaboration Program/ Project with Universities

Last May 2017, IMI took part in the United States Agency for International Development's Technology, Research and Innovation for Development (USAID-STRIDE) program of industry-academe collaboration through the Academic Grants for Industry-Led Applications (AGILA). With a project duration of one year, IMI is co-funding two projects—the development of an electronic gas-sensing device that can quickly detect lung diseases without the use of expensive medical tests and equipment and the development of an electronic resonance device that can be used as a non-invasive therapy for muscular problems.

The company also has a formal tie-up with universities for the ETEEAP (Expanded Tertiary Education Equivalency and Accreditation Program) since 2015. Through this scheme, an employee who has been employed for at least five years and undergraduate of college can obtain a bachelor's degree based on his knowledge, skills, and prior learning achieved from previous work experience.

QUALITY IN THE SUPPLY CHAIN

Customer Satisfaction

To consistently and effectively address the needs and requirements of its customers, IMI developed a comprehensive procedure on customer satisfaction. A database captures all customer ratings from the different IMI sites and management report analyses are reviewed regularly.

- A scoring guideline that covers a specific customer's "Critical to Quality" (CTQ) requirements such as Quality, Cost, Delivery and Responsiveness are defined and agreed with customers;
- An escalation process system is applied if defined improvement plans are not implemented and standardized; and
- A regular review of the results is held during quarterly business review meetings.

Screening of Suppliers

IMI implements a procedure on suppliers' assessment, qualification and certification.

- The company conducts a management assessment to potential suppliers examining the suppliers' company profile, financial stability, and technical capabilities.
- All suppliers are requested to sign nondisclosure agreements to ensure confidentiality.
- IMI's Supplier Quality Engineering group regularly conducts qualification assessment through product and process audit based on the Company's Supplier's Quality manual, customers-specific requirements and compliance to quality management system international standards.

imi

FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Review of 2017 Performance versus 2016

For IMI, 2017 is a breakthrough year as it achieved the billion dollar revenue milestone, hitting a record high of US$1.09 billion (P55.0 billion), rising 29 percent from the previous year. Revenue growth was accelerated by recent acquisitions and continued growth in automotive and industrial markets. IMI's core business, which focus mainly on automotive and industrial, ended 2017 with revenues of US$896.7 million, an increase of 9 percent compared to 2016. Total sales from two recent acquisitions VIA Optronics and STI Enterprises Ltd. boosted IMI's global revenue growth contributing US$193.9 million. The Company's key focus markets, automotive and industrial which grew 18 percent and 25 percent year-on-year, respectively, continue to show high potential for growth.

The Company's operations generated gross profit of US$129.6 million or P6.53 billion, higher year-on-year by 28 percent mainly from strong revenue growth. In addition, continued focus on LEAN manufacturing and improved utilization of fixed overhead partially offset the lower gross profit margin mix coming from the new acquisitions. Net income reached US$34.0 million or P1.71 billion, up 21 percent year-on-year.

Performance of Geographic Locations

Revenues from Europe operations grew 14 percent year-on-year to US$276.5 million, benefiting from lighting, controllers and driver assistance systems of its automotive segment. In Mexico, revenues expanded 29 percent to US$84.2 million, as numerous projects for North America customers entered new product introduction phase throughout the year.

China operations posted US$271.1 million in revenues, up 4 percent year-on-year despite the delay in new technology roll-out in the telecom infrastructure business. The broadened product mix including electric vehicle charging solutions provided demand growth and differentiation to China facilities.

Philippine operations increased 4 percent to US$263.7 million strengthened by new industrial applications and automotive camera business. This positive trend offsets the drop in demand in the security and medical device business.

VIA Optronics, a Germany-based optical bonding and display solutions provider, contributed US$148.4 million—the highest revenues in its 12-year history. This compares to the three months revenue contribution of US$19.4 million recognized in 2016.

STI Enterprises, a United Kingdom-based electronics manufacturer specializing in aerospace and defense markets, added US$45.5 million to IMI's revenues representing seven months contribution.

Financial Condition and Capital Expenditure

The Company's current capital structure is at 1.08:1 D/E ratio. The recent increase is driven by strong capital expenditures of $65.3 million in line with increased capacities and expansions, and programs that will facilitate investments in desirable growth opportunities.

For 2018, the Company expects additional US$75 million of capital expenditures majority of which are new SMT lines for expansions and new businesses, new manufacturing facilities and expansion buildings, innovation and automation, and additional software licenses. These are intended to expand the Company's capacity and support expected increases in demand, as well as to sustain the Company's productivity and efficiency.

REPORT OF THE AUDIT AND RISK COMMITTEE TO THE BOARD OF DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2017

The Board-approved Audit and Risk Committee Charter defines the duties and responsibilities of the Audit Committee. In accordance with the Charter, the Committee assists the Board of Directors in fulfilling its oversight responsibilities to the shareholders with respect to:

- Integrity of the Company's financial statements and the financial reporting process
- Appointment, remuneration, qualifications, independence and performance of the independent external auditors and the integrity of the audit process as a whole
- Effectiveness of the systems of internal control and the risk management process
- Performance and leadership of the internal audit function
- Compliance with applicable legal, regulatory and corporate governance requirements

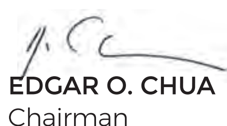
In compliance with the Audit and Risk Committee Charter, we confirm that:

- The Chairman and another member of the Committee are independent directors;
- We had four (4) regular meetings and two (2) special meetings during the year with all the members present. We met separately with the internal and external auditors in an executive session during the year;
- We recommended for approval of the Board and endorsement to the shareholders the reappointment of SGV & Co. as the Company's 2017 independent auditor and appointment of the new lead engagement partner given the required audit partner rotation every five years;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Integrated Micro-Electronics, Inc. and subsidiaries ("IMI") with management, the internal auditors, as well as SGV & Co. as the independent auditor of IMI, and that these activities were performed in the following context:
    - Management has the primary responsibility for the financial statements and the financial reporting process; and
    - SGV & Co. is responsible for expressing an opinion on the conformity of IMI's audited consolidated financial statements with Philippine Financial Reporting Standards;
- We have discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and SGV & Co. We have also discussed the results of their audits, their assessment of the Company's internal controls, and the overall quality of the financial reporting process including their management letter of comments;
- We have reviewed the reports and updates of the internal auditors ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues. Based on the assurance provided by the internal audit as well as SGV & Co. as a result of their audit activities, the Committee assessed that the Company's systems of internal controls, risk management, and governance processes are adequate;
- We have reviewed and discussed the adequacy of IMI's enterprise risk management process, including the nature of significant risk exposures, and the related risk mitigation efforts and initiatives. This activity was reviewed in the context that management is primarily responsible for the risk management process;
- We have reviewed and recommended for the approval by the Board of Directors all audit, audit-related and non-audit services provided by SGV & Co. to IMI and the related fees for such services. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence;
- We have conducted an annual assessment of our performance to confirm that the Committee satisfactorily performed its responsibilities based on the requirements of its Charter; and
- We reviewed the Audit Committee Charter to ensure that it is updated and aligned with regulatory requirements.

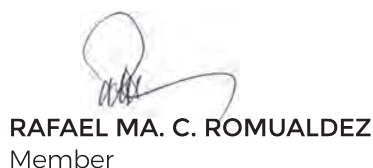
Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit and Risk Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2017 for filing with the Securities and Exchange Commission and the Philippine Stock Exchange.

The Audit and Risk Committee is also recommending to the Board of Directors the re-appointment of SGV & Co. as IMI's independent auditor for 2018 based on the review of their performance and qualifications.

7 February 2018



EDGAR O. CHUA
Chairman



RAFAEL MA. C. ROMUALDEZ
Member

HIROSHI NISHIMURA
Member

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Integrated Micro-Electronics, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

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

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

JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors

ARTHUR R. TAN
Chief Executive Officer

JEROME S. TAN
Chief Finance Officer

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Integrated Micro-Electronics, Inc.

Opinion

We have audited the consolidated financial statements of Integrated Micro-Electronics, Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for 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 balance sheet 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.

Key Audit Matters

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

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

The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Finalization of purchase price allocation in relation to the acquisition of VIA Optronics GmbH (VIA)

In 2017, the Group finalized the purchase price allocation for its 2016 acquisition of VIA. This resulted to the restatement of the carrying amount of the intellectual properties amounting to $7.8 million, deferred tax liability of $1.7 million and goodwill of $44.5 million. As the valuation of the intellectual properties required significant management judgment and is based on estimates, specifically revenue forecast, royalty rate, tax rate and discount rate, this requires our significant attention in the 2017 audit. The Group's disclosures about the acquisition of VIA are included in Note 2 to the consolidated financial statements.

Audit response

We involved our internal specialists in testing the fair value of the intellectual properties, including the evaluation of the methodologies and key assumptions used. These assumptions include revenue forecast, royalty rate, tax rate and discount rate. We evaluated the revenue forecast against VIA's recent financial performance and industry outlook. We compared the royalty rate against the royalty agreement between VIA Optronics GmbH and VIA Optronics (Suzhou), LLC. We evaluated the tax rate used against the effective tax rate in Germany and tested the parameters used in the derivation of the discount rate against market data. We checked the mathematical accuracy of the finalized purchase price allocation and reviewed the presentation and disclosures in the consolidated financial statements.

Valuation of the put options arising from the acquisition of VIA and STI Enterprises Ltd. (STI)

The terms of the acquisition of VIA in 2016 and STI in 2017 included put options that granted the non-controlling shareholders the right to sell their shares in the acquiree to the Group. The put options resulted in a financial liability of $21.9 million as of December 31, 2017. We considered the valuation of the put options to be a key audit matter because it requires significant judgment and is based on estimates, specifically revenue growth rate, EBITDA multiple, discount rate, forecasted interest rate and the probability of trigger events occurring. Details of the transactions and the valuation of the put options are disclosed in Notes 2 and 32 to the consolidated financial statements, respectively.

Audit response

We involved our internal specialists in testing the fair values of the put options including the evaluation of the methodologies and key assumptions used. These assumptions include revenue growth rate, EBITDA multiple, discount rate, forecasted interest rate and probability of trigger events occurring. We evaluated the revenue growth rate against the acquirees' recent financial performance, the Group's business plan for the acquirees and industry outlook. We evaluated the EBITDA multiple against market data of comparable companies. We tested the parameters used in the derivation of the discount rate against market data. We compared the interest rate used in forecasting the future equity value to the risk-free rate in Germany and the United Kingdom and inquired with management its basis for the probability of trigger events occurring.

Recoverability of Goodwill

Under PFRS, the Group is required to annually test the amount of goodwill for impairment. As of December 31, 2017, the Group's goodwill attributable to the following cash-generating units (CGUs): Integrated Micro-Electronics, Inc., Speedy-Tech Electronics, Ltd., IMI Czech Republic s.r.o., VIA and STI, amounted to $147.4 million, which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically revenue growth rate, gross margin and discount rate. The Group's disclosures about goodwill are included in Note 10 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's impairment assessment process and the related controls. We involved our internal specialist in evaluating the methodologies and assumptions used. These assumptions include revenue growth rate, gross margin and discount rate. We compared the key assumptions used such as revenue growth rate against actual historical performance of the CGU and industry outlook and gross margins against historical rates. We tested the parameters used in the derivation of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is more sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, 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, 2016 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 consolidated financial statements.

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

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

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

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

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

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

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

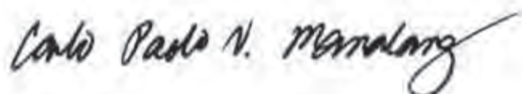
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Carlo Paolo V. Manalang.

SYCIP GORRES VELAYO & CO.



Carlo Paolo V. Manalang
Partner
CPA Certificate No. 111947
SEC Accreditation No. 1625-A (Group A),
March 28, 2017, valid until March 27, 2020
Tax Identification No. 210-730-804
BIR Accreditation No. 08-001998-127-2017,
February 9, 2017, valid until February 8, 2020
PTR No. 6621287, January 9, 2018, Makati City

February 20, 2018

CONSOLIDATED BALANCE SHEETS

	December 31	
	2017	2016 (As Restated - Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**$90,627,228**	$86,548,735
Receivables (Note 6)	**263,115,347**	196,969,136
Inventories (Note 7)	**199,614,807**	106,132,529
Other current assets (Note 8)	**27,054,631**	17,324,415
Total Current Assets	**580,412,013**	406,974,815
Noncurrent Assets		
Property, plant and equipment (Note 9)	**164,596,056**	117,405,004
Goodwill (Note 10)	**147,370,912**	91,416,180
Intangible assets (Note 11)	**22,898,566**	18,317,066
Available-for-sale financial assets (Notes 12 and 32)	**831,364**	740,949
Deferred tax assets - net (Note 25)	**3,451,802**	1,552,362
Other noncurrent assets (Note 13)	**1,790,915**	2,722,058
Total Noncurrent Assets	**340,939,615**	232,153,619
	$921,351,628	$639,128,434
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 14)	**$284,278,710**	$195,675,305
Loans and trust receipts payable (Note 15)	**135,057,620**	51,445,169
Other financial liabilities (Notes 2, 18 and 32)	**22,317,860**	11,334,282
Current portion of long-term debt (Note 16)	**6,872,679**	8,185,053
Income tax payable	**3,821,856**	3,451,416
Total Current Liabilities	**452,348,725**	270,091,225
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 16 and 32)	**158,224,056**	121,144,043
Obligation under finance lease (Note 30)	**223,771**	–
Advances from customers (Note 17)	**–**	1,137,865
Net retirement liabilities (Note 27)	**5,132,145**	4,091,990
Deferred tax liabilities - net (Note 25)	**2,742,454**	3,034,385
Accrued rent (Note 30)	**–**	84,731
Other noncurrent liabilities (Notes 18 and 32)	**26,085,878**	216,253
Total Noncurrent Liabilities	**192,408,304**	129,709,267
Total Liabilities	**644,757,029**	399,800,492
EQUITY		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common (Note 19)	**$35,709,679**	$34,935,709
Subscribed capital stock (Note 19)	**1,058,278**	1,857,440
Additional paid-in capital (Note 19)	**58,121,266**	70,927,567
Subscriptions receivable (Note 19)	**(5,351,844)**	(12,334,692)
Retained earnings (Note 19)	**194,499,540**	168,932,158
Treasury stock (Note 19)	**(1,012,588)**	(1,012,586)
Reserve for fluctuation on available-for-sale financial assets	**454,457**	368,531
Cumulative translation adjustment (Note 2)	**(2,302,277)**	(20,639,608)
Remeasurement losses on defined benefit plans (Note 27)	**(7,437,096)**	(6,428,260)
	273,739,415	236,606,259
Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries	**2,855,184**	2,721,683
Total Equity	**276,594,599**	239,327,942
	$921,351,628	$639,128,434

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUES			
Sale of goods	**$1,020,145,452**	$774,643,182	$750,514,863
Sale of services	**70,442,737**	68,323,242	63,849,241
	1,090,588,189	842,966,424	814,364,104
COST OF SALES (Note 20)			
Cost of goods sold	**894,418,894**	680,844,830	663,659,753
Cost of services	**66,570,649**	60,812,213	56,672,880
	960,989,543	741,657,043	720,332,633
GROSS PROFIT	**129,598,646**	101,309,381	94,031,471
OPERATING EXPENSES (Note 21)	**(89,160,675)**	(58,366,442)	(56,098,525)
OTHERS - Net			
Interest expense and bank charges (Note 23)	**(6,900,807)**	(3,884,454)	(2,716,385)
Mark-to-market gains (loss) on put options (Notes 2 and 32)	**2,298,664**	(40,785)	–
Foreign exchange gains (losses) - net	**1,273,773**	(2,437,818)	(2,419,021)
Interest income (Note 5)	**166,246**	294,035	658,003
Miscellaneous income (loss) - net (Note 24)	**4,629,485**	(2,051,364)	1,219,977
	1,467,361	(8,120,386)	(3,257,426)
INCOME BEFORE INCOME TAX	**41,905,332**	34,822,553	34,675,520
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)			
Current	**7,982,335**	6,942,950	5,731,204
Deferred	**(519,741)**	(136,306)	174,204
	7,462,594	6,806,644	5,905,408
NET INCOME	**$34,442,738**	$28,015,909	$28,770,112
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$34,001,982**	$28,115,891	$28,789,740
Non-controlling interests	**440,756**	(99,982)	(19,628)
	$34,442,738	$28,015,909	$28,770,112
Earnings Per Share (Note 26)			
Basic and diluted	**$0.018**	$0.015	$0.015

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**$34,442,738**	$28,015,909	$28,770,112
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified into profit or loss in subsequent periods:			
Exchange differences arising from translation of foreign operations	**18,337,331**	(4,094,917)	(5,835,345)
Fair value changes on available-for-sale financial assets - net of tax	**85,926**	117,501	66,911
	18,423,257	(3,977,416)	(5,768,434)
Other comprehensive loss not to be reclassified into profit or loss in subsequent periods:			
Remeasurement losses on defined benefit plans (Note 27)	**(1,008,836)**	(132,587)	(722,109)
	17,414,421	(4,110,003)	(6,490,543)
TOTAL COMPREHENSIVE INCOME	**$51,857,159**	$23,905,906	$22,279,569
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$51,416,403**	$24,005,888	$22,299,197
Non-controlling interests	**440,756**	(99,982)	(19,628)
	$51,857,159	$23,905,906	$22,279,569

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Attributable to Equity Holders of the Parent Company										
							Other Comprehensive Income (Loss)				
	Capital Stock - Common (Note 19)	Subscribed Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Subscriptions Receivable (Note 19)	Retained Earnings (Note 19)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Remeasurement losses on defined benefit plans (Note 27)	Attributable to Non-controlling Interests	Total
Balances at January 1, 2017, as previously reported	$34,935,709	$1,857,440	$70,927,567	($12,334,692)	$168,932,158	($1,012,586)	$368,531	($20,639,608)	($6,428,260)	$1,260,871	$237,867,130
Effect of finalization of business combination (Note 2)	–	–	–	–	–	–	–	–	–	1,460,812	1,460,812
Balances at January 1, 2017, as restated	34,935,709	1,857,440	70,927,567	(12,334,692)	168,932,158	(1,012,586)	368,531	(20,639,608)	(6,428,260)	2,721,683	239,327,942
Issued shares during the year	773,970	(773,970)	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 28)	–	–	262,618	–	–	–	–	–	–	–	262,618
Reacquired shares	–	–	–	–	–	(2)	–	–	–	–	(2)
Collections on subscriptions	–	–	–	6,765,378	–	–	–	–	–	–	6,765,378
Forfeitures during the year	–	(25,192)	(192,278)	217,470	–	–	–	–	–	–	–
Effect of recognition of financial liability arising from put option on business combination (Note 2)	–	–	(12,876,641)	–	–	–	–	–	–	–	(12,876,641)
Decrease in non-controlling interest due to acquisition of a subsidiary during the year (Note 2)	–	–	–	–	–	–	–	–	–	(307,255)	(307,255)
Cash dividends	–	–	–	–	(8,434,600)	–	–	–	–	–	(8,434,600)
	35,709,679	1,058,278	58,121,266	(5,351,844)	160,497,558	(1,012,588)	368,531	(20,639,608)	(6,428,260)	2,414,428	224,737,440
Net income	–	–	–	–	34,001,982	–	–	–	–	440,756	34,442,738
Other comprehensive income (loss)	–	–	–	–	–	–	85,926	18,337,331	(1,008,836)	–	17,414,421
Total comprehensive income (loss)	–	–	–	–	34,001,982	–	85,926	18,337,331	(1,008,836)	440,756	51,857,159
Balances at December 31, 2017	$35,709,679	$1,058,278	$58,121,266	($5,351,844)	$194,499,540	($1,012,588)	$454,457	($2,302,277)	($7,437,096)	$2,855,184	$276,594,599

	Attributable to Equity Holders of the Parent Company											
							Other Comprehensive Income (Loss)					
	Capital Stock - Common (Note 19)	Subscribed Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Subscriptions Receivable (Note 19)	Retained Earnings (Note 19)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Remeasurement losses on defined benefit plans (Note 27)	Other Reserves	Attributable to Non-controlling Interests (As restated - Note 2)	Total
Balances at January 1, 2016	$34,933,728	$1,907,584	$82,527,542	($13,131,734)	$149,437,014	($1,012,586)	$251,030	($16,544,691)	($6,295,673)	$170,714	$194,836	$232,437,764
Issued shares during the year	1,981	(1,981)	–	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 28)	–	–	744,130	–	–	–	–	–	–	–	–	744,130
Collections on subscriptions	–	–	–	462,377	–	–	–	–	–	–	–	462,377
Forfeitures during the year	–	(48,163)	(286,502)	334,665	–	–	–	–	–	–	–	–
Effect of recognition of financial liability arising from put options on business combination (Note 2)	–	–	(12,057,603)	–	–	–	–	–	–	–	–	(12,057,603)
Increase in non-controlling interest due to acquisition of a subsidiary during the year (Note 2)	–	–	–	–	–	–	–	–	–	–	2,816,416	2,816,416
Acquisition of non-controlling interests (Note 2)	–	–	–	–	–	–	–	–	–	(170,714)	(189,587)	(360,301)
Cash dividends	–	–	–	–	(8,620,747)	–	–	–	–	–	–	(8,620,747)
	34,935,709	1,857,440	70,927,567	(12,334,692)	140,816,267	(1,012,586)	251,030	(16,544,691)	(6,295,673)	–	2,821,665	215,422,036
Net income (loss)	–	–	–	–	28,115,891	–	–	–	–	–	(99,982)	28,015,909
Other comprehensive income (loss)	–	–	–	–	–	–	117,501	(4,094,917)	(132,587)	–	–	(4,110,003)
Total comprehensive income (loss)	–	–	–	–	28,115,891	–	117,501	(4,094,917)	(132,587)	–	(99,982)	23,905,906
Balances at December 31, 2016, (As restated - Note 2)	$34,935,709	$1,857,440	$70,927,567	($12,334,692)	$168,932,158	($1,012,586)	$368,531	($20,639,608)	($6,428,260)	$–	$2,721,683	$239,327,942

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Attributable to Equity Holders of the Parent Company													
									Other Comprehensive Income (Loss)					
	Capital Stock- Common (Note 19)	Capital Stock- Preferred (Note 19)	Subscribed Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Subscriptions Receivable (Note 19)	Retained Earnings Appropriated for Expansion (Note 19)	Retained Earnings Unappropriated (Note 19)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Remeasurement losses on defined benefit plans (Note 27)	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2015	$34,876,616	$26,601,155	$1,797,638	$80,480,981	($12,906,784)	$20,660,981	$109,481,277	($1,012,586)	$184,119	($10,709,346)	($5,573,564)	$170,714	$214,464	$244,265,665
Issued shares during the year	57,112	–	(57,112)	–	–	–	–	–	–	–	–	–	–	–
Redemption of preferred shares	–	(26,601,155)	–	–	–	–	(1,834,644)	–	–	–	–	–	–	(28,435,799)
Subscriptions during the year (Note 28)	–	–	222,366	913,925	(1,136,291)	–	–	–	–	–	–	–	–	–
Collections on subscriptions	–	–	–	–	460,634	–	–	–	–	–	–	–	–	460,634
Forfeitures during the year	–	–	(55,308)	(395,399)	450,707	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 28)	–	–	–	1,528,035	–	–	–	–	–	–	–	–	–	1,528,035
Reversal of appropriated retained earnings	–	–	–	–	–	(20,660,981)	20,660,981	–	–	–	–	–	–	–
Reversal of cash dividends declared in advance	–	–	–	–	–	–	207,625	–	–	–	–	–	–	207,625
Cash dividends	–	–	–	–	–	–	(7,867,965)	–	–	–	–	–	–	(7,867,965)
	34,933,728	–	1,907,584	82,527,542	(13,131,734)	–	120,647,274	(1,012,586)	184,119	(10,709,346)	(5,573,564)	170,714	214,464	210,158,195
Net income (loss)	–	–	–	–	–	–	28,789,740	–	–	–	–	–	(19,628)	28,770,112
Other comprehensive income (loss)	–	–	–	–	–	–	–	–	66,911	(5,835,345)	(722,109)	–	–	(6,490,543)
Total comprehensive income (loss)	–	–	–	–	–	–	28,789,740	–	66,911	(5,835,345)	(722,109)	–	(19,628)	22,279,569
Balances at December 31, 2015	$34,933,728	$–	$1,907,584	$82,527,542	($13,131,734)	$–	$149,437,014	($1,012,586)	$251,030	($16,544,691)	($6,295,673)	$170,714	$194,836	$232,437,764

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016 (As Restated - Note 2)	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**$41,905,332**	$34,822,553	$34,675,520
Adjustments for:			
Depreciation of property, plant and equipment (Note 9)	**24,241,821**	22,472,246	21,016,819
Interest expense (Note 23)	**5,723,185**	3,297,733	2,208,551
Amortization of intangible assets (Note 11)	**4,387,950**	1,989,548	2,231,851
Mark-to-market loss (gain) on put options (Note 2)	**(2,298,664)**	40,785	–
Reversal of impairment of property, plant and equipment (Note 9)	**(815,150)**	–	–
Impairment loss on product development cost (Note 11)	**524,705**	–	–
Cost of share-based payments (Note 28)	**262,618**	744,130	1,528,035
Interest income (Note 5)	**(166,246)**	(294,035)	(658,003)
Unrealized foreign exchange losses (gains) - net	**131,591**	(57,843)	412,921
Loss (gain) on sale and retirement of property, plant and equipment (Note 9)	**(48,116)**	143,034	(165,776)
Loss (gain) on derivative transactions (Note 33)	**30,144**	113,455	(225,162)
Gain on insurance claims (Notes 7 and 9)	**–**	(360,895)	–
Operating income before working capital changes	**73,879,170**	62,910,711	61,024,756
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(39,881,615)**	(9,314,375)	18,436,043
Inventories	**(75,590,879)**	(13,299,183)	2,054,060
Other current assets	**(9,499,046)**	(5,365,246)	1,068,255
Increase (decrease) in:			
Accounts payable and accrued expenses	**46,497,566**	11,291,119	(26,235,224)
Advances from customers	**(640,640)**	2,029,988	(301,952)
Retirement liabilities	**97,418**	(1,569,301)	654,925
Accrued rent	**(3,555)**	(370,147)	(25,817)
Other noncurrent liabilities	**123,259**	(54,857)	(63,499)
Net cash generated from (used in) operations	**(5,018,322)**	46,258,709	56,611,547
Income tax paid	**(7,945,950)**	(6,025,529)	(6,848,877)
Interest paid	**(5,416,600)**	(3,037,688)	(2,148,829)
Interest received	**166,246**	306,506	667,492
Net cash provided by (used in) operating activities	**(18,214,626)**	37,501,998	48,281,333
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Note 9)	**(61,872,944)**	(48,344,218)	(35,120,182)
Intangible assets (Note 11)	**(3,381,178)**	(3,886,107)	(659,794)
Acquisition through business combination, net of cash acquired (Note 2)	**(25,705,865)**	(46,878,629)	–
Increase in advances from third party	**14,233,872**	6,538,462	–
Capitalized product development costs, excluding depreciation (Note 11)	**(4,459,707)**	(4,004,265)	–
Proceeds from sale and retirement of property, plant and equipment	**1,940,767**	289,493	672,955
Decrease (increase) in other noncurrent assets	**864,080**	(531,198)	(154,315)
Net cash used in investing activities	**(78,380,975)**	(96,816,462)	(35,261,336)

(Forward)

	Years Ended December 31		
	2017	2016 (As Restated - Note 2)	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans	**$131,077,301**	$265,905,842	$50,465,041
Payments of:			
Loans payable	**(20,419,648)**	(129,611,778)	(38,053,777)
Long-term debt	**(9,177,386)**	(83,007,267)	(2,397,400)
Dividends paid to equity holders of the Parent Company (Note 19)	**(8,434,600)**	(8,620,747)	(8,559,041)
Collections of subscriptions receivable (Note 19)	**6,765,378**	462,377	460,634
Settlement of derivatives (Note 33)	**56,495**	(114,400)	169,612
Cash paid on acquisition of non-controlling interests (Note 2)	–	(360,301)	–
Redemption of preferred shares (Note 19)	–	–	(28,435,799)
Decrease in obligations under finance lease	–	–	(2,257,583)
Net cash provided by (used in) financing activities	**99,867,540**	44,653,726	(28,608,313)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**806,554**	(322,936)	(504,766)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,078,493**	(14,983,674)	(16,093,082)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**86,548,735**	101,532,409	117,625,491
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**$90,627,228**	$86,548,735	$101,532,409

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Integrated Micro-Electronics, Inc. (IMI or the Parent Company), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four wholly-owned subsidiaries, namely: IMI International (Singapore) Pte. Ltd. (IMI Singapore), IMI USA, Inc. (IMI USA), IMI Japan, Inc. (IMI Japan) and PSi Technologies, Inc. (PSi) (collectively referred to as the Group). The Parent Company was previously 50.64% owned by AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE).

On March 29, 2017, AYC, transferred its 50.64% ownership in the Parent Company to AC Industrial Technology Holdings, Inc. (AC Industrials), also a wholly-owned subsidiary of AC, through a special block sale of the shares of the Parent Company on March 29, 2017 as approved by the PSE on the same date. This transaction was granted exemptive relief from the application of the mandatory tender offer rules by the Philippine Securities and Exchange Commission on March 21, 2017.

AC is 47.74% owned by Mermac, Inc., 10.15% owned by Mitsubishi Corporation and the rest by the public.

The registered office address of the Parent Company is North Science Avenue, Laguna Technopark-Special Economic Zone (LT-SEZ), Bo. Biñan, Biñan, Laguna.

The Parent Company was listed by way of introduction in the PSE on January 21, 2010. It has completed its follow-on offering and listing of 215,000,000 common shares on December 5, 2014.

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assemblies (PCBA), flip chip assemblies, electronic sub-assemblies, box build products and enclosure systems. It also provides the following solutions: product design and development, test and systems development, automation, advanced manufacturing engineering, and power module assembly, among others. It serves diversified markets that include those in the automotive, industrial, medical, storage device, and consumer electronics industries, and non-electronic products (including among others, automobiles, motorcycles, solar panels) or parts, components or materials of non-electronic products.

IMI Singapore is a strategic management, investment and holding entity that owns operating subsidiaries of the Group and was incorporated and domiciled in Singapore. Its wholly-owned subsidiary, Speedy-Tech Electronics Ltd. (STEL), was incorporated and domiciled also in Singapore. STEL, on its own, has subsidiaries located in Hong Kong, China, and the Philippines. STEL and its subsidiaries (collectively referred to as the STEL Group) are principally engaged in the provision of electronic manufacturing services (EMS) and power electronics solutions to original equipment manufacturers (OEMs) in the automotive, consumer electronics, telecommunications, industrial equipment, and medical device sectors, among others.

In 2009, IMI Singapore established its Philippine Regional Operating Headquarters (IMI International ROHQ or IMI ROHQ). It serves as an administrative, communications and coordinating center for the affiliates and subsidiaries of the Group.

In 2011, the Parent Company, through its indirect subsidiary, Cooperatief IMI Europe U.A. (Cooperatief) acquired Integrated Micro-Electronics Bulgaria EOOD (formerly EPIQ Electronic Assembly EOOD) (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (formerly EPIQ CZ s.r.o.) (IMI CZ) and Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (formerly EPIQ MX, S.A.P.I. de C.V.) (IMI MX) (collectively referred to as the IMI EU/MX Subsidiaries). IMI EU/MX Subsidiaries design and produce PCBA, engage in plastic injection, embedded toolshop, supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, and industrial equipment, among others. IMI EU/MX Subsidiaries also provide engineering, test and system development and logistics management services.

In 2016, Cooperatief acquired a 76.01% ownership interest in VIA Optronics GmbH (VIA), a Germany-based company with operations in Germany and China and sales offices in the USA and Taiwan. VIA is a leading provider for optical bonding, a key technology to lower reflections thus enabling sunlight readability and increasing robustness, which is mandatory to allow thinner and lighter portable display solutions. The acquisition will allow the Group to strengthen its partnerships with customers by offering complementary automotive camera and display monitor solutions for advanced driver assistance systems. The Group together with VIA will have the scale to introduce patented technology into automotive camera monitor systems for increased safety.

In 2016, IMI acquired a property in the Republic of Serbia to strengthen its global footprint and support the growing market for automotive components in the European region. The manufacturing plant is still under construction and is expected to commence production by 2018.

In 2017, IMI, through its indirect subsidiary Integrated Micro-electronics UK Limited (IMI UK), acquired an 80% stake in Surface Technology International Enterprises Limited (STI), an EMS company based in the United Kingdom. STI has factories in the UK and Cebu, Philippines. STI provides electronics design and manufacturing solutions in both PCBA and full box-build manufacturing for high-reliability industries. The acquisition of STI will help strengthen the Group's industrial and automotive manufacturing competencies, broaden its customer base, and will also provide access to the UK market. Further, the partnership allows the Group's entry into the aerospace, security and defense sectors.

IMI USA acts as direct support to the Group's customers by providing program management, customer service, engineering development and prototype manufacturing services to customers, especially for processes using direct die attach to various electronics substrates. It specializes in prototyping low to medium PCBA and sub-assembly and is at the forefront of technology with regard to precision assembly capabilities including, but not limited to, surface mount technology (SMT), chip on flex, chip on board and flip chip on flex. IMI USA is also engaged in advanced manufacturing process development, engineering development, prototype manufacturing and small precision assemblies.

IMI Japan was registered and is domiciled in Japan to serve as IMI's front-end design and product development and sales support center. IMI Japan was established to attract more Japanese OEMs to outsource their product development to IMI.

PSi is a power semiconductor assembly and test services company serving niche markets in the global power semiconductor market. PSi provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices.

The consolidated financial statements as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were authorized for issue by the Parent Company's Board of Directors (BOD) on February 20, 2018.

2. Group Information

Information about Subsidiaries

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

Subsidiary	Percentage of Ownership		Country of Incorporation	Functional Currency
	2017	2016		
IMI International (Singapore) Pte. Ltd.	**100.00%**	100.00%	Singapore	United States Dollar (USD)
IMI International ROHQ	**100.00%**	100.00%	Philippines	USD
Speedy-Tech Electronics Ltd. (STEL) Group	**100.00%**	100.00%	Singapore	USD
IMI (Chengdu) Ltd. (IMICD)	**100.00%**	100.00%	China	Renminbi (RMB)
Shenzhen Speedy-Tech Electronics Co., Ltd. (SZSTE) [a]	**100.00%**	100.00%	China	USD
IMI Technology (Shenzhen) Co. Ltd. (IMISZ) [a]	**100.00%**	–	China	USD
Speedy-Tech Electronics (HK) Limited (STHK)	**100.00%**	100.00%	Hong Kong	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. (STJX)	**100.00%**	100.00%	China	USD
Speedy-Tech (Philippines), Inc. (STPH) [b]	**100.00%**	100.00%	Philippines	USD
Cooperatief IMI Europe U.A. [c]	**100.00%**	100.00%	Netherlands	Euro (EUR)
Integrated Micro-Electronics Bulgaria EOOD [d]	**100.00%**	100.00%	Bulgaria	EUR
Microenergia EOOD (Microenergia)	**100.00%**	100.00%	Bulgaria	Bulgarian Lev (BGN)
Integrated Micro-Electronics d.o.o. Niš	**100.00%**	100.00%	Serbia	Serbian Dinar (RSD)
Integrated Micro-Electronics Czech Republic s.r.o.[e]	**100.00%**	100.00%	Czech Republic	EUR
IMI Display s.r.o. [f]	**100.00%**	–	Czech Republic	EUR
Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. [g]	**100.00%**	100.00%	Mexico	USD
Integrated Micro-Electronics Manufactura S.A.P.I. de C.V.	**100.00%**	100.00%	Mexico	Mexican Peso (MXP)
IMI France SAS (IMI France)	**100.00%**	100.00%	France	EUR
VIA Optronics GmbH (VIA)	**76.01%**	76.01%	Germany	EUR
VIA Optronics Suzhou Co. Ltd. (VIA Suzhou)	**76.01%**	76.01%	China	RMB
VIA Optronics LLC (VIA LLC)	**76.01%**	76.01%	USA	USD

(Forward)

Subsidiary	Percentage of Ownership 2017	2016	Country of Incorporation	Functional Currency
Integrated Micro-Electronics UK Limited (IMI UK)	**100.00%**	–	United Kingdom	British Pounds (GBP)
Surface Technology International Enterprises Ltd (STI)	**80.00%**	–	United Kingdom	GBP
STI Limited	**80.00%**	–	United Kingdom	GBP
STI Philippines Inc.	**80.00%**	–	Philippines	PHP
STI Asia Ltd	**80.00%**	–	Hong Kong	Hong Kong Dollar (HKD)
STI Supplychain Ltd [h]	**80.00%**	–	United Kingdom	GBP
IMI USA	**100.00%**	100.00%	USA	USD
IMI Japan	**100.00%**	100.00%	Japan	USD
PSi	**100.00%**	100.00%	Philippines	USD
PSiTech Realty, Inc. (PSiTech Realty) [i]	**40.00%**	40.00%	Philippines	USD
Pacsem Realty, Inc. (Pacsem Realty) [i]	**64.00%**	64.00%	Philippines	USD

[a] *New entity incorporated in Shenzhen which now runs the manufacturing operations of Pingshan and Kuichong. SZSTE is being sold to a third party.*
[b] *STPH's business operations were integrated as part of the Parent Company in 2013 wherein a Deed of Assignment was executed between the Parent Company and STPH. STPH is a dormant company.*
[c] *Previously under Monarch Elite Ltd. in June 2017, Monarch agreed to sell its net assets and transfer its membership rights to IMI Singapore. Monarch is in the process of liquidation.*
[d] *On January 01, 2016, IMI BG changed its functional currency from BGN to EUR.*
[e] *On January 01, 2017, IMI CZ changed its functional currency from CZK to EUR.*
[f] *No current operation*
[g] *On March 01, 2014, IMI MX changed its functional currency from MXP to USD.*
[h] *In the process of liquidation*
[i] *On June 21, 2012, the BOD of PSiTech Realty and Pacsem Realty authorized the dissolution of PSiTech Realty and Pacsem Realty, subject to the Philippine SEC approval. As of February 20, 2018, such approval is still pending.*

Business Combinations

Acquisition of STI

On April 6, 2017, IMI, through its indirect subsidiary IMI UK, has entered into an agreement with the shareholders of STI for the acquisition of an 80% stake in STI. The closing of the transaction transpired on May 16, 2017 upon completion of pre-closing conditions and regulatory approvals.

The provisional values of the identifiable assets and liabilities of STI at the date of acquisition follow:

Assets	
Cash and cash equivalents	$4,044,635
Receivables	11,604,826
Inventories	13,896,786
Other current assets	3,951,940
Property, plant and equipment	5,983,710
Intangible assets	369,725
	39,851,622
Liabilities	
Trade payable and other current liabilities	24,441,769
Short and long-term debt	15,107,705
Other noncurrent liabilities	1,838,426
	41,387,900
Net Liabilities	**($1,536,278)**
Non-controlling interest (20.00%)	307,255
Provisional goodwill	55,954,732
Cost of Acquisition	**$54,725,709**

The purchase price allocation for the acquisition of STI has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation, and reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets and goodwill. The valuation had not been completed by the date the consolidated financial statements were approved for issue by the BOD of IMI. The provisional goodwill recognized on the acquisition can be attributed to STI's access to the UK market. Further, the partnership will allow the Group's entry into the aerospace, security and defense sectors.

The fair value of the receivables approximates their carrying amounts. None of the receivables have been impaired and is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

From the date of acquisition, STI contributed $45.50 million of revenue and $0.33 million profit before tax to the Group. If the combination had taken place at the beginning of the year, STI would have contributed revenue amounting to $64.75 million and loss before tax amounting to $6.32 million.

Analysis of cash flows on acquisition:

Initial purchase consideration	$29,750,500
Contingent consideration	24,975,209
Cost of acquisition	$54,725,709
Cash consideration	$29,750,500
Less: Cash acquired from the subsidiary	4,044,635
Net cash flow (included in cash flows from investing activities)	**$25,705,865**

The initial purchase consideration of £23.00 million ($29.75 million) was paid in cash upon signing of the agreement. The contingent consideration will depend on the actual normalized earnings before interest, taxes, depreciation and amortization (EBITDA) performance less adjustments in 2018 and 2019. The contingent consideration was recognized at its fair value as part of the consideration transferred using the probability-weighted average of payouts associated with each possible outcome which resulted to an initial estimate amounting to £19.31 million ($24.98 million).

The agreement also provided details regarding the sale of additional shares from the non-controlling interest through the grant of put and call options, as follows:

Options	Holder of the Right	Description	Option Period	Option / Exercise Price
Call Option	IMI	Right to require each of the Founders to sell to the Buyer all (but not some) of the interests held by that Founder by service of an Option Notice by the Buyer on the Founder at any time during the Call Option Period	Period commencing upon the earliest of: • an Event of Default [i] occurring in respect of that Founder; • a Leaver Event [ii] occurring; • the aggregate relevant proportion of the Founders falling to less than 10%; and • the fifth anniversary of the Shareholders Agreement (SA).	Where the Call Option Period commenced: • on the fifth anniversary of this SA and where no Event of Default has occurred - 100% of the fair value [iii] of the relevant Option Interests • on the fifth anniversary of this SA but where an Event of Default has occurred - 90% • prior to the fifth anniversary of this SA as a result of a No Fault Leaver Event [iv] - 100%

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[i] An Event of Default shall mean any of the following in respect of a Founder:

- that Founder commits any material breach of the SA or his contract or service, employment or consultancy with the Company or any member of the Group; or
- that Founder is convicted of any criminal offense (other than minor motoring offences not punishable with imprisonment); or
- that Founder commits any fraud with respect to the business of the STI Group; or
- that Founder enters or proposes to enter into any composition or arrangement with his creditors generally; or
- that Founder is declared bankrupt or otherwise unable to pay his debts as they fall due.

[ii] A Leaver Event means that the First Founder ceases to be an employee of a member of the STI Group, dedicating not less than 50% of his working time to the business.

[iii] The fair value shall be determined in accordance with the following:

- promptly after the service of the Option Notice, the investors shall seek to agree the purchase price for the Option Interests which shall be the market value of the Option Interests on the date an Option Notice is served assuming a willing buyer and a willing seller and making no adjustment on account of any restrictions on the transfer of the Option Interests;
- if the investors agree the purchase price for such Option Interests it shall be binding on all investors and members of their respective investor groups; and
- in the event of any dispute as to the purchase price, the price in dispute shall be referred to a "Big Four" firm or an Expert.

[iv] A No Fault Leaver Event means occurring prior to the fifth anniversary of the SA other than in circumstances where (i) the First Founder tenders his resignation (other than as a result of his permanent disability or incapacity or in circumstances where he is found to have been constructively dismissed); or (ii) the employment of the First Founder is terminated by his employer in circumstances justifying summary dismissal.

Options	Holder of the Right	Description	Option Period	Option / Exercise Price
				• prior to the fifth anniversary of this Agreement as a result of the aggregate relevant proportion of the Founders falling to less than 10% - 100% • prior to the fifth anniversary of this SA other than (iii) and (iv) above - 90%
Put option	Founders (Singly or Collectively)	Right to require the Buyers to buy from each Founder all (but not some) of the interests held by that Founder by service of an Option Notice by the relevant Founder on the Buyers at any time during the Put Option Period	Period commencing upon the earlier of: • a No Fault Leaver Event occurring in respect of a Founder; • the aggregate relevant proportion of the Founders falling to less than 5%; and • the fifth anniversary of the SA.	100% of the fair value of the relevant Option Interests

Management assessed that it does not have present access to the returns associated with the non-controlling interest.

The call option is accounted for as a derivative asset carried at fair value through profit or loss. Given that the call option is exercisable at the fair value of the shares at the exercise date, the value of the derivative asset is nil.

The Group accounted for the put option as a financial liability measured at the present value of the redemption amount, with a debit to “Additional paid-in capital” account, amounting to $12.88 million on initial valuation. Mark-to-market gain amounting to $2.64 million was recognized in the consolidated statements of income.

Acquisition-related costs, which consist of professional and legal fees, financing and transaction costs, taxes, representation and travel expenses amounting to $1.92 million were recognized as expense in the consolidated statements of income.

Acquisition of VIA
On August 16, 2016, Cooperatief and the shareholders of VIA entered into a sale and purchase agreement under which Cooperatief acquired a 76.01% stake in VIA for a total cash consideration of €47.79 million ($53.46 million). The closing of the transaction transpired on September 14, 2016.

In 2016, the purchase price allocation for the acquisition of VIA has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation.

The Group finalized the purchase price allocation with the following changes to the provisional values based on additional information subsequently obtained:

Assets	**Fair Values**	**Provisional Values**
Cash and cash equivalents	$6,584,881	$6,584,881
Receivables	18,744,735	18,744,735
Inventories	5,448,266	5,448,266
Other current assets	660,401	660,401
Property, plant and equipment	3,149,309	3,149,309
Intangible asset	8,341,357	493,368
Deferred tax asset	558,287	558,287
Other noncurrent assets	158,792	158,792
	43,646,028	35,798,039
Liabilities		
Accounts payable and accrued expenses	$18,240,811	$18,240,811
Current portion of long-term debt	125,854	125,854
Loans payable	8,477,907	8,477,907
Other current liabilities	2,723,811	2,723,811
Long-term debt	209,169	209,169
Other noncurrent liabilities	152,692	152,692
Deferred tax liabilities	1,975,825	217,090
	31,906,069	30,147,334

Assets	Fair Values	Provisional Values
Net Assets	**$11,739,959**	$5,650,705
Non-controlling interest (23.99%)	**(2,816,416)**	(1,355,604)
Goodwill	**44,539,967**	49,168,409
Cost of acquisition	**$53,463,510**	$53,463,510

The fair value of the intangible asset of VIA increased by $7.85 million (see Note 11). The intangible asset is attributable to VIA's extensive experience and knowledge and certain know-how and other intellectual property (IP) rights in the field of developing and manufacturing optical bonded products, including materials and equipment for optical bonding and the optical bonding process. The 2016 comparative information was restated to reflect the adjustments to the provisional amounts. Accordingly, the goodwill, intangibles assets and non-controlling interest were restated. The goodwill recognized is not expected to be deductible for tax purposes.

The fair value of the IP was determined using the relief from royalty method taking into account the royalty savings of owning an IP. The IP is amortized over a period of 5 years.

Deferred tax liability on the increase in fair value of the intangible asset was recognized amounting to $1.76 million. Derecognized deferred tax liability due to amortization of IP amounted to $0.44 million for the year ended December 31, 2017.

The acquisition of VIA also has provisions regarding sale of additional shares from non-controlling interest through the grant of put and call options. The Group accounted for the call option as derivative asset at nil value. The Group accounted for the put options as financial liabilities measured at the present value of the redemption amounting to $11.70 million and $11.33 million as of December 31, 2017 and 2016, respectively. Mark-to-market loss amounting to $0.34 million and $0.41 million in 2017 and 2016, respectively was recognized in the consolidated statements of income.

Analysis of cash flows on acquisition:

Cost of acquisition	$53,463,510
Less: Cash acquired from the subsidiary	6,584,881
Net cash flow (Included in cash flows from investing activities)	$46,878,629

Acquisition-related costs, which consist of professional and legal fees, financing and transaction costs, representation and travel expenses amounting to $1.36 million were recognized as expense in 2016.

From the date of acquisition up to December 31, 2016, the Group's share in VIA's revenue and net loss amounted to $19.41 million and $0.39 million respectively. If the combination had taken place at the beginning of 2016, the Group's total revenue would have increased by $64.65 million while net income before tax would have decreased by $0.08 million.

Acquisition of Non-controlling Interests

Acquisition of additional interest in SZSTE

On December 26, 2016, STEL acquired the remaining non-controlling interest in SZSTE for a total consideration of $0.36 million.

The details of the transaction are as follows:

Non-controlling interest acquired	$189,587
Consideration paid to the non-controlling shareholder	(360,301)
Total amount recognized in "Other reserves" account within equity	($170,714)

3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets and liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated financial statements are presented in United States Dollar (USD) and all values are rounded to the nearest dollar, unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with PFRS.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017.

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:

a. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
b. Exposure, or rights, to variable returns from its involvement with the investee, and
c. 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:

a. The contractual arrangement with the other vote holders of the investee
b. Rights arising from other contractual arrangements
c. The Group's voting rights and potential voting rights

The Group re-assesses whether 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 or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Parent Company. Any equity instruments issued by a subsidiary that are not owned by the Parent Company are non-controlling interests including preferred shares and options under share-based transactions. The portion of profit or loss and net assets in subsidiaries not wholly-owned are presented separately in the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position, separately from the Parent Company's equity. Non-controlling interests are net of any outstanding subscription receivable.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

In accounting for call and put options over non-controlling interests, management determines whether it has present access to the returns associated with the non-controlling interests. If the options give the Group access to the returns over the non-controlling interests, the Group consolidates the acquiree as if it acquired a 100% interest.

If the options do not give the Group present access to the returns over the non-controlling interests, the Group takes the view that the non-controlling interests should be accounted for in accordance with PFRS 10, *Consolidated Financial Statements,* and must be presented within equity separate from the equity of the Parent Company, until the option is exercised.

The call option is accounted for under PAS 39, *Financial Instruments: Recognition and Measurement,* as a derivative asset carried at fair value through profit or loss.

The financial liability for the put option is accounted for under PAS 39 like any other written put option on equity instruments. On initial recognition, the corresponding debit is made to a component of equity attributable to the parent, not to the non-controlling interest. All subsequent changes in the carrying amount of the financial liability that result from the remeasurement of the present value payable on exercise are recognized in profit or loss also attributable to the parent.

If the put option is exercised, the entity accounts for an increase in its ownership interest. At the same time, the entity derecognizes the financial liability and reverses the component of equity that was reduced on initial recognition. If the put option expires unexercised, the financial liability is reclassified to the same component of equity that was reduced on initial recognition.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company. The difference is included as part of additional paid-in capital.

If the Group losses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while the resulting gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those of the previous financial years except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2017. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance, unless otherwise indicated.

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

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

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

- Amendments to 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 35 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

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

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

  The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Standards Issued but not yet Effective
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 will have a significant impact on its 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 is currently assessing the potential effect of the amendments on its consolidated financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements

for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

  Based on its initial assessment, the requirements of PFRS 15 on the following may have an impact on the Group's consolidated financial position, performance and disclosures:

  - Identification of services from assembly stage to packaging stage as one performance obligation
  - Variable considerations such as prompt payment discounts, volume discounts, rebates, and price reduction
  - Recognition of revenue over time given that the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

  In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information. The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRs* 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 on 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 non-monetary 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. The interpretation may be applied on a fully retrospective basis. Entities 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.

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

Effective beginning on or after January 1, 2019

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

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

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

- PFRS 16, *Leases*

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

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

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

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

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

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

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

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

  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; and
  - How an entity considers changes in facts and circumstances

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

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

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 postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed 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.

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

<u>Current versus Noncurrent Classification</u>
The Group presents assets and liabilities in the consolidated balance sheet based on current or noncurrent classification.

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for trading;

- It is due to be settled within twelve months after the balance sheet date; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities are classified as noncurrent.

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

Cash and Cash Equivalents
Cash includes cash on hand and 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 and that are subject to an insignificant risk of change in value.

Financial Instruments - Initial Recognition and Subsequent Measurement
Classification of financial instruments
Financial instruments within the scope of PAS 39 are classified as:

1. Financial assets and financial liabilities at FVPL;
2. Loans and receivables;
3. Held-to-maturity (HTM) investments;
4. AFS financial assets; and
5. Other financial liabilities.

The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every balance sheet date.

The financial instruments of the Group as of December 31, 2017 and 2016 consist of financial assets and financial liabilities at FVPL, loans and receivables, AFS financial assets, and other financial liabilities.

Date of recognition of financial instruments
Financial instruments are recognized in the consolidated balance sheets when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, are done using trade date accounting. The Group follows the trade date accounting where an asset to be received and liability to be paid are recognized on the trade date and the derecognition of an asset that is sold and the recognition of a receivable from the buyer are likewise recognized on the trade date.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference amount.

Financial assets or financial liabilities at FVPL
Financial assets or financial liabilities at FVPL include derivatives, financial instruments held for trading and financial instruments designated upon initial recognition as at FVPL.

Derivatives, including separated embedded derivatives, are accounted for as financial assets or financial liabilities at FVPL, unless they are designated as effective hedging instruments or a financial guarantee contract. Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset or liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

The Group uses currency forwards to hedge its risks associated with foreign currency fluctuations. Such are accounted for as non-hedge derivatives.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

1. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
2. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
3. The hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether an embedded derivative is required to be separated from the host contract when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Financial instruments are classified as held for trading if they are entered into for the purpose of short-term profit-taking.

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

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

Financial assets and financial liabilities at FVPL are subsequently measured at fair value. Changes in fair value of such assets or liabilities are accounted for in profit or loss.

This accounting policy relates primarily to the Group's derivative assets and liabilities, financial liabilities on put options over the non-controlling interests and contingent consideration liability.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of loans and receivables.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for doubtful accounts. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

This accounting policy relates primarily to the Group's cash and cash equivalents, receivables and miscellaneous deposits reported under the "Other noncurrent assets" account.

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

AFS financial assets are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of AFS financial assets.

After initial measurement, AFS financial assets are subsequently measured at fair value. Dividends earned on holding AFS financial assets are recognized in profit or loss as dividend income when the right to receive payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are recognized in OCI under "Reserve for fluctuation on available-for-sale financial assets" account. The losses arising from impairment of such investments are recognized as impairment losses in profit or loss. When the investment is disposed of, the cumulative gains or losses previously recognized in OCI are recognized as realized gains or losses in profit or loss.

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

This accounting policy pertains to the Group's investments in club shares and common equity shares.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations and borrowings.

Other financial liabilities are initially recognized at the fair value of the consideration received, less directly attributable transaction costs.

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an

integral part of the EIR. Gains and losses are recognized in profit or loss when other financial liabilities are derecognized, as well as through the EIR amortization process.

This accounting policy relates primarily to the Group's accounts payable and accrued expenses (excluding customers' deposits, advances from customers, advances from third party, statutory payables and taxes payable), loans and trust receipts payable and long-term debt.

Fair Value Measurement
The Group measures derivatives, AFS financial assets and the financial liabilities on put options at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 32.

The 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 by the Group.

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

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

All assets and liabilities for which the 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 and 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 reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at balance sheet date.

For purposes of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets 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 assets and settle the liabilities simultaneously.

Derecognition of Financial Instruments
Financial asset
A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized (that is, removed from the consolidated balance sheets) when:

- The right to receive cash flows from the asset have expired; or
- The Group has transferred its right 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 right 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 asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group

also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of Financial Assets
The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and observable data indicating that there is a 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, the Group 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 an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated provision for doubtful accounts increases or decreases because of an event occurring after the provision for doubtful accounts was recognized, the previously recognized provision for doubtful accounts is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit or loss.

AFS financial assets
For AFS financial investments, the Group assesses, at each balance sheet date, whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is evaluated against the original cost of the investments and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment losses on that investments previously recognized in profit or loss - is removed from OCI and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in OCI.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method for raw materials and supplies. For finished goods and work-in-process, cost includes direct materials, direct labor, and a proportion of manufacturing overhead costs based on normal operating capacity determined using the moving average method. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. In the event that NRV is lower than cost, the decline shall be recognized as an expense in profit or loss.

Noncurrent Assets Held for Sale
The Group classifies noncurrent asset as held for sale if its carrying amount will be recovered mainly through selling the asset rather than through continuing use.

The following conditions must be met for an asset to be classified as held for sale:

- Management is committed to a plan to sell;
- The asset is available for immediate sale;
- An active programme to locate a buyer is initiated;
- The sale is highly probable within 12 months of classification as held for sale;
- The asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- Actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

The Group measures noncurrent asset held for sale at the lower of its carrying amount and fair value less cost to sell.

Property, Plant and Equipment
Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. The initial cost of property, plant and equipment consists of its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.

Construction in progress is stated at cost, less impairment loss, if any. This includes costs of construction and installation of equipment and machinery items, and any other costs directly attributable to bringing the asset to its intended use. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Depreciation of property, plant and equipment commences once the property, plant and equipment are available for use and is calculated on a straight-line basis over the estimated useful lives (EUL) of the assets as follows:

	Years
Buildings	25 - 30
Building improvements	5
Machineries and facilities equipment	7
Furniture, fixtures and office equipment	3 - 5
Transportation equipment	3 - 5
Tools and instruments	2 - 5

The EUL and methods of depreciation of property, plant and equipment are reviewed annually and adjusted prospectively, if appropriate. The EUL of property, plant and equipment are based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of property, plant and equipment.

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

Fully depreciated property, plant and equipment are retained in the accounts until these are no longer used and no further depreciation is charged to profit or loss.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the consolidated statements of income under "Operating expenses" account.

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, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability, that is a financial instrument and within the scope of PAS 39 is measured at fair value with changes in fair value recognized in profit or loss. Other contingent consideration that is not within the scope of PAS 39 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

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

After initial recognition, goodwill is measured at cost, less accumulated impairment losses. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating unit (CGU), or group of CGUs, 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 groups of units.

Each unit or group of units to which the goodwill is allocated should:

- Represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

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

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

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 as of the date of acquisition.

Research and development costs

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

(a) The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
(b) Its intention to complete and ability to use or sell the intangible asset;
(c) How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
(d) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(e) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

After initial recognition, intangible assets are carried at cost, less accumulated amortization and any accumulated impairment losses. Amortization begins when development is complete and the asset is available for use. It is amortized over the period of expected benefit.

The EUL of intangible assets are assessed as either finite or indefinite. Intangible assets with finite useful lives are amortized over their EUL and assessed for impairment whenever there is an indication that the intangible asset is impaired. The amortization period and method for intangible assets with finite useful lives are reviewed at least at the end of each balance sheet date. Changes in the EUL 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 useful lives is recognized in profit or loss.

The EUL of intangible assets of finite useful life are as follows:

	Years
Product development cost	5
Customer relationships	5
Intellectual properties	5
Unpatented technology	5
Licenses	3

Intangible assets with indefinite useful lives and those not yet available for use are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful 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 the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets
The Group assesses, at each balance sheet date, whether there is an indication that an asset is impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. 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.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations generally covered a period of five years.

For assets, excluding goodwill, an assessment is made at each balance sheet date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining EUL.

Goodwill allocated to STI, STEL, the Parent Company and IMI CZ is tested for impairment annually as of September 30. Goodwill allocated to VIA is tested annually as of December 31. Goodwill is also tested for impairment when circumstances indicate that the carrying amount is impaired. Provisional goodwill allocated to a CGU is also tested for impairment even if the fair value exercise is not complete during the year.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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.

When the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Equity

Capital stock

Capital stock is measured at par value for all shares issued and outstanding. When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Preferred shares may be issued with various rights. In determining whether a preference share is financial liability or equity instrument, the issuer is required to assess the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability.

A preference share redeemable only at the holder's option is an equity instrument because the issuer does not have a present or future obligation to transfer financial assets to the shareholder.

Additional paid-in capital

Additional paid-in capital pertains to the difference of the par value and selling price of issued and outstanding shares of stock. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against "Retained earnings" account. The financial liabilities for the put options over the non-controlling interests are recognized at the acquisition date with a debit to additional paid-in capital.

Subscriptions receivable

Subscriptions receivable pertains to the uncollected portion of the subscribed shares.

Retained earnings and dividends on capital stock of the Parent Company

Retained earnings represent net accumulated earnings of the Group, less dividends declared. Appropriated retained earnings are set aside for future expansion. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by Parent Company's BOD.

Treasury stock

Treasury stock is recorded at cost and is presented as a deduction from equity. When the shares are retired, the "Capital stock" account is reduced by its par value and the excess of cost over par value upon retirement is debited to "Additional paid-in capital" account to the extent of the specific or average additional paid-in capital when the shares were issued and to "Retained earnings" account for the remaining balance.

Revenue Recognition

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 of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from sale of goods is recognized when goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customers, title and risk of ownership have passed, the price to the buyer is fixed or determinable, and recoverability is reasonably assured.

Rendering of services

Revenue from sale of services is recognized when the related services to complete the required units have been rendered.

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

Dividends
Dividend income is recognized when the right to receive the payment is established.

Miscellaneous income
Miscellaneous income is recognized as the Group earns the right over it.

Cost of sales
This account includes cost of goods sold and cost of services. These expenses pertain to the direct expenses incurred by the Group in relation to the products and services offered. Cost of sales is recognized when the related goods are sold and when services are rendered.

Operating expenses
This account pertains to the general and administrative expenses. Operating expenses are recognized when incurred, except for rental expense, which is computed on a straight line-basis over the lease term.

Foreign Currency Transactions
The functional currencies of the Group's foreign operations are determined as the currency in the country where the subsidiary operates. For consolidation purposes, the foreign subsidiaries' balances are translated to USD, which is the Parent Company's functional and presentation currency.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currencies of the Group's foreign subsidiaries are summarized in Note 2 to the consolidated financial statements. As at the balance sheet date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Parent Company at the rate of exchange ruling at the balance sheet date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity.

Exchange differences arising from elimination of intragroup balances and intragroup transactions are recognized in profit or loss. As an exception, if the exchange differences arise from intragroup balances that, in substance, forms part of an entity's net investment in a foreign operation, the exchange differences are not to be recognized in profit or loss, but are recognized in OCI and accumulated in a separate component of equity until the disposal of the foreign operation.

On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

Income Taxes
Current tax
Current tax assets and current tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date in the countries where the Group operates and generates taxable profit.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. 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, when appropriate.

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

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax losses, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax losses can be utilized, except:

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

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

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

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in 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 as of the balance sheet date.

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 tax authority.

For periods where an Income Tax Holiday (ITH) is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the Group neither results in a deductible temporary difference or taxable temporary difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

Earnings per Share (EPS) Attributable to Equity Holders of the Parent Company

Basic EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding and adjusted to give retroactive effect to any stock dividends declared during the period. Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding, plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. The calculation of diluted EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on EPS.

Retirement and Other Employee Benefits

Defined benefit plans

The Parent Company, PSi and IMI BG maintain separate defined benefit plans covering substantially all of their employees. The plans of the Parent Company and PSi are funded and noncontributory retirement plans administered by their respective Boards of Trustees, while that of IMI BG is unfunded and noncontributory.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur.

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.

Net interest on net retirement liabilities is the change during the period in net retirement liabilities that arises from the passage of time which is determined by applying the discount rate based on government bonds to net retirement liabilities. Net interest on retirement liabilities 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 net retirement liabilities) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Net retirement liabilities are the aggregate of the present value of the defined benefit obligation at the end of the balance sheet date reduced by the fair value of plan assets, adjusted for any effect of limiting a net retirement 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.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Defined contribution plans
The Parent Company's subsidiaries in Singapore, China and Hong Kong, Czech Republic, Mexico, Germany and UK participate in the respective national retirement schemes defined by the laws of the countries in which it has operations. These retirement schemes are considered as defined contribution plans. A defined contribution plan is a plan under which the subsidiary pays fixed contributions. Each subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The required contributions to the national retirement schemes are recognized as retirement expense as accrued.

Singapore
The subsidiaries incorporated in Singapore make contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution scheme. Contributions to the CPF scheme are recognized as an expense in the period in which the related service is performed.

China
The subsidiaries incorporated and operating in China are required to provide certain staff retirement benefits to their employees under existing China regulations, a defined contribution scheme. Retirement contributions are provided at rates stipulated by China regulations and are contributed to a retirement fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees. Contributions to this defined contribution scheme are recognized as expense in the period in which the related service is performed.

Hong Kong
The subsidiary in Hong Kong participates in the defined provident fund. The subsidiary and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Contributions to this defined contribution scheme are recognized as expense in the period in which the related service is performed.

IMI CZ
IMI CZ, under its collective agreement, is committed to pay contributions to life and retirement insurance of its loyal employees. This is done on a monthly basis as part of payroll expenses and only over the employment period. IMI CZ is not obliged to any other payments if employment terminates.

IMI MX
In accordance with the Mexican Labor Law, IMI MX provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to twelve days of wage for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with fifteen or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

IMI MX also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months wages plus twenty days wages for each year of service payable upon involuntary termination without just cause. These are recognized when such an event occurs.

VIA
VIA only has defined contribution plans relating to statutory pension. Funds paid by the employees and employers are not saved or invested but are used to pay current pension obligations. Obligations for contributions to defined contribution plans are recognized as an expense when incurred.

STI
Contributions to defined contribution plans are recognized as an expense in the period in which the related service is provided. Prepaid contributions are recognized as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognized as a finance cost in profit or loss in the period in which it arises.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they accrue to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the balance sheet date is recognized for services rendered by employees up to the end of the balance sheet date.

Share-based Payment Transactions
Certain employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

The Group has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Parent Company's shares at a discounted price. The Group recognizes employee benefit expense over the holding period. The Group treats its ESOWN plan as option payable within a given period. These are accounted for similar to the methods outlined in PFRS 2. Dividends paid on the awards that have vested are deducted from equity while those paid on awards that are unvested are charged to profit or loss.

Operating Segments
The Group is organized and managed separately according to geographical locations of businesses. The geographical segments are segregated as follows: Philippines, China, Europe, Mexico, Germany/UK, and USA/Japan/Singapore. These geographical businesses are the basis upon which the Group reports its operating segment information presented in Note 29.

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

Operating and finance lease commitments - Group as lessee
Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in the "Property, plant and equipment" account, with the corresponding liability to the lessor included in the "Accounts payable and accrued expenses" account for the current portion, and "Noncurrent portion of obligation under finance lease" account for the noncurrent portion in the consolidated balance sheets. Lease payments are apportioned between the 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 under "Interest expense and bank charges" account in the consolidated statements of income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and the respective lease terms.

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the respective lease terms.

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

Events after the Balance Sheet Date
Post period events that provide additional information about the Group's financial position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post period events that are non-adjusting events are disclosed in the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Uncertainty about these judgments, assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities affected in future periods.

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

Product development costs
Expenditures for the development of new products or production systems are recognized as intangible assets if such expenditures, with a high degree of certainty, will result in future economic benefits for the Group. The rules require stringent criteria to be met for these development expenditures to be recognized as assets such as determining technical feasibility of completing the intangible asset. Management assessed that it is able to meet the identifiability and separability criteria provided in PAS 38, *Intangible Assets,* on the premise that the projects involved are in separate locations from other existing lines and that each project arises from a contractual right between the Group and each customer. Moreover, management is able demonstrate that the projects are in the advanced stage of development.

Functional currency
PAS 21, *Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine each entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Group. In making this judgment, each entity within the Group considers the currency in which the sales prices for its goods and services are denominated and settled.

Effective January 1, 2017, IMI CZ changed its functional currency from CZK to EUR, while IMI BG changed its functional currency from BGN to EUR effective January 1, 2016. Management believes that the change in the functional currency was necessary to define the currency of the primary economic environment in which these entities operate.

Operating lease commitments - Group as lessee
The Group has entered into contracts with various lease contracts for office spaces and land. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessor.

Further details are disclosed in Note 30.

Contingencies
The Group is currently involved in various legal proceedings. The estimates of the probable costs of the resolutions and assessments of these claims have been developed in consultation with outside counsels handling the defense in these matters and are based upon analyses of potential results. The Group currently does not believe that these proceedings and tax assessments 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.

Further details are disclosed in Note 34.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its estimates and assumptions 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.

Fair value of the financial liabilities on put options
The acquisition of VIA in 2016 and STI in 2017 included call and put options over the non-controlling interests. These options are considered when determining whether the entity has obtained control over the acquiree if in substance the entity already has access to the returns associated with that ownership interest. Management assessed that the options do not give the Group present access to the returns associated with the non-controlling interests in subsidiary and, therefore, accounted for the non-controlling interests under PFRS 10, while the financial liability was accounted for under PAS 39 measured at the present value of the redemption amount, with a debit to a component of equity attributable to the parent.

Management assessed that the discounted, probability-weighted cash flow methodology is the appropriate model to derive the present value of the redemption amount. The key estimates and assumptions used in the valuation include the current equity value of the acquiree, forecasted interest rate and probability of trigger events occurring. The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital. For STI, management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronic services solutions to derive its current equity value. Management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization.

Further details on the valuation of the put options are disclosed in Note 32.

Fair value of contingent consideration liability
The cost of acquisition of STI includes contingent consideration that will depend on the actual normalized EBITDA performance less adjustments in 2018 and 2019. Management assessed that the probability-weighted average of payouts associated with each possible outcome is the appropriate model to derive the fair value as part of the consideration transferred. Valuing normalized EBITDA requires management to make an estimate of the expected future cash flows of STI and an appropriate discount rate in order to calculate the fair value of the contingent consideration as of acquisition date.

Further details on the valuation of the contingent consideration liability are disclosed in Note 32.

Impairment of receivables
The Group reduces the carrying amount of its receivables through the use of an allowance account if there is objective evidence that an impairment loss on receivables has been incurred, based on the result of the individual impairment assessment. Factors considered are payment history and past due status.

Further details on receivables are disclosed in Note 6.

Estimating NRV of inventories
Inventories are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make a sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense.

Further details on inventories are disclosed in Note 7.

Depreciation and amortization
The Group computes depreciation and amortization of property, plant and equipment and intangible assets with finite useful life on a straight-line basis over the assets' EUL. The EUL and depreciation and amortization method are reviewed annually to ensure that these are consistent with the expected pattern of the economic benefits from the assets. This requires the Group to make an estimate of the expected asset utilization from business plans and strategies, future technical developments and market behavior to determine the expected pattern of economic benefits from the assets. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the depreciation and amortization period or method, as appropriate, and are treated as changes in accounting estimates. The depreciation and amortization expense on property, plant and equipment and intangible assets with finite useful lives are recognized in profit or loss, in the expense category, consistent with the function of the property, plant and equipment and intangible assets.

Further details on property, plant and equipment and intangible assets are disclosed in Notes 9 and 11, respectively.

Evaluation of impairment of nonfinancial assets
The Group reviews property, plant and equipment, goodwill and intangible assets for impairment of value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. Impairment for goodwill is assessed at least annually. The Group estimates the recoverable amount as the higher of the fair value less costs to sell and value-in-use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect property, plant and equipment, and intangible assets. For goodwill, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value-in-use of the CGU to which the goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows. Further details on property, plant and equipment, goodwill and intangible assets are disclosed in Notes 9, 10 and 11, respectively.

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable profits. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience on previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax losses, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax losses can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on taxes are disclosed in Note 25.

Retirement and other employee benefits
The cost of defined benefit plans and other long-term employee benefits as well as the present value of defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rates, turnover rates, mortality rates, salary increase rates, and future retirement increases. Due to the complexity of the actuarial valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The turnover rate represents the proportion of the current plan members who will resign from service prior to their retirement date and hence, be entitled to resignation benefits instead of retirement benefits. The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Salary increase rates and future retirement increases are based on expected future inflation rates.

The Group also estimates other short-term employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group’s policies. These estimates may vary depending on the future changes in salaries and actual experiences during the period.

Further details on retirement and other employee benefits are disclosed in Note 27.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The expected volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Parent Company.

Further details on ESOWN are disclosed in Note 28.

5. **Cash and Cash Equivalents**

This account consists of:

	2017	2016
Cash on hand	**$82,463**	$83,701
Cash in banks	**67,581,023**	75,816,054
Short-term investments	**22,963,742**	10,648,980
	$90,627,228	$86,548,735

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months and earn interest at the respective short-term investment rates.

Interest income earned from cash in banks and short-term investments amounted to $0.17 million in 2017, $0.29 million in 2016 and $0.66 million in 2015.

6. **Receivables**

This account consists of:

	2017	2016
Trade	**$252,636,453**	$192,152,117
Nontrade	**10,141,732**	3,804,516
Receivable from insurance	**1,076,287**	1,860,624
Due from related parties (Note 31)	**794,218**	299,713
Receivable from employees	**424,658**	553,745
Others	**52,274**	32,164
	265,125,622	198,702,879
Less allowance for doubtful accounts	**2,010,275**	1,733,743
	$263,115,347	$196,969,136

Trade
Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms averaging 80 days from invoice date.

Nontrade
Nontrade receivables represent billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These receivables have credit terms averaging 45 days from invoice date.

Receivable from Insurance
Insurance for damages to property, plant and equipment, inventories and business interruptions caused by fire in January 2016 amounting to $1.20 million was claimed, $0.41 million of which has been collected in 2016 and the remaining amount was fully collected by STJX in 2017 (see Notes 7 and 9).

Claims to damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu in 2009 amounting to $1.07 million was fully provided with allowance for doubtful accounts.

Receivable from Officers and Employees
Receivable from officers and employees pertain to loans granted to the Group's officers and employees which are collectible through salary deduction.

Allowance for Doubtful Accounts
Trade receivables, nontrade receivables, receivable from insurance and receivable from employees with aggregate nominal value of $2.01 million and $1.73 million as of December 31, 2017 and 2016, respectively, were individually assessed to be impaired and fully provided with allowance for doubtful accounts.

Movements in the allowance for doubtful accounts are as follows:

	December 31, 2017				
	Trade	**Nontrade**	**Receivable from Employees**	**Receivable from Insurance**	**Total**
At beginning of year	**$595,553**	**$62,574**	**$4,357**	**$1,071,259**	**$1,733,743**
Provisions	**86,236**	**139,299**	**–**	**–**	**225,535**
Accounts written-off	**(10,670)**	**(17,930)**	**–**	**–**	**(28,600)**
Foreign currency exchange difference	**79,597**	**(5,028)**	**–**	**5,028**	**79,597**
At end of year	**$750,716**	**$178,915**	**$4,357**	**$1,076,287**	**$2,010,275**

	December 31, 2016				
	Trade	Nontrade	Receivable from Employees	Receivable from Insurance	Total
At beginning of year	$543,800	$67,762	$17,438	$1,066,414	$1,695,414
Provisions (reversals)	217,768	–	(13,161)	–	204,607
Accounts written-off	(9,737)	–	–	–	(9,737)
Foreign currency exchange difference	(156,278)	(5,188)	80	4,845	(156,541)
At end of year	$595,553	$62,574	$4,357	$1,071,259	$1,733,743

Provisions during the year form part of "Operating expenses" account and are included under "Facilities costs and others" (see Note 22).

7. Inventories

This account consists of:

	2017	2016
Raw materials and supplies	**$139,623,455**	$75,849,560
Work-in-process	**29,087,565**	17,195,051
Finished goods	**37,112,621**	19,654,056
	205,823,641	112,698,667
Less allowance for:		
Inventory obsolescence	**6,129,568**	6,331,871
Decline in value of inventories	**79,266**	234,267
	6,208,834	6,566,138
	$199,614,807	$106,132,529

The cost of the inventories carried at NRV amounted to $17.23 million and $24.06 million as of December 31, 2017 and 2016, respectively. The amount of inventories recognized as an expense under “Cost of goods sold and services” account amounted to $756.16 million in 2017, $571.52 million in 2016 and $546.90 million in 2015 (see Note 20).

In 2016, STJX claimed and collected in full the insurance amounting to $0.41 million for the damaged inventories caused by a fire in January 2016. The net book value of the affected stocks amounted to $0.26 million.

Movements in the allowance for inventory obsolescence are as follows:

	2017	2016
At beginning of year	**$6,331,871**	$9,351,194
Reversals (Note 22)	**(202,303)**	(2,660,809)
Write-off	**–**	(358,514)
At end of year	**$6,129,568**	$6,331,871

Movements in the allowance for decline in value of inventories value are as follows:

	2017	2016
At beginning of year	**$234,267**	$184,267
Provisions (reversals) (Note 22)	**(155,001)**	50,000
At end of year	**$79,266**	$234,267

The Group recognized gains from sale of materials and scrap amounting to $1.24 million in 2017, $0.15 million in 2016 and $0.24 million in 2015. Gains from sale of materials and scrap are included under “Miscellaneous income (loss) - net” account in the consolidated statement of income (see Note 24).

8. Other Current Assets

This account consists of:

	2017	2016
Input taxes	**$8,504,591**	$3,115,121
Advances to suppliers	**7,633,680**	8,838,927
Prepayments	**6,611,082**	2,372,073
Tax credits	**3,687,290**	2,228,363
Noncurrent assets held for sale (Note 9)	**362,124**	362,124
Derivative assets (Notes 32 and 33)	**–**	67,062
Others	**255,864**	340,745
	$27,054,631	$17,324,415

Advances to Suppliers
Advances to suppliers represent advance payments made to suppliers for direct materials.

Input Taxes
This account includes input tax expected to be applied against output tax within 12 months from the balance sheet date. Input tax is recognized when an entity in the Group purchases goods or services from a supplier or vendor.

Prepayments
Prepayments include prepayments for rent, life and fire insurance, product liability and recall insurance, which cover product recall expenses and liability to third parties seeking damage in the event the Group recalls any of its products.

Tax Credits
Tax credits includes tax incentive to be applied to future taxable profits of IMI MX and IMI BG and amounts withheld from income tax payments of the Parent Company and PSi.

Noncurrent Assets Held for Sale
Noncurrent assets held for sale relates to the sale and purchase agreement between STEL and Jinnuo Century Trading Limited in connection with the relocation of its manufacturing facility in Liantang, Luohu, in line with the urban redevelopment projects of the Shenzhen City government. The sale is subject to certain conditions which are expected to be completed within 2018.

9. Property, Plant and Equipment

Movements in this account are as follows:

	2017						
	Buildings and Improvements	**Machineries and Facilities Equipment**	**Furniture, Fixtures and Office Equipment**	**Transportation Equipment**	**Tools and Instruments**	**Construction in Progress**	**Total**
Cost							
At beginning of year	**$75,240,305**	**$131,991,993**	**$19,926,463**	**$1,700,583**	**$7,716,455**	**$8,856,966**	**$245,432,765**
Additions	**8,731,307**	**34,613,411**	**3,880,798**	**535,300**	**1,101,552**	**13,010,576**	**61,872,944**
Acquisition through business combination (Note 2)	**1,232,768**	**4,736,580**	**14,362**	**–**	**–**	**–**	**5,983,710**
Disposals/retirement	**(7,752,183)**	**(11,200,522)**	**(994,787)**	**(319,502)**	**(644,669)**	**(17,274)**	**(20,928,937)**
Transfers	**5,647,511**	**8,816,444**	**1,175,405**	**29,457**	**484,343**	**(16,153,160)**	**–**
Foreign currency exchange difference	**1,400,531**	**6,671,178**	**357,230**	**106,028**	**16,107**	**276,125**	**8,827,199**
At end of year	**84,500,239**	**175,629,084**	**24,359,471**	**2,051,866**	**8,673,788**	**5,973,233**	**301,187,681**
Accumulated depreciation							
At beginning of year	**36,199,147**	**70,587,535**	**14,770,431**	**590,693**	**3,332,593**	**–**	**125,480,399**
Depreciation	**3,902,685**	**17,398,541**	**2,104,433**	**476,491**	**359,671**	**–**	**24,241,821**
Depreciation capitalized as development cost	**76,784**	**1,069,895**	**1,666**	**–**	**–**	**–**	**1,148,345**
Disposals/retirement	**(6,313,739)**	**(11,081,114)**	**(929,916)**	**(291,827)**	**(419,690)**	**–**	**(19,036,286)**
Transfers	**(14,560)**	**12,543**	**(3,325)**	**5,342**	**–**	**–**	**–**
Foreign currency exchange difference	**283,676**	**2,397,847**	**260,756**	**75,833**	**7,022**	**–**	**3,025,134**
At end of year	**34,133,993**	**80,385,247**	**16,204,045**	**856,532**	**3,279,596**	**–**	**134,859,413**
Accumulated impairment losses							
At beginning of year	**815,150**	**1,732,212**	**–**	**–**	**–**	**–**	**2,547,362**
Reversal of impairment	**(815,150)**	**–**	**–**	**–**	**–**	**–**	**(815,150)**
At end of year	**–**	**1,732,212**	**–**	**–**	**–**	**–**	**1,732,212**
Net book value	**$50,366,246**	**$93,511,625**	**$8,155,426**	**$1,195,334**	**$5,394,192**	**$5,973,233**	**$164,596,056**

	2016						
	Buildings and Improvements	Machineries and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At beginning of year	$72,113,546	$108,898,005	$17,900,646	$1,468,326	$5,489,876	$9,509,131	$215,379,530
Additions	7,975,777	26,216,435	1,901,351	684,538	2,234,803	9,331,314	48,344,218
Acquisition through business combination (Note 2)	137,613	1,948,746	166,896	7,255	98,158	790,641	3,149,309
Disposals	(365,758)	(9,971,185)	(480,689)	(400,842)	(367,119)	–	(11,585,593)
Asset held for sale (Note 8)	(6,491,739)	–	–	–	–	–	(6,491,739)
Transfers	2,409,552	7,270,342	573,303	3,885	260,898	(10,517,980)	–
Foreign currency exchange difference	(538,686)	(2,370,350)	(135,044)	(62,579)	(161)	(256,140)	(3,362,960)
At end of year	75,240,305	131,991,993	19,926,463	1,700,583	7,716,455	8,856,966	245,432,765
Accumulated depreciation							
At beginning of year	38,709,500	64,001,044	13,632,345	538,637	2,848,671		119,730,197
Depreciation	3,749,666	16,389,876	1,648,253	478,473	205,978	–	22,472,246
Depreciation capitalized as development cost	235,940	1,578,553	46,738	5,493	29,001	–	1,895,725
Disposals	(278,258)	(9,447,148)	(469,979)	(379,189)	(2,301)	–	(10,576,875)
Asset held for sale (Note 8)	(6,129,615)	–	–	–	–	–	(6,129,615)
Transfers	(884)	(261,715)	10,888	–	251,711	–	–
Foreign currency exchange difference	(87,202)	(1,673,075)	(97,814)	(52,721)	(467)	–	(1,911,279)
At end of year	36,199,147	70,587,535	14,770,431	590,693	3,332,593	–	125,480,399
Accumulated impairment losses							
At beginning and end of year	815,150	1,732,212	–	–	–	–	2,547,362
Net book value	$38,226,008	$59,672,246	$5,156,032	$1,109,890	$4,383,862	$8,856,966	$117,405,004

Property, plant and equipment acquired through business combination amounted to $5.98 million (STI) and $3.15 million (VIA) in 2017 and 2016, respectively.

The Group capitalized depreciation related to development phase for certain projects amounting to $1.15 million in 2017 and $1.90 million in 2016. The capitalized cost was part of product development under “Intangible assets” account.

In 2017, the Group recorded a reversal of impairment provision on buildings and improvements amounting to $0.82 million. The building is currently being refurbished and is converted into a production line. The reversal is included under "Miscellaneous income (loss) - net" account in the consolidated statements of income (see Note 24).

Construction in progress pertains to the construction and development of manufacturing production lines of the Group. During the years ended December 31, 2017 and 2016, construction in progress transferred in to property, plant and equipment amounted to $16.45 million and $10.52 million, respectively.

In 2016, STJX claimed an insurance amounting to $0.71 million as proceeds for the fixed assets damaged by a fire in January 2016. The net book value of the affected assets amounted to $0.44 million. The claim was collected in 2017.

The Group recognized gains from disposal and retirement of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments amounting to $0.05 million in 2017, loss of $0.14 million in 2016 and gain $0.17 million in 2015. The 2016 loss is net of the proceeds from the disposal of scrap equipment related to the fire amounting to $0.09 million.

As of December 31, 2017 and 2016, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $189.31million and $212.82 million, respectively.

Depreciation expense included in "Cost of goods sold and services" and "Operating expenses" accounts follows:

	2017	2016	2015
Cost of goods sold and services (Note 20)	**$21,247,569**	$20,036,576	$18,570,445
Operating expenses (Note 21)	**2,994,252**	2,435,670	2,446,374
	$24,241,821	$22,472,246	$21,016,819

10. Goodwill

As of December 31, 2017 and 2016, goodwill acquired through business combinations had been allocated to the following CGUs:

	2017	2016
STI	**$55,954,732**	$–
STEL	**45,128,024**	45,128,024
VIA	**44,539,967**	44,539,967
Parent Company	**1,097,776**	1,097,776
IMI CZ	**650,413**	650,413
	$147,370,912	$91,416,180

STI, STEL, VIA, and IMI CZ
The recoverable amounts of these CGUs have been based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a 5-year period. The pre-tax discount rates applied to cash flow projections are as follows:

	2017	2016
STI	**8.70%**	–
STEL	**14.21%**	11.89%
VIA	**13.40%**	11.20%
IMI CZ	**8.30%**	9.56%

Cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate (CAGR) for the global EMS industry.

Key assumptions used in the value-in-use calculations
The calculations of value-in-use for the CGUs are most sensitive to the following assumptions:
- Revenue - Revenue forecasts are management's best estimates considering factors such as industry CAGR, customer projections and other economic factors.
- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital.

No impairment loss was assessed for STI, STEL, VIA and IMI CZ in 2017, 2016 and 2015.

Sensitivity to changes in assumptions
With regard to the assessment of value-in-use of STI, STEL, VIA and IMI CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of these CGUs to exceed their recoverable amount.

Parent Company
The goodwill of the Parent Company pertains to its acquisition of M. Hansson Consulting, Inc. (MHCI) in 2006 and IMI USA in 2005. MHCI was subsequently merged to the Parent Company as testing and development department. IMI USA acts as direct support to the Group's customers by providing program management, customer service, engineering development and prototyping manufacturing services. IMI USA's expertise in product design and development particularly on the flip chip technology is being used across the Group in providing competitive solutions to customers. The recoverable amount was based on the market price of the Parent Company's shares at valuation date less estimated costs to sell. The fair value of the Parent Company's shares represents the value of the Group.

The comparison of the recoverable amounts and the carrying amounts resulted to no impairment loss in 2017, 2016 and 2015.

11. Intangible Assets

Movements in this account are as follows:

	December 31, 2017					
	Customer Relationships	**Unpatented Technology**	**Licenses**	**Intellectual Properties**	**Product Development Costs**	**Total**
Cost						
At beginning of year, as reported	**$19,666,617**	**$100,000**	**$9,009,676**	**$464,234**	**$5,899,990**	**$35,140,517**
Effect of finalization of business combination (Note 2)	**–**	**–**	**–**	**7,847,988**	**–**	**7,847,988**
At beginning of year, as restated	**19,666,617**	**100,000**	**9,009,676**	**8,312,222**	**5,899,990**	**42,988,505**
Additions	**–**	**–**	**3,257,626**	**123,552**	**–**	**3,381,178**
Capitalized development costs	**–**	**–**	**–**	**–**	**5,608,052**	**5,608,052**
Acquisition through business combination	**–**	**–**	**–**	**369,725**	**–**	**369,725**
Foreign currency exchange difference	**–**	**–**	**386,318**	**67,309**	**–**	**453,627**
At end of year	**19,666,617**	**100,000**	**12,653,620**	**8,872,808**	**11,508,042**	**52,801,087**
Accumulated amortization						
At beginning of year	**19,666,617**	**100,000**	**4,839,885**	**64,937**	**–**	**24,671,439**
Amortization	**–**	**–**	**1,414,525**	**2,113,539**	**859,886**	**4,387,950**
Foreign currency exchange difference	**–**	**–**	**315,295**	**3,132**	**–**	**318,427**
At end of year	**19,666,617**	**100,000**	**6,569,705**	**2,181,608**	**859,886**	**29,377,816**
Accumulated impairment loss	**–**	**–**	**–**	**–**	**524,705**	**524,705**
Net book value	**$–**	**$–**	**$6,083,915**	**$6,691,200**	**$10,123,451**	**$22,898,566**

	December 31, 2016 (As Restated - Note 2)					
	Customer Relationships	Unpatented Technology	Licenses	Intellectual Properties	Product Development Costs	Total
Cost						
At beginning of year	$19,666,617	$100,000	$5,384,182	$–	$–	$25,150,799
Additions	–	–	3,886,107	–	–	3,886,107
Capitalized development costs	–	–	–	–	5,899,990	5,899,990
Acquisition through business combination (Note 2)	–	–	–	8,341,357	–	8,341,357
Foreign currency exchange difference	–	–	(260,613)	(29,135)	–	(289,748)
At end of year	19,666,617	100,000	9,009,676	8,312,222	5,899,990	42,988,505
Accumulated amortization						
At beginning of year	18,877,177	100,000	3,775,161	–	–	22,752,338
Amortization	789,440	–	1,132,321	67,787	–	1,989,548
Foreign currency exchange difference	–	–	(67,597)	(2,850)	–	(70,447)
At end of year	19,666,617	100,000	4,839,885	64,937	–	24,671,439
Net book value	$–	$–	$4,169,791	$8,247,285	$5,899,990	$18,317,066

Customer Relationships
Customer relationships pertain to STEL Group's and IMI BG's contractual agreements with certain customers, which lay out the principal terms upon which the parties agree to undertake business.

Customer relationships of STEL Group and IMI BG aggregating to $19.67 million were fully amortized as of December 31, 2017 and 2016.

Unpatented Technology
Unpatented technology of STEL Group pertains to products which are technologically feasible. These technologies are also unique, difficult to design around, and meet the separability criteria.

The unpatented technology amounting to $0.01 million was fully amortized as of December 31, 2017 and 2016.

Licenses
This includes acquisitions of computer software, applications and modules.

Intellectual Properties
VIA's patents and trademarks pertain to display system optically bonded to a display region and enhanced liquid crystal display system and methods. The Group finalized the purchase price allocation for the acquisition of VIA and determined the fair value of the intellectual properties amounting to $8.34 million (see Note 2).

STI has manufacturing intellectual property rights and license to manufacture for one of its customers.

Product Development Costs
This includes capitalized costs arising from the development phase of certain projects which are still undergoing qualification.

Intangible assets not yet available for use are tested for impairment following the value-in-use approach. The projects to which the development costs pertain to represent the CGU of the intangible assets. The recoverable amounts of these CGUs have been determined using cash flow projections from financial budgets approved by management covering a 5-year period, which is within the expected life cycle of the projects. The pre-tax discount rates applied to cash flow projections range from 13.10% - 28.50%. Key assumptions used in the value-in-use calculations are consistent with those disclosed in Note 10.

Significant delay in the mass production of one project resulted to impairment of the related capitalized development cost. Impairment loss amounting to $0.52 million was recognized under "Miscellaneous income (loss) - net" account in 2017 (see Note 24).

Research expenditure recognized as expense amounted to $3.56 million, $0.26 million and $0.11 million in 2017, 2016 and 2015, respectively.

Amortization expense included in "Cost of goods sold and services" and "Operating expenses" accounts follows:

	2017	2016	2015
Cost of goods sold and services (Note 20)	**$952,288**	$34,951	$15,604
Operating expenses (Note 21)	**3,435,662**	1,954,597	2,216,247
	$4,387,950	$1,989,548	$2,231,851

12. Available-for-Sale Financial Assets

This account consists of:

	2017	2016
Investment securities - unquoted	**$1,753,589**	$1,753,589
Club shares - quoted	**831,364**	740,949
	2,584,953	2,494,538
Less allowance for impairment loss on AFS financial assets	**1,753,589**	1,753,589
	$831,364	$740,949

As of December 31, 2017 and 2016, the balance of investment securities pertains to Class A common stock of a customer. This investment was provided with full allowance in prior years due to the investee company's financial difficulties.

The table below shows reconciliation of fair value measurements of AFS financial assets:

	2017	2016
Balance at beginning of year	**$740,949**	$583,510
Change in fair value of quoted AFS investments	**90,415**	157,439
Balance at end of year	**$831,364**	$740,949

13. Other Noncurrent Assets

This account consists of:

	2017	2016
Miscellaneous deposits	**$1,647,864**	$2,596,176
Others	**143,051**	125,882
	$1,790,915	$2,722,058

Miscellaneous deposits comprise utilities and rent deposits. This includes utility deposits to AC Energy Holdings Inc. (ACEHI) amounting to $0.15 million and $0.48 million as of December 31, 2017 and 2016, respectively (see Note 31).

14. Accounts Payable and Accrued Expenses

This account consists of:

	2017	2016
Trade payables	**$185,143,187**	$136,114,721
Accrued expenses	**25,770,467**	16,676,506
Accrued compensation and benefits	**24,233,636**	21,685,525
Advances from a third party	**20,772,333**	6,538,462
Nontrade payables	**12,785,361**	8,050,234
Advances from customers	**7,710,749**	2,567,552
Taxes payable	**3,660,433**	1,094,518
Customers' deposits	**1,352,353**	896,712
Accrued interest payable	**1,075,657**	769,072
Employee-related contributions	**632,846**	455,272
Current portion of obligation under finance lease (Note 30)	**245,518**	–
Derivative liabilities (Note 32)	**30,144**	10,567
Due to related parties (Note 31)	**9,584**	590,369
Others	**856,442**	225,795
	$284,278,710	$195,675,305

Trade Payables
Trade payables are noninterest-bearing and are normally settled on 30 to 90-day average terms.

Accrued Expenses
Accrued expenses consist mainly of accruals for taxes, employee pay-out related to SZSTE's relocation of manufacturing facilities, supplies, professional fees, utilities, insurance, interest, and freight and brokerage.

Accrued Compensation and Benefits
Accrued compensation and benefits include accrued salaries, leave credits and other employee benefits.

Advances from a Third Party
The amount pertains to the deposit received related to the sale and purchase agreement between STEL and Jinnuo Century Trading Limited in connection with the plan to relocate the SZSTE manufacturing facility in Liantang, Luohu to Pingshan, in line with the urban redevelopment projects of the Shenzhen City government. The sale is subject to certain conditions which are expected to be completed in 2018. The advances were offset by a provision for refund related to the actual spin-off compensation paid amounting to $5.30 million.

Nontrade Payables
This account consists of obligations related to outsourced manpower, logistics and freight forwarders, professional and service fees and other nontrade related payables. These payables are normally settled on 30 to 60-day terms. This also includes advances from directors of STI which are payable on demand.

Advances from Customers
Advances from customers include financial liabilities pertaining to commercial agreements with certain customers of VIA with interest ranging from 3.55% to 5.00%, PSi's advances from local customers (see Note 17), and advance payments made by customers for goods and services of the Parent Company and STEL.

Taxes Payable
Taxes payable pertain to taxes withheld such as fringe benefits tax and withholding taxes on purchased goods and services. Withholding taxes payable are expected to be settled within the next financial year.

Customers' Deposits
The amount pertains to advance payments made by customers as manufacturing bond.

Employee-related Contributions
This account consists mainly of remittances related to government agencies such as social security and insurance, housing fund and health insurance.

Others
This account consists of unreleased checks and consignment payables of the Parent Company for the materials received from its customers.

15. Trust Receipts and Loans Payable

This account consists of borrowings of the following entities:

	2017	2016
Parent Company	**$93,000,000**	$25,000,000
STEL	**24,000,000**	8,000,000
VIA	**12,461,977**	7,903,449
STI	**3,736,085**	–
IMI CZ	**1,658,579**	1,092,528
PSi	**200,979**	9,449,192
	$135,057,620	$51,445,169

Parent Company
As of December 31, 2017 and 2016, the Parent Company has unsecured short-term loans aggregating to $93.00 million and $25.00 million, respectively, with maturities ranging from 30 to 90 days, and fixed annual interest rates ranging from 1.82% to 2.34% in 2017, from 1.23% to 1.24% in 2016 and from 1.03% to 1.50% in 2015.

The Parent Company incurred interest expense on its short-term loans amounting to $1.50 million in 2017, $0.65 million in 2016 and $0.46 million in 2015 (see Note 23).

STEL
The loans of STEL are from existing revolving credit facilities with Singapore-based banks and bear annual interest rate from 2.88% to 4.31% in 2017, 2.24% in 2016 and 1.73% in 2015 and have maturities of 30 to 60 days from the date of issue.

STEL incurred interest expense on short-term loans amounting to $0.34 million in 2017, $0.16 million in 2016 and $0.16 million in 2015 (see Note 23).

VIA
The loans of VIA consists of factoring loan from China-based banks denominated in USD and RMB aggregating $10.07 million in 2017 and $5.81 million in 2016 with terms ranging from 70 to 150 days and annual interest rate from 3.16% to 3.77% and loan from a German-based bank amounting to €2.0 million ($2.39 million) in 2017 and €2.0 million ($2.09 million) in 2016 with term of 90 and bears interest rate of 1.95% per annum.

VIA incurred interest expense on short-term loans amounting to $0.84 million in 2017 and $0.05 million in 2016 (see Note 23).

STI
STI has unsecured short-term loans from a local bank amounting to $3.20 million and UK-based bank of £0.40 million ($0.54 million) as of December 31, 2017, with maturities ranging from 90 to 240 days and annual interest rates ranging from 3.9% to 4.7%.

STI incurred interest expense on short-term loans amounting to $0.08 million in 2017 (see Note 23).

IMI CZ
The loans of IMI CZ are clean loans from existing revolving credit facilities with Czech based bank which bear annual interest based on 1-month EURIBOR plus 1.20%.

IMI CZ incurred interest expense on short-term loans amounting to $0.05 million in 2017 and $0.003 million in 2016 (see Note 23).

PSi
PSi has short-term loans from a local bank amounting to $9.20 million subject to interest rate of 3.17% as of December 31, 2016, which was settled in the first half of 2017. PSi also has trust receipts payable amounting to $0.20 million and $0.25 million as of December 31, 2017 and 2016, respectively.

PSi incurred interest expense on short-term loans and trust receipts payable amounting to $0.04 million in 2017, $0.28 million in 2016 and $0.24 million in 2015 (see Note 23).

16. Long-Term Debt

This account consists of borrowings of the following entities:

	2017	2016
Parent Company	**$154,500,000**	$120,222,000
Cooperatief	**5,095,518**	6,586,800
IMI CZ	**5,066,432**	1,818,198
IMI BG	**239,320**	417,760
VIA	**195,465**	284,338
	165,096,735	129,329,096
Less current portion:		
Parent Company	**–**	5,222,000
Cooperatief	**5,095,518**	2,108,200
IMI CZ	**1,403,223**	528,478
IMI BG	**239,320**	208,880
VIA	**134,618**	117,495
	6,872,679	8,185,053
Noncurrent portion	**$158,224,056**	$121,144,043

Parent Company
In October and November 2017, the Parent Company obtained two 5-year term loan aggregating $30.00 million from a Singapore-based bank. The loan is unsecured and is subject to annual interest rates ranging from 2.85% to 2.86%.

On October 10, 2016, the Parent Company drew a $40.00 million 5-year term loan subject to a fixed interest rate of 2.70% and drew additional loan of $10.00 million in 2017 subject to an annual interest rate of 2.96%. Subsequently, 1% of the loan or equivalent of $0.50 million was paid in 2017.

On October 6, 2016, the Parent Company obtained a $40.00 million 3-year term loan from a Singapore-based bank subject to a fixed annual interest rate of 2.15%.

On September 29, 2016, the Parent Company obtained a $15.00 million 3-year term loan from a local bank subject to a fixed annual interest rate of 2.99%.

On August 12, 2015, the Parent Company obtained a $20.00 million 5-year term loan from a local bank payable at the end of the loan term subject to a fixed interest rate per annum of 2.8%. Interests are payable quarterly in arrears on each interest payment date.

On February 29, 2012, the Parent Company obtained a €5.00 million ($5.22 million), 5-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. Interest is payable semi-annually at the rate of 1.28%. The loan was paid in February 2017.

The Parent Company incurred interest expense on its long-term loans amounting to $2.64 million in 2017, $1.83 million in 2016 and $0.98 million in 2015 (see Note 23).

Loan covenants related to the Parent Company's loans are as follows:

- The ratio of debt to EBITDA shall not exceed 3:1 at all times, with reference to the borrower's consolidated financial statements;
- Maintenance of debt service coverage ratio of at least 1.5:1;
- Maintenance at all times of a current ratio of at least 1:1; and
- Maintenance of a debt-to-equity ratio, computed with reference to the borrower's consolidated financial statements, of not greater than 1.75:1.

As of December 31, 2017 and 2016, the Parent Company has complied with all of the above-mentioned loan covenants.

Cooperatief
The purchase consideration for the acquisition of IMI EU/MX Subsidiaries in 2011 includes the deferred payment aggregating to €14.25 million ($20.40 million) relating to the acquisition of EPIQ NV's shares and purchased receivables of EPIQ NV from IMI EU/MX Subsidiaries. Based on the payment schedule in the SPA, this long-term debt will be settled from 2013 to 2018, subject to interest rate of 1.60% plus 1.50%.

Cooperatief had already paid an aggregate amount of €10.00 million from 2013 to 2017 with an annual payment of €2.00 million every July of each year. The balance of €4.25 million ($5.10 million) will be due on July 29, 2018.

Cooperatief incurred interest expense on its long-term debt amounting to $0.19 million in 2017, $0.26 million in 2016 and $0.32 million in 2015 (see Note 23).

IMI CZ
IMI CZ has unsecured term loan facility from Czech-based bank aggregating to €4.23 million ($5.07million). The principal shall be paid in 60 regular monthly installments and bears interest of 3-month EURIBOR plus spread ranging from 0.9% to 2.70% but is not to exceed 15% per annum. Outstanding balance as of December 31, 2017 amounted to €4.23 million ($5.07 million).

IMI CZ incurred interest expense on its long-term debt amounting to $0.05 million in 2017, $0.03 million in 2016, and $0.02 million in 2015 (see Note 23).

IMI BG
IMI BG has a long-term debt from European-based bank amounting to $0.42 million that relates to the term loan facility for financing the construction of a new warehouse with a term of five years and bears interest based on 3-month EURIBOR plus 2.90%. The warehouse was completed in 2013.

The credit facility with the bank is subject to the following collateral: Security of Transfer of Ownership Title relating to office and factory equipment with a carrying value of $1.35 million.

IMI BG incurred interest expense amounting to $0.01 million in 2017 and $0.02 million in 2016 and $0.02 million in 2015 (see Note 23).

VIA
VIA has a long-term debt from Germany-based bank amounting to €0.16 million ($0.20 million). The loan is unsecured and bears annual interest of 5.35% and matures on June 30, 2019.

VIA incurred interest expense on its long-term debt amounting to $16,363 in 2017 and $3,803 in 2016 (see Note 23).

17. Noncurrent Advances from Customers

On June 28, 2010, PSi and a local customer entered into a Subcontracting Services Agreement (SSA) for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA. The subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received noninterest-bearing cash advances amounting to $3.00 million from a foreign customer, an affiliate of the local customer. On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the above local customer. The local customer and PSi agreed that upon termination of the SSA, the full cash advances amounting to $3.00 million will be applied to pre-pay and cover any and all of the fees payable, under Annex B of the SSA, for the facilities support services that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, if any, the residual cash advances, less any amount applied to pay the fees as detailed in the SSA.

On July 14, 2017, the local customer formally terminated the SSA with PSi effective December 31, 2017 due to the early termination of PSi's lease in FTI Taguig. In line with the termination, the advances from the local customer are due in the first quarter of 2018.

As of December 31, 2017 and 2016, the current and noncurrent portion of Group's advances from the local customers follows:

	2017	2016
Total outstanding advances from local customers	**$1,147,592**	$1,788,232
Less current portion (Note 14)	**1,147,592**	650,367
Noncurrent portion	**$–**	$1,137,865

18. **Other Financial Liabilities**

The account consists of financial liabilities arising from the acquisition of VIA and STI as follows:

	2017	2016
Put options over non-controlling interests		
VIA	**$11,676,243**	$11,334,282
STI (Note 2)	**10,236,016**	–
Contingent consideration (Note 2)	**405,601**	–
Current	**$22,317,860**	$11,334,282
Noncurrent portion of contingent consideration (Note 2)	**$24,569,608**	$–

The put options of VIA pertain to the right of the non-controlling shareholder to sell to IMI a portion of its shareholding that is approximately 5% of the issued and outstanding nominal share capital of VIA within the first and third anniversary of the agreement (5% put option) and all remaining shares held by the non-controlling shareholder upon the happening of certain trigger events (exit put options).

The noncurrent portion of the contingent consideration is included under "Other noncurrent liabilities" account.

19. **Equity**

Authorized Capital Stock

On February 15, 2017, the Parent Company's BOD approved the proposed decrease of authorized capital stock of the Parent Company to reflect the retirement of the redeemed ₱1.3 billion redeemable preferred shares and the corresponding amendment to the Articles of Incorporation. The SEC issued the certificate of approval of decrease in capital stock on December 20, 2017.

Capital Stock

This account consists of:

	2017		2016		2015	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized - ₱1 par value						
Common	**2,250,000,000**		2,250,000,000		2,250,000,000	
Preferred	**200,000,000**		1,500,000,000		1,500,000,000	
Issued - Common						
At beginning of year	**1,793,518,641**	**$34,935,709**	1,793,429,765	$34,933,728	1,790,416,179	$34,876,616
Issuances from ESOWN	**36,373,583**	**773,970**	88,876	1,981	3,013,586	57,112
At end of year*	**1,829,892,224**	**$35,709,679**	1,793,518,641	$34,935,709	1,793,429,765	$34,933,728
Issued - Preferred						
At beginning of year	**–**	**$–**	–	$–	1,300,000,000	$26,601,155
Redemption	**–**	**–**	–	–	(1,300,000,000)	(26,601,155)
At end of year	**–**	**$–**	–	$–	–	$–

* *Out of the total issued shares, 15,892,224 shares as of December 31, 2017, and 15,892,124 in 2016 and 2015 pertain to treasury shares.*

On November 12, 2017, the Parent Company's BOD through the Executive Committee passed a resolution approving the rights offering of common shares to all eligible shareholders of IMI ("Rights Issue"). The Parent Company is conducting the Rights Issue in order to support the growth and strategic initiatives of the Group. This includes business expansions and strategic investments. The Rights Issue will ensure the financial flexibility to consider these opportunities if and when they arise (see Note 36).

On October 11, 2017, the PSE in its regular meeting approved the application of the Parent Company to list an additional 200,000,000 common shares with a par value of ₱1.00.

On June 25, 2015, the BOD of the Parent Company approved the redemption of all of the outstanding 1,300,000,000 redeemable preferred shares which were issued in 2008. The shares, which were redeemed at a price of ₱1.00 per share, were paid on August 24, 2015 to the stockholders of record as of July 24, 2015, including all accumulated unpaid cash dividends.

As of December 31, 2017, 2016 and 2015, there were 342, 338 and 367 registered common stockholders, respectively.

Subscribed Capital Stock
Details of this account follow:

	2017		2016		2015	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**84,936,229**	**$1,857,440**	87,200,345	$1,907,584	82,375,866	$1,797,638
Subscriptions during the year - ESOWN	**–**	**–**	–	–	10,393,394	222,366
Issuances during the year - ESOWN	**(36,373,583)**	**(773,970)**	(88,876)	(1,981)	(3,013,586)	(57,112)
Forfeitures during the year - ESOWN	**(1,158,757)**	**(25,192)**	(2,175,240)	(48,163)	(2,555,329)	(55,308)
At end of year	**47,403,889**	**$1,058,278**	84,936,229	$1,857,440	87,200,345	$1,907,584

Subscriptions Receivable
Details of this account are as follows:

	2017	2016	2015
At beginning of year	**$12,334,692**	$13,131,734	$12,906,784
Subscriptions during the year	**–**	–	1,136,291
Forfeitures during the year	**(217,470)**	(334,665)	(450,707)
Collections during the year	**(6,765,378)**	(462,377)	(460,634)
At end of year (Note 28)	**$5,351,844**	$12,334,692	$13,131,734

Additional Paid-in Capital
The financial liabilities arising from the written put options over the non-controlling interest of VIA and STI were recognized with a corresponding debit to the "Additional paid-in capital" account.

The effects of the initial recognition of financial liabilities arising from put options on business combinations are $12.88 million in 2017 for STI and $12.06 million in 2016 for VIA.

The grant of equity-settled awards to the Group's employees was recognized as increase in the "Additional paid-in capital" account.

Dividends
2017
On April 4, 2017, the BOD of the Parent Company approved the declaration of cash dividend of $0.004529 or ₱0.22739 per share to all outstanding common shares aggregating to $8.43 million as of record date of April 20, 2017 payable on May 4, 2017.

2016
On February 06, 2016, the BOD of the Parent Company approved the declaration of cash dividend of $0.0046 or ₱0.2204 per share to all outstanding common shares as of record date of February 23, 2016 payable on March 10, 2016.

2015
On February 17, 2015, the BOD of the Parent Company approved the declaration of cash dividend of $0.0042 or ₱0.1868 per share to all outstanding common shares as of record date of March 4, 2015, payable on March 19, 2015.

Retained Earnings
On February 17, 2015, the BOD of the Parent Company approved the reclassification of the remaining balance of the appropriated retained earnings to unappropriated retained earnings amounting to $20.66 million.

The foreign exchange translation difference between the redemption date and the original issuance of preferred shares amounting to $1.83 million was charged against "Retained earnings" account in 2015.

Accumulated net earnings of the subsidiaries amounting to $170.50 million and $143.76 million as of December 31, 2017 and 2016, respectively, are not available for dividend declaration. This accumulated equity in net earnings becomes available for dividend upon receipt of cash dividends from the investees.

The retained earnings are restricted to dividend declaration to the extent of the cost of treasury shares amounting to $1.01 million.

In accordance with Securities Regulation Code Rule 68, As Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2017 amounted to $15.00 million.

20. **Cost of Goods Sold and Services**

This account consists of:

	2017	2016	2015
Direct, indirect and other material-related costs (Note 7)	**$756,164,017**	$571,521,298	$546,897,934
Direct labor, salaries, wages and employee benefits (Note 27)	**137,867,620**	116,183,955	121,291,155
Depreciation and amortization (Notes 9 and 11)	**22,199,857**	20,071,527	18,586,049
Facilities costs and others (Note 22)	**44,758,049**	33,880,263	33,557,495
	$960,989,543	$741,657,043	$720,332,633

21. **Operating Expenses**

This account consists of:

	2017	2016	2015
Salaries, wages and employee benefits (Note 27)	**$47,800,516**	$31,222,323	$31,366,967
Depreciation and amortization (Notes 9 and 11)	**6,429,914**	4,390,267	4,662,621
Facilities costs and others (Note 22)	**34,930,245**	22,753,852	20,068,937
	$89,160,675	$58,366,442	$56,098,525

Operating expenses include plant relocations costs representing expenses incurred on the transfer of China operations from Liantang, Luohu to Pingshan. This is in line with the urban redevelopment projects of the Shenzhen City government.

The relocation costs consist of net employee relocation incentive amounting to $6.44 million ($11.74 million less $5.30 million provision for refund related to the actual spin-off compensation paid), included under "Salaries, wages and employee benefits", and incidental expenses such as rental, machine transfer, overtime during transition, dormitory expense, security and janitorial, transportation and system transfer aggregating to $1.60 million included under "Facilities costs and others".

22. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			Operating Expenses		
	2017	2016	2015	**2017**	2016	2015
Utilities	**$18,242,235**	$15,750,396	$15,786,733	**$1,316,836**	$1,468,908	$1,217,805
Outsourced activities	**10,694,698**	7,868,740	7,359,668	**12,733,622**	9,225,760	6,799,414
Repairs and maintenance	**8,580,727**	6,722,042	6,874,986	**677,734**	702,432	502,700
Travel	**2,335,214**	968,879	541,422	**3,514,058**	2,862,709	1,550,962
Government-related	**1,190,448**	693,687	981,847	**4,370,955**	3,218,639	3,098,023
Technology-related	**1,008,761**	56,817	71,019	**5,735,110**	1,593,971	774,398
Insurance	**959,715**	731,918	710,192	**1,221,086**	1,248,871	1,193,732
Promotional materials, representation and entertainment	**639,577**	152,529	154,098	**776,113**	1,153,585	782,715
Staff house	**470,564**	487,016	587,741	**472,922**	395,817	222,900
Postal and communication	**387,258**	314,889	319,625	**1,082,683**	932,780	708,817
Sales commission	**–**	–	–	**1,444,950**	1,251,399	362,708
Membership fees	**12,690**	16,041	2,289	**413,152**	160,137	134,131
Provision (reversal of provision) for doubtful accounts (Note 6)	**–**	–	–	**225,535**	204,607	438,344
Provision (reversal of provision) for inventory obsolescence (Note 7)	**–**	–	–	**(202,303)**	(2,660,809)	1,591,170
Provision for allowance for decline in value of inventories (Note 7)	**–**	–	–	**(155,001)**	50,000	100,000
Others	**236,162**	117,309	167,875	**1,302,793**	945,046	591,118
	$44,758,049	$33,880,263	$33,557,495	**$34,930,245**	$22,753,852	$20,068,937

Others include amortization expense of deferred licensing fee, additional licensing fee, donations, small tools and instruments, spare parts, brokerage charges, freight out, test material, service processing fees, scrap materials, office supplies, copying expenses.

23. Interest Expense and Bank Charges

This account consists of:

	2017	2016	2015
Interest expense on loans (Notes 15 and 16)	**$5,707,530**	$3,296,499	$2,207,309
Bank charges	**1,177,622**	586,721	507,834
Interest on finance lease	**14,508**	–	–
Others	**1,147**	1,234	1,242
	$6,900,807	$3,884,454	$2,716,385

Others include interest on employee housing and car loans in 2017, 2016, and 2015.

24. Miscellaneous Income (Loss) - Net

This account consists of:

	2017	2016	2015
Non-recurring engineering (NRE) income	**$1,318,671**	$454,122	$472,395
Sale of materials and scrap	**1,242,931**	149,980	238,950
Financial subsidies	**907,435**	–	–
Reversal of impairment on property, plant and equipment (Note 9)	**815,150**	–	–
Impairment loss on product development cost (Note 11)	**(524,705)**	–	–
Loss (gain) on sale and retirement of property, plant and equipment	**48,116**	(143,034)	167,187
Write-offs and other charges	**–**	(2,494,698)	–
Gain on insurance claims	**–**	360,895	–
Other income (expense)	**821,887**	(378,629)	341,445
	$4,629,485	($2,051,364)	$1,219,977

NRE income pertains to services provided to customers under new product introduction which includes test services, sample runs or prototypes, and jigs and fixtures.

Financial subsidies pertain to business technology grants provided by the government.

25. Income Tax

Current Tax

Parent Company

The Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. As of December 31, 2017, there are two remaining project activities with ITH. Under its PEZA registrations, the Parent Company's projects and activities are subject to certain requirements and are entitled to certain incentives, which include, but are not limited to, ITH and tax and duty free importation of inventories and capital equipment. Upon the expiration of the ITH, the Parent Company will be subject to a 5% tax on gross income earned after certain allowable deductions provided under Republic Act (R.A.) No. 7916, otherwise known as the "Special Economic Zone Act of 1995", in lieu of payment of national and local taxes. Income from other income-producing activities that are not registered with PEZA is subject to regular corporate income tax (RCIT) rate of 30%.

IMICD, SZSTE, IMISZ and STJX

In accordance with the "Income Tax Law of the China for Enterprises with Foreign Investment and Foreign Enterprises," the subsidiaries in the China are entitled to full exemption from Enterprise Income Tax (EIT) for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

IMICD is subject to taxation at the statutory rate of 15% on its taxable income as reported in the financial statements. With effect from year 2008, the China authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

SZSTE, IMISZ and STJX are subject to taxation at the statutory tax rate of 25% on their taxable income as reported in their respective financial statements prepared in accordance with the accounting regulations in the China.

STHK and Monarch

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year.

Cooperatief

Taxation is calculated on the reported pre-tax result, at the prevailing tax rate of 20% on the first €200,000 and 25% on the taxable amount exceeding €200,000, taking into account any losses carried forward from previous financial years (if applicable), tax-exempt items and nondeductible expenses, and using tax facilities.

IMI BG

Income taxes are calculated in accordance with Bulgarian legislation, and the effect of the current and deferred taxes is reported. The current tax is calculated based on the taxable income for tax purposes. The nominal tax rate is 10%.

IMI CZ

Income tax due is calculated by multiplying the tax base by the rate as defined by the income tax law of Czech Republic. The tax base comprises the book income from operations, which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues (for example, creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate is 19%.

IMI MX

IMI MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in profit or loss in the year they are incurred. Income tax rate 2015 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

IMI France

Income tax is computed based on the income earned by the entity during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back one year. The tax rate applicable is 33% based on net income.

VIA
VIA is subject to German corporate and trade taxes. Statutory corporate income tax rate of 15% plus surcharge of 5.5% thereon is applied to earnings. The municipal tax rate is approximately 11.55% of taxable income, thus, the total tax rate of 27.375%. The applicable tax rate for VIA LLC and VIA Suzhou is at 35% and 25%, respectively.

STI
The standard rate of corporation tax in the UK is 20%. STI Philippines is governed by the rules of R.A. No. 7916, which prescribes a final tax rate of 5% on gross income net of certain deductions specifically provided for by the law.

PSi
As a PEZA-registered entity, PSi is subject to a 5% tax on gross income less allowable deductions, as defined in R.A. No. 7916, as amended by R.A. No. 8748, in lieu of all national and local taxes, except real property tax on land being leased by PSi. The 5% tax on gross income shall be paid and remitted as follows: (a) 3% to the National Government; and (b) 2% to the treasurer's office of the municipality or city where the enterprise is located. Income from other income-producing activities that are not registered with PEZA is subject to RCIT rate of 30%.

As at December 31, 2017, PSi has no PEZA-registered activities with ITH entitlement.

Deferred Tax
Recognized deferred taxes of the Group relate to the tax effects of the following:

	2017	2016 (As restated – Note 2)
Deferred tax assets:		
Net operating loss carry-over	**$2,608,320**	$585,691
Unrealized foreign exchange loss on monetary assets-net	**275,498**	–
Fair value adjustment on property, plant and equipment arising from business combination	**263,362**	282,192
Allowance for inventory obsolescence	**140,006**	350,404
Allowance for doubtful accounts	**1,611**	127,996
Unamortized past service cost	**–**	118,400
Others	**163,005**	87,679
	$3,451,802	$1,552,362
Deferred tax liabilities:		
Fair value adjustment on property, plant and equipment and intangible assets arising from business combination	**$2,498,710**	$2,632,503
Unrealized gain on AFS	**194,767**	30,277
Prepaid expenses	**39,368**	206,337
Unrealized foreign exchange loss gain on monetary assets - net	**–**	157,942
Others	**9,609**	7,326
	$2,742,454	$3,034,385

As of December 31, 2017 and 2016, the temporary differences for which no deferred tax assets have been recognized are as follows:

PSi

	2017	2016
Accumulated impairment losses on property, plant and equipment	**$10,138,416**	$10,138,416
Advances from customer	**1,147,592**	1,425,009
Excess of:		
Cost over NRV of inventories	**822,838**	976,574
Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement	**–**	84,731
Accrued retirement benefits obligation	**424,534**	672,537
Allowance for doubtful accounts	**197,543**	54,206
	$12,730,923	$13,351,473

STEL

	2017	2016
Depreciation	**$5,866,780**	$6,693,000
Allowance for inventory obsolescence	**2,037,199**	2,626,000
	$7,903,979	$9,319,000

IMI CZ

	2017	2016
Provisions	**$651,639**	$375,769
Allowance for doubtful accounts	**296,335**	201,236
Excess of cost over NRV of inventories	**239,219**	170,991
Noncurrent assets	**–**	706,864
	$1,187,193	$1,454,860

Deferred tax assets are recognized only to the extent that sufficient future taxable profits will be available against which the deferred tax assets can be used.

As of December 31, 2017 and 2016, deferred tax liabilities have not been recognized on the undistributed earnings of subsidiaries and the related cumulative translation adjustments since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future.

The tax on income from foreign subsidiaries was derived by aggregating the effective income tax for each national jurisdiction.

The reconciliation of the statutory income tax rate to the effective income tax rate of the Group follows:

	2017	2016	2015
Statutory income tax	**30.00%**	30.00%	30.00%
Tax effects of:			
Nondeductible expenses	**20.05%**	20.02%	22.12%
Income subject to gross income tax	**(23.16%)**	(21.02%)	(22.56%)
Difference in tax jurisdiction	**(9.08%)**	(8.40%)	(11.15%)
Income subject to ITH	**–**	(1.02%)	(1.27%)
Interest income subjected to final tax	**(0.01%)**	(0.03%)	(0.11%)
Provision for income tax	**17.81%**	19.55%	17.03%

26. Earnings per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company:

	2017	2016	2015
Net income attributable to parent	**$34,001,982**	$28,115,891	$28,789,740
Weighted average number of common shares outstanding	**1,861,846,929**	1,863,320,708	1,858,578,676
Basic and diluted EPS	**$0.018**	$0.015	$0.015

As of December 31, 2017, 2016 and 2015, the Group has no dilutive potential common shares.

27. Personnel Costs

Details of salaries, wages, and employee benefits follow:

	2017	2016	2015
Salaries, wages and benefits	**$165,841,441**	$132,654,437	$135,673,340
Employee spin-off (Note 21)	**6,442,215**	–	–
Retirement expense under defined contribution plans	**6,002,663**	6,225,339	5,379,119
Net retirement expense under defined benefit plans	**1,545,312**	1,787,924	1,857,985
Social security costs	**2,638,993**	1,432,134	2,212,856
Others	**3,197,512**	5,306,444	7,534,822
	$185,668,136	$147,406,278	$152,658,122

Others include expenses such as subcontracting costs, health/medical premium, housing premium, employee social and recreation, employee awards and recognition, trainings and seminars, labor union expenses, and uniforms.

Salaries, wages, and employee benefits are allocated as follows:

	2017	2016	2015
Cost of goods sold and services (Note 20)	**$137,867,620**	$116,183,955	$121,291,155
Operating expenses (Note 21)	**47,800,516**	31,222,323	31,366,967
	$185,668,136	$147,406,278	$152,658,122

Defined Benefit Plans

The Parent Company, IMI BG and PSi have defined benefit plans covering substantially all of their employees. The latest actuarial valuations were made on December 31, 2017.

The plan is administered by local banks as trustees. The Board of Trustees is responsible for the investment direction of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes into account the plan's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy, as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, and the Treasurer. The Treasurer oversees the entire investment process.

The defined benefit plans of the Parent Company and PSi meet the minimum retirement benefit specified under R.A. No. 7641, *Retirement Pay Law*.

The Group has net retirement liabilities attributable to the following:

	2017	2016
Parent Company	**$3,767,659**	$2,782,817
IMI BG	**939,952**	636,636
PSi	**424,534**	672,537
	$5,132,145	$4,091,990

Parent Company, IMI BG and PSi

Changes in net retirement liabilities of the Parent Company, IMI BG and PSi's defined benefit plans are as follows:

	2017													
		Net Retirement Expense					Remeasurements							
	January 1	**Current Service Cost**	**Net Interest**	**Loss on Curtailments and Settlements**	**Subtotal**	**Separation and Benefits Paid**	**Return on Plan Assets (Excluding Amount Included in Net Interest)**	**Actuarial Changes Due to Experience Adjustments**	**Actuarial Changes Due to Demographic Assumptions**	**Actuarial Changes Arising from Changes in Financial Assumptions**	**Subtotal**	**Actual Contribution**	**Foreign Currency Exchange Difference**	**December 31**
Present value of defined benefit obligation	**$16,365,255**	**$1,331,644**	**$813,833**	**$53,772**	**$2,199,249**	**($1,262,145)**	**$–**	**($456,545)**	**$113,312**	**$1,015,122**	**$671,889**	**$–**	**($113,348)**	**$17,860,900**
Fair value of plan assets	**(12,273,265)**	**–**	**(653,937)**	**–**	**(653,937)**	**837,902**	**336,947**	**–**	**–**	**–**	**336,947**	**(1,023,650)**	**47,248**	**(12,728,755)**
Net retirement liabilities	**$4,091,990**	**$1,331,644**	**$159,896**	**$53,772**	**$1,545,312**	**($424,243)**	**$336,947**	**($456,545)**	**$113,312**	**$1,015,122**	**$1,008,836**	**($1,023,650)**	**($66,100)**	**$5,132,145**

	2016													
		Net Retirement Expense					Remeasurements							
	January 1	Current Service Cost	Net Interest	Loss on Curtailments and Settlements	Subtotal	Separation and Benefits Paid	Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Due to Experience Adjustments	Actuarial Changes Due to Demographic Assumptions	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal	Actual Contribution	Foreign Currency Exchange Difference	December 31
Present value of defined benefit obligation	$18,642,181	$1,610,453	$875,380	($29,832)	$2,456,001	($3,505,705)	$–	$1,830,464	$424,077	($2,523,613)	($269,072)	$–	($958,150)	$16,365,255
Fair value of plan assets	(12,850,569)	–	(668,077)	–	(668,077)	2,126,323	401,659	–	–	–	401,659	(1,977,843)	695,242	(12,273,265)
Net retirement liabilities	$5,791,612	$1,610,453	$207,303	($29,832)	$1,787,924	($1,379,382)	$401,659	$1,830,464	$424,077	($2,523,613)	$132,587	($1,977,843)	($262,908)	$4,091,990

The maximum economic benefit available is a contribution of expected refunds from the plans and reductions in future contributions.

The distribution of the plan assets as of December 31, 2017 and 2016 follows:

	2017	2016
Government securities	**$8,665,354**	$8,079,938
Equities	**1,394,601**	236,163
Mutual funds	**1,207,558**	1,708,112
Corporate bonds	**548,562**	421,629
Trust funds	**489,245**	1,099,889
Investment properties	**419,147**	408,608
Cash and cash equivalents	**38**	318,481
Others	**4,250**	445
	$12,728,755	$12,273,265

The plan assets include shares of stock, corporate bonds and deposit instruments of related parties, primarily AC, Ayala Land, Inc. (ALI) and BPI as follows:

	December 31, 2017			
	Equity Securities	**Debt Securities**	**Other Securities**	**Total**
Fair Value				
BPI UITF	**$–**	**$–**	**$351,312**	**$351,312**
AC bonds	**–**	**393,806**	**–**	**393,806**
ALI bonds	**–**	**29,731**	**–**	**29,731**
BPI equity fund	**128,296**	**–**	**–**	**128,296**
	$128,296	**$423,537**	**$351,312**	**$903,145**
Carrying Value				
BPI UITF	**$–**	**$–**	**$350,681**	**$350,681**
AC bonds	**–**	**394,552**	**–**	**394,552**
ALI bonds	**–**	**30,042**	**–**	**30,042**
BPI equity fund	**109,259**	**–**	**–**	**109,259**
	$109,259	**$424,594**	**$350,681**	**$884,534**
Unrealized Gain (Loss)				
BPI UITF	**$–**	**$–**	**$631**	**$631**
AC bonds	**–**	**(747)**	**–**	**(747)**
ALI bonds	**–**	**(311)**	**–**	**(311)**
BPI equity fund	**19,037**	**–**	**–**	**19,037**
	$19,037	**($1,058)**	**$631**	**$18,610**

	December 31, 2016			
	Equity Securities	Debt Securities	Other Securities	Total
Fair Value				
BPI UITF	$–	$–	$755,543	$755,543
AC bonds	–	264,436	–	264,436
ALI bonds	–	31,162	–	31,162
BPI equity fund	259,453	–	–	259,453
	$259,453	$295,598	$755,543	$1,310,594
Carrying Value				
BPI UITF	$	$–	$754,712	$754,712
AC bonds	–	261,464	–	261,464
ALI bonds	–	30,169	–	30,169
BPI equity fund	259,480	–	–	259,480
	$259,480	$291,633	$754,712	$1,305,825

(Forward)

	December 31, 2016			
	Equity Securities	Debt Securities	Other Securities	Total
Unrealized Gain (Loss)				
BPI UITF	$–	$–	$831	$831
AC bonds	–	2,972	–	2,972
ALI bonds	–	993	–	993
BPI equity fund	(27)	–	–	(27)
	($27)	$3,965	$831	$4,769

The plan assets pertain to diverse investments and do not have any concentration risk.

The overall investment policy and strategy of the Group's defined benefit plans are guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay retirement benefits as they fall due while also mitigating the various risk of the plans.

The Group expects to contribute $2.57 million to the defined benefit plans for 2018.

The actual return of plan assets amounted to $0.32 million, $0.22 million and $0.41 million in 2017, 2016 and 2015, respectively.

The average duration of net retirement liabilities at the end of the balance sheet date is 17.59 to 24.23 years as of December 31, 2017 and 17.71 to 23.41 years as of December 31, 2016.

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

	2017	2016
Less than one year	**$1,012,965**	$1,226,047
More than one year to five years	**5,457,136**	4,100,043
More than five years to ten years	**11,650,551**	7,968,662
More than ten years to fifteen years	**14,656,605**	11,725,227
More than fifteen years	**63,937,274**	47,427,976
	$96,714,531	$72,447,955

Principal actuarial assumptions

The principal actuarial assumptions used to determine retirement benefits are shown below:

	2017	2016
Discount rate	**1.40% - 5.78%**	2.00% - 5.51%
Salary increase rate	**4.00% - 5.00%**	3.00% - 5.00%

The sensitivity analysis per entity below has been determined based on reasonably possible changes of each significant assumption on the net retirement liabilities as of the end of the balance sheet date, assuming all other assumptions were held constant:

Parent Company

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability **2017**	2016
Discount rate	+1%	**($1,431,139)**	($1,401,526)
	-1%	**1,666,387**	1,646,102
Salary increase rate	+1%	**1,803,889**	1,778,038
	-1%	**(1,571,694)**	(1,534,545)

IMI BG

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability	
		2017	2016
Discount rate	+1%	**($25,267)**	($34,219)
	-1%	**26,530**	37,802
Salary increase rate	+1%	**36,933**	25,849
	-1%	**(36,936)**	(25,799)

PSi

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability	
		2017	2016
Discount rate	+1%	**($73,132)**	($103,133)
	-1%	**88,563**	125,025
Salary increase rate	+1%	**95,277**	134,019
	-1%	**(79,685)**	(112,014)

The mortality rate in 2017 and 2016 is based on the 1994 Group Annuity Mortality for the Parent Company and PSi. Meanwhile, IMI BG used the table for mortality and average life continuance population in the period 2008-2010 from National Statistical Institute (of Bulgaria) for 2017 and 2016.

The net retirement expense of the Parent Company, IMI BG and PSi under the defined benefit plans is allocated as follows:

	2017	2016	2015
Cost of goods sold and services	**$1,180,625**	$1,283,259	$1,453,575
Operating expenses	**364,687**	504,665	404,410
	$1,545,312	$1,787,924	$1,857,985

Defined Contribution Plans
The Parent Company's subsidiaries, excluding PSi and IMI BG, participate in their respective national retirement schemes which are considered as defined contribution plans. The retirement expense of these subsidiaries is allocated as follows:

	2017	2016	2015
Cost of goods sold and services	**$4,792,830**	$4,866,249	$4,300,805
Operating expenses	**1,209,833**	1,359,090	1,078,314
	$6,002,663	$6,225,339	$5,379,119

28. Employee Stock Ownership Plan (ESOWN)

The Group has an ESOWN, which is a privilege extended to the Group's eligible managers and staff whereby the Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the ESOWN.

The key features of the plan are as follows:

- The subscription price per share shall be based on the average closing price at the PSE for 20 consecutive trading days with a discount to be determined by the Parent Company's Compensation Committee.
- Term of payment is eight years reckoned from the date of subscription:

Initial payment	2.5%
1st Anniversary	5.0%
2nd Anniversary	7.5%
3rd Anniversary	10.0%
Over the remaining years	75.0% balance

- Holding period:
  - 40% after one (1) year from subscription date
  - 30% after two (2) years from subscription date
  - 30% after three (3) years from subscription date

On August 5, 2015, the Executive Committee of the Parent Company approved the grant of stock options to qualified executives covering up to 27,189,000 shares at a subscription price of ₱5.11 per share, equivalent to the average closing price of the Parent Company's common shares, at the PSE for 20 consecutive trading days ending June 25, 2015, net of 15% discount. Out of the total shares granted, 10,393,394 shares were subscribed by 78 executives of the Group.

The fair value of stock options granted in 2015 is estimated at the date of grant using the Black-Scholes Melton Formula, taking into account the terms and conditions upon which the stock options were granted. The expected volatility was determined based on an independent valuation.

Movements in the number of shares outstanding under ESOWN in 2017, 2016 and 2015 follow:

	2017		2016		2015	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
At beginning of year	**₱141,565,253**	**₱6.69**	143,740,493	₱6.69	135,902,428	₱6.71
Forfeitures	**(1,158,757)**	**8.66**	(2,175,240)	6.99	(2,555,329)	6.37
Subscriptions	**–**	**–**	–	–	10,393,394	5.11
At end of year	**₱140,406,496**	**₱6.67**	141,565,253	₱6.69	143,740,493	₱6.69

The balance of the subscriptions receivable amounted to $5.35 million, $12.33 million and $13.13 million as of December 31, 2017, 2016 and 2015, respectively (see Note 19).

The share option expense amounted to $0.26 million, $0.74 million and $1.53 million in 2017, 2016 and 2015, respectively.

29. Segment Information

Management monitors operating results per geographical area for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, interest income and net income before and after tax of its major manufacturing sites. Philippine operation is further subdivided into the Parent Company and PSi, IMI BG and IMI CZ are combined under Europe based on the industry segment and customers served, VIA and STI are combined under Germany/UK representing newly-acquired subsidiaries, IMI USA, IMI Japan and IMI Singapore/ROHQ are combined being the support facilities for strategic management, research and development, engineering development and sales and marketing.

Prior period information is consistent with the current year basis of segmentation.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.

The following tables present revenue and profit information regarding the Group's geographical segments per legal entity's location for the years ended December 31, 2017, 2016 and 2015:

December 31, 2017	**Philippines**		**China**	**Europe**	**Mexico**	**Germany/UK**	**USA/Japan /Singapore**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**							
Revenue:									
Third party	**$227,810,114**	**$35,916,986**	**$271,144,656**	**$276,544,742**	**$84,167,526**	**$193,849,982**	**$1,154,183**	**$–**	**$1,090,588,189**
Intersegment	**818,300**	**–**	**41,309**	**26,598**	**–**	**–**	**5,690,924**	**(6,577,131)**	**–**
Total revenue	**$228,628,414**	**$35,916,986**	**$271,185,965**	**$276,571,340**	**$84,167,526**	**$193,849,982**	**$6,845,107**	**($6,577,131)**	**$1,090,588,189**
Segment interest income	**$1,406,060**	**$2,299**	**$732,769**	**$229**	**$–**	**$2,911**	**$582,264**	**($2,560,286)**	**$166,246**
Segment interest expense	**$4,705,673**	**$607,406**	**$546,159**	**$1,755,715**	**$291,193**	**$1,541,777**	**$13,170**	**($2,560,286)**	**$6,900,807**
Segment profit (loss) before income tax	**$8,955,279**	**($426,370)**	**$3,633,408**	**$28,400,048**	**$662,391**	**$7,752,895**	**($4,316,778)**	**($2,755,541)**	**$41,905,332**
Segment provision for income tax	**(1,690,363)**	**(80,212)**	**(427,769)**	**(2,907,914)**	**(225,900)**	**(2,057,582)**	**(72,854)**	**–**	**(7,462,594)**
Segment profit (loss) after income tax	**$7,264,916**	**($506,582)**	**$3,205,639**	**$25,492,134**	**$436,491**	**$5,695,313**	**($4,389,632)**	**($2,755,541)**	**$34,442,738**
Net income (loss) attributable to the equity holders of the Parent Company	**$7,264,916**	**($506,582)**	**$3,205,639**	**$25,492,134**	**$436,491**	**$5,254,557**	**($4,389,632)**	**($2,755,541)**	**$34,001,982**

December 31, 2016	Philippines		China	Europe	Mexico	Germany (VIA)	USA/Japan /Singapore	Consolidation and Eliminations	Total
	Parent Company	PSi							
Revenue:									
Third party	$220,655,955	$33,006,961	$261,422,882	$242,735,718	$65,219,469	$19,405,163	$520,276	$–	$842,966,424
Intersegment	299,575	1,980	14,997	–	–	–	7,933,316	(8,249,868)	–
Total revenue	$220,955,530	$33,008,941	$261,437,879	$242,735,718	$65,219,469	$19,405,163	$8,453,592	($8,249,868)	$842,966,424
Segment interest income	$926,620	$1,443	$555,584	$35,192	$–	$12,852	$641	($1,238,297)	$294,035
Segment interest expense	$2,712,102	$681,371	$284,498	$620,590	$305,477	$105,275	$9,646	($834,505)	$3,884,454
Segment profit (loss) before income tax	$8,594,851	($2,463,930)	4,502,560	$32,664,770	($2,347,967)	($452,949)	$5,340,625	($11,015,407)	$34,822,553
Segment provision for income tax	(1,244,834)	–	(1,617,569)	(3,476,137)	(434,797)	58,063	(91,370)	–	(6,806,644)
Segment profit (loss) after income tax	$7,350,017	($2,463,930)	$2,884,991	$29,188,633	($2,782,764)	($394,886)	$5,249,255	($11,015,407)	$28,015,909
Net income (loss) attributable to the equity holders of the Parent Company	$7,350,017	($2,463,930)	$2,890,240	$29,188,633	($2,782,764)	($300,153)	$5,249,255	($11,015,407)	$28,115,891

December 31, 2015	Philippines		China	Europe	Mexico	USA/Japan /Singapore	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue:								
Third party	$225,258,796	$42,062,621	$279,263,000	$206,098,789	$61,314,195	$366,703	$–	$814,364,104
Intersegment	163,415	256,310	47,179	34,932	–	9,198,302	(9,700,138)	–
Total revenue	$225,422,211	$42,318,931	$279,310,179	$206,133,721	$61,314,195	$9,565,005	($9,700,138)	$814,364,104
Segment interest income	$1,140,205	$1,831	$287,888	$–	$–	$561	($772,482)	$658,003
Segment interest expense	$1,497,509	$580,928	$300,488	$394,067	$386,870	$5,605	($449,082)	$2,716,385
Segment profit (loss) before income tax	$13,309,497	($1,534,782)	($241,648)	$24,379,024	$70,081	$2,221,155	($3,527,807)	$34,675,520
Segment provision for income tax	(1,750,946)	(93,592)	(1,066,664)	(2,775,475)	(196,951)	(21,780)	–	(5,905,408)
Segment profit (loss) after income tax	$11,558,551	($1,628,374)	($1,308,312)	$21,603,549	($126,870)	$2,199,375	($3,527,807)	$28,770,112
Net income (loss) attributable to the equity holders of the Parent Company	$11,558,551	($1,628,374)	($1,288,684)	$21,603,549	($126,870)	$2,199,375	($3,527,807)	$28,789,740

Intersegment revenues, cost of sales, and operating expenses are eliminated on consolidation.

The operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $6.58 million in 2017, $8.25 million in 2016 and $9.70 million in 2015, intersegment cost of sales of $1.60 million in 2017, $0.99 million in 2016 and $0.17 million in 2015, and intersegment operating expenses aggregating to $5.00 million in 2017, $7.12 million in 2016 and $9.12 million in 2015.

The following table presents segment assets of the Group's geographical segments as of December 31, 2017 and 2016:

	Philippines		**China**	**Europe**	**Mexico**	**Germany /UK**	**USA/ Japan/ Singapore**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**							
2017	**$443,014,897**	**$14,853,176**	**$243,686,394**	**$266,002,107**	**$96,275,914**	**$165,672,832**	**$288,064,280**	**($596,217,972)**	**$921,351,628**
2016 (As Restated - Note 2)	$322,954,699	$15,430,820	$202,925,835	$199,169,397	$64,528,625	$33,074,977	$224,787,667	($423,743,586)	$639,128,434

Investments in subsidiaries and intersegment receivables amounting to $195.36 million and $131.84 million as of December 31, 2017, respectively, and $180.13 million and $46.88 million as of December 31, 2016, respectively are eliminated in consolidation.

Goodwill arising from the acquisition of STI, STEL, VIA, IMI USA and IMI CZ amounting to $55.95 million, $45.13 million, $44.54 million, $0.66 million, and $0.65 million, respectively, are recognized at consolidated level for both years ended December 31, 2017 and 2016.

The following table presents revenues from external customers based on customer's nationality:

	2017	2016	2015
Europe	$519,149,422	$458,851,700	$426,440,705
America	240,888,727	204,853,252	205,280,233
Japan	42,842,182	40,861,642	52,900,214
Rest of Asia/Others	287,707,858	138,399,830	129,742,952
	$1,090,588,189	$842,966,424	$814,364,104

Revenues are attributed to countries on the basis of the customer's location. Certain customers that are independent of each other but within the same group account for 12.58%, 14.97% and 13.29% of the Group's total revenue in 2017, 2016 and 2015, respectively.

The following table presents revenues per product type:

	2017	2016	2015
Automotive	**$446,460,645**	$377,639,245	$343,772,744
Industrial	**221,670,425**	177,267,436	145,487,460
Consumer	**188,760,154**	71,038,949	80,348,722
Telecommunication	**121,639,521**	131,304,615	132,929,944
Aerospace/defense	**24,973,446**	–	–
Medical	**19,303,996**	21,280,959	26,607,884
Multiple market/others	**67,780,002**	64,435,220	85,217,350
	$1,090,588,189	$842,966,424	$814,364,104

The following table presents noncurrent assets based on their physical location:

	2017	2016 (As restated - Note 2)
Europe*	**$172,379,424**	$95,625,581
America**	**40,558,918**	31,286,745
Rest of Asia/Others	**121,927,192**	100,225,924
	$334,865,534	$227,138,250

**Pertains to Europe, Germany and UK*
***Pertains to Mexico and USA*

Noncurrent assets include property, plant and equipment, goodwill and intangible assets.

The following table presents the depreciation and amortization expense based on their physical location:

	2017	2016	2015
Europe*	**$9,268,724**	$5,412,631	$5,599,379
America**	**3,969,119**	2,765,263	2,013,240
Rest of Asia/Others	**15,391,928**	16,283,900	15,636,051
	$28,629,771	$24,461,794	$23,248,670

**Pertains to Europe, Germany and UK*
***Pertains to Mexico and USA*

30. **Lease Commitments**

Finance Lease Commitments - Group as Lessee
STI has assets held under finance leases and hire purchase contracts related to its manufacturing/IT equipment with terms of 3 to 5 years subject to interest rates ranging from 1.9% to 4.7% per annum.

Future minimum lease payments as of December 31, 2017 follow:

Within one year	$245,518
After one year but not more than five years	223,771
More than five years	–
	$469,289

Interest expense related to the finance lease amounted to $0.01 million.

Operating Lease Commitments - Group as Lessee
Parent Company
The Parent Company entered into an amended lease contract with Technopark Land, Inc. (TLI), an affiliate, for the lease of parcels of land situated at the Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a period of three years, commencing on January 1, 2017 up to December 31, 2019, renewable at the option of the lessor upon such terms and conditions, and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. The monthly rent shall be equivalent to ₱44.00 per sqm. For the remaining term of the lease, the rent shall be subject to annual escalation rate of 5%.

On March 7, 2014, the Parent Company executed a Lease Agreement with PEZA for the use of land located at the Blk 16 Phase 4 PEZA, Rosario, Cavite to be used exclusively for IMI Cavite's registered activities. The lease is for a period of 50 years renewable once at the option of the lessee for a period of not more than 25 years. The average monthly rental payment amounts to $2,165 in 2017 with an escalation rate every year.

IMI Singapore and STEL Group
IMI Singapore and STEL Group have various operating lease agreements in respect of office premises and land. These non-cancellable lease contracts have remaining non-cancellable lease terms of between one to ten years. Most of the lease contracts of IMI Singapore and STEL Group contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

In 2017, the new entity IMI Technology entered into a lease agreement on its manufacturing facility covering a period of six years from May 2017 to May 2023. The lease premise is a 5-floor building with 29,340 square meters located in an industrial park in Pingshan district of Shenzhen.

IMI Japan
On February 15, 2012, IMI Japan entered into a 6-year lease contract with Kabushikigaisha Tokyu Community for the lease of office premises located in Nagoya, whereby it is committed to pay a monthly rental of ¥245,490, and monthly maintenance fee of ¥35,070, inclusive of tax. The lease contract provides for the automatic renewal of the lease contract, unless prior notice of termination is given to the lessor.

IMI USA
On November 16, 2014, IMI USA entered into a third amendment to a standard industrial commercial single tenant lease contract for an extended term of 5 years commencing from November 1, 2015 to October 31, 2020 with Roy G. Harris and Patricia S. Harris for the lease of office premises. The lease contract contains provisions including, but not limited to, an escalation rate of 3% per year and early termination penalties. The lease provides for monthly rental payment of $12,927 during the first year of the lease term and shall be increased based on fixed rental adjustments as set forth in the contract.

PSi
Taguig facilities
The operating lease agreement of PSi with FTI for its plant facilities office spaces and other facilities has been pre-terminated effective December 31, 2017.

Rent expense recognized in 2017, 2016 and 2015 amounted $1.34 million, $1.37 million and $1.40 million, respectively. PSi also paid pre-termination penalties amounting $0.08 million in 2017.

Laguna facilities
PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity. The operating lease agreement will expire in March 2018.

In 2015, the operating lease agreement for the second facility was renewed and executed between CRI and the Company. The operating lease agreement commenced on October 16, 2015 and will expire on October 18, 2018. The operating lease agreement with CRI provides for increase in rental at varying rates over the term of the lease and a penalty interest rate of 3% per month using simple interest.

VIA
VIA leases buildings, cars and other equipment based on leasing contracts for a period ranging from 1 to 5 years.

STI
STI have various operating lease agreements in respect of vehicles, equipment, office premises and land. These non-cancellable lease contracts have remaining non-cancellable lease terms of between one to forty-four years. There are no restrictions placed upon the lessee by entering into these leases.

Accrued rent amounted to $0.25 million as of December 31, 2017.

Future minimum rentals payable under operating leases of the Group as of December 31, 2017 and 2016 follow:

	2017	2016
Within one year	**$5,127,471**	$4,905,841
After one year but not more than five years	**12,453,854**	13,686,398
More than five years	**2,453,943**	4,808,727
	$20,035,268	$23,400,966

31. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

The Group, in its regular conduct of business, has entered into transactions with subsidiaries, affiliate, and other related parties principally consisting of advances, loans and reimbursement of expenses. Sales and purchases of goods and services as well as other income and expenses to and from related parties are made at normal commercial prices and terms.

Terms and Conditions of Transactions with Related Parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2017, 2016 and 2015, the Group has not recorded any impairment on receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

In the ordinary course of business, the Group transacts with its related parties. The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an affiliate

   As of December 31, 2017 and 2016, the Group maintains current and savings accounts and short-term investments with BPI amounting to $2.85 million and $0.93 million, respectively.

   Total interest income earned from investments with BPI amounted to $6,797, $4,247 and $25,698 for the years ended December 31, 2017, 2016 and 2015, respectively.

b. Outstanding balances of the Group's related party transactions with its affiliates follow:

	Receivables/Deposits		Payables	
	2017	2016	**2017**	2016
Isuzu Automotive Dealership, Inc. (IADI)	**$456,447**	$–	**$–**	$–
Honda Cars Makati, Inc. (HCMI)	**273,868**	–	**–**	–
ACEHI (Note 13)	**146,126**	482,844	**–**	–
Automotive Central Enterprise, Inc. (ACEI)	**63,903**	–	**–**	–
Innove Communication Inc. (ICI)	**–**	–	**5,868**	276
Globe Telecom, Inc. (GTI)	**–**	–	**3,716**	6,023
AC	**–**	–	**–**	584,070
	$940,344	$482,844	**$9,584**	$590,369

i. Transaction with IADI, HCMI and ACEI pertains to management fee on corporate and support services.

ii. Transaction with ACEHI represents deposit required by the distribution utility (DU) in a form of cash in accordance with the distribution wheeling services agreement between ACEHI and the DU, to be returned to the Parent Company at the end of the contract term.

iii. Payables to ICI are nontrade in nature and pertain to leased lines, internet connections and automated teller machines connections. These are noninterest-bearing and are due every month.

iv. Payables to GTI pertain to billings for software and WiFi connections. These are due and demandable.

v. Payable to AC are nontrade in nature and pertain to transaction costs paid in advance in relation to VIA acquisition.

vi.

c. Outstanding balances of transactions with subsidiaries from the Parent Company's point of view follow:

	Receivables		Payables	
	2017	2016	**2017**	2016
IMI Singapore	**$68,563,325**	$1,464,524	**$–**	$58,353
IMI EU/MX Subsidiaries	**42,282,449**	24,100,160	**26,598**	8,570
PSi	**26,384,369**	16,722,133	**101,828**	98,735
STI	**3,299,031**	–	–	–
IMI Japan	**1,002,688**	992,531	**501,959**	604,196
IMI USA	**265,398**	261,963	**320,097**	370,856
STEL	**252,465**	191,271	**1,701,802**	1,449,193
IMI ROHQ	**12,778**	25,213	**646,668**	779,761
	$142,062,503	$43,757,795	**$3,298,952**	$3,369,664

The outstanding balances are eliminated upon consolidation.

i. Advances to PSi and IMI EU/MX Subsidiaries have a 90-day term subject to interest rates ranging from 2.00% to 2.90% in 2017, from 1.00% to 2.88% in 2016 and from 1.25% to 2.85% in 2015.

Advances to STI have a 60 to 90-day term subject to interest rates ranging from 3.21% to 3.37% in 2017.

Other receivables from IMI EU/MX Subsidiaries, PSi, STI, IMI Japan, IMI Singapore, IMI USA and STEL are nontrade in nature and pertain to operating cash advances made by the Parent Company. These are noninterest-bearing and are due on demand.

Receivables from IMI ROHQ are nontrade in nature and represent the retirement expense for IMI ROHQ's employees to be funded by the Parent Company's retirement plan upon availment. In 2016, the retirement expense is being included in the service fees billed by ROHQ to the Parent Company.

ii. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ to the Parent Company which serves as an administrative, communications and coordinating center for its affiliates. These advances are noninterest-bearing and are payable on demand.

iii. Payables to STEL pertain to non-trade related transactions which include freight and handling charges, business travel expenses and consideration for the net assets transferred by STPH to the Parent Company. These advances are noninterest-bearing and are payable on demand.

iv. Payables to IMI Japan and IMI USA are nontrade in nature and pertain to administrative expenses paid by the Parent Company on their behalf.

d. Revenue/income and expenses from the Group's affiliates follow:

	Revenue/Income			Expenses		
	2017	2016	2015	**2017**	2016	2015
IADI	**$456,447**	$–	$–	**$**	$–	$–
HCMI	**273,868**	–	–	–	–	–
ACEI	**63,903**	–	–	–	–	–
BPI	**6,797**	4,247	25,698	–	–	–
ACEHI	–	–	–	**5,199,357**	–	–
Direct Power Services, Inc. (DPSI)	–	–	–	**3,368,862**	–	–
TLI	–	–	–	**1,029,332**	1,045,948	1,093,559
AC	–	–	–	**404,588**	687,142	–
AG Legal	–	–	–	**88,560**	197,308	93,108
GTI	–	–	–	**85,595**	85,755	86,260
ICI	–	–	–	**70,243**	92,923	88,936
	$801,015	$4,247	$25,698	**$10,246,537**	$2,109,076	$1,361,863

Revenue/income from its affiliates pertains to the following transactions:

i. Revenues from IADI, HCMI and ACEI represent recoveries for the provision of corporate and support services.

ii. Interest income earned from investments with BPI.

Expenses incurred from related party transactions include:

i. Light and power allocation charged by ACEHI to the Parent Company.

ii. Light and power allocation charged by DPSI to PSi.

iii. Rental expense from the lease contract between the Parent Company and TLI.

iv. Administrative services charged by AC related to certain transactions

v. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.

vi. Billings for cellphone charges and WiFi connections with GTI.

vii. Building rental, leased lines, internet connections and ATM connections with ICI.

e. Revenue and expenses eliminated at the Group level follow:

i. Intercompany revenues mainly pertain to billings of IMI USA and IMI Japan to IMI Singapore for recovery costs and billings to IMI Singapore and the Parent Company for management salaries of key management personnel under IMI ROHQ.

ii. Expenses incurred from related party transactions include interest expense of PSi, IMI MX, STI and IMI CZ from loans granted by the Parent Company.

Compensation of Key Management Personnel of the Group

Compensation of key management personnel by benefit type follows:

	2017	2016
Short-term employee benefits	**$9,237,705**	$7,940,519
Post-employment benefits	**476,876**	280,248
Share-based payments	**210,608**	643,098
	$9,925,189	$8,863,865

32. **Fair Values of Financial Instruments**

Fair Values of Financial Assets and Financial Liabilities where the Carrying Amounts Approximate Fair Values
Financial assets and financial liabilities that are liquid or are short-term in nature which consist of cash and cash equivalents, receivables, accounts payables and accrued expenses, loans and trust receipts payable and current portion of long-term debt, are assumed to have carrying amounts approximating their fair values.

Below are the fair values of financial assets and financial liabilities that are either carried at fair value or where the carrying amounts do not approximate fair values as of December 31, 2017 and 2016:

	Carrying Amounts		Fair Values	
	2017	2016	**2017**	2016
Financial assets:				
AFS financial assets	**$831,364**	$740,949	**$831,364**	$740,949
Derivative assets	–	67,062	–	67,062
	$831,364	$808,011	**$831,364**	$808,011
Financial liabilities:				
Derivative liabilities	**$30,144**	$10,567	**$30,144**	$10,567
Financial liabilities on put options	**21,912,259**	11,334,282	**21,912,259**	11,334,282
Contingent consideration	**24,975,209**	–	**24,975,209**	–
Noncurrent portion of:				
Long-term debt	**158,224,056**	121,144,043	**155,395,517**	118,083,096
	$205,141,668	$132,488,892	**$202,313,129**	$129,427,945

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

Derivatives - These pertains to currency forwards hedged by the Group for risks associated with foreign currency fluctuations. The fair value of the currency forwards is calculated by reference to current forward exchange rates for contracts with similar maturities as advised by the counterparty to the currency forwards contracts.

AFS financial assets - These pertain to investments in club shares. Fair value is based on quoted prices.

Financial liabilities on put options - These pertain to the liabilities of the Parent Company arising from the written put options over the non-controlling interest of VIA and STI. The fair value of the financial liabilities is estimated using the discounted, probability-weighted cash flow method. The future cash flows were projected using the equity forward pricing formula with reference to the current equity value of the acquiree and the forecasted interest rate which is the risk-free rate in Germany and UK. The risk-free rate used is 0.26% for VIA and 0.91% for STI. Management applied weights on the estimated future cash flows, based on management's judgment on the chance that the trigger events for the put option will occur.

The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

For STI, management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronics services solutions to derive its current equity value. Management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization.

Noncurrent portion of long-term debt - The fair value of long-term debt is estimated by using the discounted cash flow method using the current incremental borrowing rates for similar borrowings, with maturities consistent with those remaining for the liability being valued. The discount rates used for 2017 and 2016 ranged from 0.90% to 2.99% and from 1.00% to 2.91%, respectively.

Contingent consideration - this pertains to the contingent consideration related to the acquisition of STI determined based on probability-weighted payout discounted at 8% at the date of acquisition to determine its fair value. The discount rate is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

Fair Value Hierarchy

The following tables provide the fair value hierarchy of the Group's assets and liabilities:

	December 31, 2017			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets measured at fair value:				
Derivative assets	**$–**	**$–**	**$–**	**$–**
AFS financial assets	**–**	**831,364**	**–**	**831,364**
	$–	**$831,364**	**$–**	**$831,364**
Liabilities measured at fair value:				
Derivative liabilities	**$–**	**$30,144**	**$–**	**$30,144**
Financial liabilities on put options	**–**	**–**	**21,912,259**	**21,912,259**
Contingent consideration	**–**	**–**	**24,975,209**	**24,975,209**
	$–	**$30,144**	**$46,887,468**	**$46,917,612**
Liabilities for which fair values are disclosed:				
Long-term debt	**$–**	**$–**	**$155,395,517**	**$155,395,517**

	December 31, 2016			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets measured at fair value:				
Derivative assets	$–	$67,062	$–	$67,062
AFS financial assets	–	740,949	–	740,949
	$–	$808,011	$–	$808,011
Liabilities measured at fair value:				
Derivative liabilities	$–	$10,567	$–	$10,567
Financial liabilities on put options	–	–	11,334,282	11,334,282
	$–	$10,567	$11,334,282	$11,344,849
Liabilities for which fair values are disclosed:				
Long-term debt	$–	$–	$118,083,096	$118,083,096

The table below shows reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy:

	Dec 31, 2016	**Additions**	**Mark-to-market gains-net**	**Dec 31, 2017**
Financial liabilities on put options	**$11,334,282**	**$12,876,641**	**($2,298,664)**	**$21,912,259**
Contingent consideration	**–**	**24,975,209**	**–**	**24,975,209**
	$11,334,282	**$37,851,850**	**($2,298,664)**	**$46,887,468**

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

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.

The following table presents the valuation techniques and unobservable key inputs used to value the Group's financial liabilities categorized as Level 3:

	Valuation Technique	Unobservable inputs	Range of unobservable inputs	Sensitivity of the input to the fair value
Financial liabilities on put options	Discounted, probability-weighted cash flow method	Growth rate	0%-2% (1%)	1% increase in growth rate would result in an increase in fair value by $0.81 million. Decrease in growth rate by 1% would result in a fair value decrease of $0.66 million.
		Discount rate	10%-12% (11%)	1% increase in discount rate would result in a decrease in fair value by $0.91 million. Decrease in discount rate by 1% would result in a fair value increase of $1.11 million.
		Probability of trigger events occurring	1% – 10% (5%)	Increase in the probability to 10% would result in an increase in fair value by $2.76 million. Decrease in the probability to 1% would result in a decrease in fair value by $5.66 million.
Contingent consideration	Discounted, probability-weighted payout	Discount rate	7%-9% (8%)	1% increase in discount rate would result in a decrease in fair value by $0.45 million. Decrease in discount rate by 1% would result in a fair value increase of $0.47 million.
		Probability of pay-out	£0 to £23.3 million ($0 to $30.20 million)	£0 to £23.3 million ($0 to $30.20 million)

33. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, composed of loans and trust receipts payable, long-term debt and other financial liabilities, were issued primarily to raise financing for the Group's operations. The Group has various financial instruments such as cash and cash equivalents, receivables and accounts payable and accrued expenses which arise directly from its operations.

The main purpose of the Group's financial instruments is to fund its operational and capital expenditures. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The Group also enters into currency forwards to manage the currency risk arising from its operations and financial instruments.

The Group's risk management policies are summarized below:

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings) for the years ended December 31, 2017 and 2016. There is no other impact on the Group's equity other than those already affecting income.

	Effect on Net Income before Tax	
Increase/Decrease in Basis Points	**2017**	2016
+100	**($69,643)**	($85,505)
-100	**$69,643**	85,505

The following table shows the information about the Group's debt as of December 31, 2017 and 2016 that are exposed to interest rate risk presented by maturity profile:

	2017	2016
Within one year	**$3,301,122**	$7,051,886
One to five years	**3,663,209**	1,498,600
	$6,964,331	$8,550,486

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group's exposure to liquidity risk relates primarily to its short-term and long-term obligations. The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and operations. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover financing requirements, the Group intends to use internally-generated funds and loan facilities with local and foreign banks. Surplus funds are placed with reputable banks.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities based on contractual undiscounted payments:

	2017				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Financial assets					
Cash and cash equivalents*	**$67,581,023**	**$22,963,742**	**$–**	**$–**	**$90,544,765**
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	**–**	**185,143,187**	**–**	**–**	**185,143,187**
Accrued expenses**	**–**	**17,399,154**	**–**	**–**	**17,399,154**
Accrued compensation and benefits	**–**	**24,233,636**	**–**	**–**	**24,233,636**
Nontrade payables	**–**	**12,785,361**	**–**	**–**	**12,785,361**
Accrued interest payable	**–**	**–**	**1,075,657**	**–**	**1,075,657**
Derivative liabilities	**–**	**30,144**	**–**	**–**	**30,144**
Due to related parties	**–**	**9,584**	**–**	**–**	**9,584**
Others	**–**	**1,740,651**	**–**	**–**	**1,740,651**
Financial liabilities on put options	**21,912,259**	**–**	**–**	**–**	**21,912,259**
Contingent consideration	**–**	**–**	**405,601**	**24,569,608**	**24,975,209**
Loans and trust receipts payable	**–**	**118,500,979**	**16,556,641**	**–**	**135,057,620**
Current portion of long-term debt	**–**	**–**	**6,872,679**	**–**	**6,872,679**
Noncurrent portion of long-term debt***	**–**	**–**	**–**	**159,287,699**	**159,287,699**
	21,912,259	**359,842,696**	**24,910,578**	**183,857,307**	**590,522,840**
	$45,668,764	**($336,878,954)**	**($24,910,578)**	**($183,857,307)**	**($499,978,075)**

** Excluding cash on hand*
*** Excluding statutory payables*
**** Including future interest payments*

	2016				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets					
Cash and cash equivalents*	$75,816,054	$10,648,980	$–	$–	$86,465,034
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	–	136,114,721	–	–	136,114,721
Accrued expenses**	–	12,907,253	–	–	12,907,253
Accrued compensation and benefits	–	21,685,525	–	–	21,685,525
Nontrade payables	–	8,050,234	–	–	$8,050,234
Accrued interest payable	–	–	769,072	–	769,072
Derivative liabilities	–	10,567	–	–	10,567
Due to related parties	–	590,369	–	–	590,369
Others	–	1,701,386	–	–	1,701,386
Financial liabilities on put options	11,334,282	–	–	–	11,334,282
Loans and trust receipts payable	–	34,341,720	17,103,449	–	51,445,169
Current portion of long-term debt	–	5,222,000	2,963,053	–	8,185,053
Noncurrent portion of long-term debt***	–	–	–	122,916,769	122,916,769
	11,334,282	220,623,775	20,835,574	122,916,769	375,710,400
	$64,481,772	($209,974,795)	($20,835,574)	($122,916,769)	($289,245,366)

** Excluding cash on hand*
*** Excluding statutory payables*
**** Including future interest payments*

Credit lines
The Group has credit lines with different financing institutions as of December 31, 2017 and 2016, as follows:

	2017		2016	
Financial Institution	**Credit Limit**	**Available Credit Line**	Credit Limit	Available Credit Line
Local:				
USD	**58,000,000**	**25,599,021**	54,000,000	44,550,000
PHP	**400,000,000**	**400,000,000**	100,000,000	100,000,000
Foreign:				
USD	**142,011,034**	**54,011,034**	89,318,841	56,318,841
Singapore Dollar (SGD)	**34,000,000**	**34,000,000**	17,000,000	17,000,000
EUR	**18,830,000**	**13,551,034**	9,830,000	6,897,783
GBP	**2,500,000**	**–**	–	–

Credit Risk
Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's major credit risk exposure relates primarily to its holdings of cash and cash equivalents and receivables from customers and other third parties. Credit risk management involves dealing with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group has a well-defined credit policy and established credit procedures. The Group extends credit to its customers consistent with sound credit practices and industry standards. The Group deals only with reputable, competent and reliable customers who pass the Group's credit standards. The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group's maximum exposure to credit risk as of December 31, 2017 and 2016 is the carrying amounts of the financial assets. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 20% and 37% of trade receivables relating to three major customers as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the aging analysis of receivables and miscellaneous deposits follows:

	December 31, 2017							
		Neither Past Due nor	**Past Due but not Impaired**					**Specifically**
	Total	**Impaired**	**<30 Days**	**30-60 Days**	**60-90 Days**	**90-120 Days**	**>120 Days**	**Impaired**
Trade	**$252,636,453**	**$220,285,730**	**$20,241,712**	**$4,386,668**	**$2,071,274**	**$2,173,212**	**$2,727,141**	**$750,716**
Nontrade	**10,141,732**	**8,248,972**	**369,528**	**483,439**	**46,246**	**484,653**	**329,979**	**178,915**
Receivable from insurance	**1,076,287**	**5,028**	**–**	**–**	**–**	**–**	**–**	**1,071,259**
Due from related parties	**794,218**	**794,218**	**–**	**–**	**–**	**–**	**–**	**–**
Receivable from employees	**424,658**	**420,301**	**–**	**–**	**–**	**–**	**–**	**4,357**
Others	**52,274**	**52,274**	**–**	**–**	**–**	**–**	**–**	**–**
	$265,125,622	**$229,806,523**	**$20,611,240**	**$4,870,107**	**$2,117,520**	**$2,657,865**	**$3,057,120**	**$2,005,247**
Miscellaneous deposits	**$1,647,864**	**$1,647,864**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**

	December 31, 2016							
		Neither Past Due nor	Past Due but not Impaired					Specifically
	Total	Impaired	<30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	Impaired
Trade	$192,152,117	$155,163,040	$24,242,735	$5,877,578	$2,927,958	$1,632,926	$1,712,327	$595,553
Nontrade	3,804,516	3,667,305	3,191	16,807	14,248	1,220	39,171	62,574
Receivable from insurance	1,860,624	789,365	–	–	–	–	–	1,071,259
Receivable from employees	553,745	549,388	–	–	–	–	–	4,357
Due from related parties	299,713	299,713	–	–	–	–	–	–
Others	32,164	32,164	–	–	–	–	–	–
	$198,702,879	$160,500,975	$24,245,926	$5,894,385	$2,942,206	$1,634,146	$1,751,498	$1,733,743
Miscellaneous deposits	$2,596,176	$2,596,176	$–	$–	$–	$–	$–	$–

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2017 and 2016:

	December 31, 2017					
	Neither Past Due nor Impaired				**Past Due or Individually Impaired**	
	Minimal Risk	**Average Risk**	**Fairly High Risk**	**High Risk**		**Total**
Cash and cash equivalents	**$90,627,228**	**$–**	**$–**	**$–**	**$–**	**$90,627,228**
Receivables:						
Trade	**6,946,612**	**213,339,118**	**–**	**–**	**32,350,723**	**252,636,453**
Nontrade	**8,243,943**	**–**	**–**	**–**	**1,897,789**	**10,141,732**
Receivable from insurance	**5,028**	**–**	**–**	**–**	**1,071,259**	**1,076,287**
Receivable from employees	**420,301**	**–**	**–**	**–**	**4,357**	**424,658**
Due from related parties	**794,218**	**–**	**–**	**–**	**–**	**794,218**
Others	**52,274**	**–**	**–**	**–**	**–**	**52,274**
AFS financial assets	**831,364**	**–**	**–**	**–**	**–**	**831,364**
Miscellaneous deposits	**1,647,864**	**–**	**–**	**–**	**–**	**1,647,864**
	$109,568,832	**$213,339,118**	**$–**	**$–**	**$35,324,128**	**$358,232,078**

	December 31, 2016					
	Neither Past Due nor Impaired				Past Due or Individually Impaired	
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		Total
Cash and cash equivalents	$86,465,034	$–	$–	$–	$–	$86,465,034
Receivables:						
Trade	3,853,310	151,309,730	–	–	36,989,077	192,152,117
Nontrade	3,667,305	–	–	–	137,211	3,804,516
Receivable from insurance	789,365	–	–	–	1,071,259	1,860,624
Receivable from employees	549,388	–	–	–	4,357	553,745
Due from related parties	299,713	–	–	–	–	299,713
Others	32,164	–	–	–	–	32,164
AFS financial assets	740,949	–	–	–	1,753,589	2,494,538
Miscellaneous deposits	2,596,176	–	–	–	–	2,596,176
	$98,993,404	$151,309,730	$–	$–	$39,955,493	$290,258,627

The Group classifies credit quality as follows:

Minimal Risk - Credit can proceed with favorable credit terms; can offer term of 15 to maximum of 45 days.

Average Risk - Credit can proceed normally; can extend term of 15 to maximum of 30 days.

Fairly High Risk - Credit could be extended under a confirmed and irrevocable LC and subject to semi-annual review for possible upgrade.

High Risk - Transaction should be under advance payment or confirmed and irrevocable Stand-By LC; subject to quarterly review for possible upgrade after one year.

Foreign Currency Risk

The Group's foreign exchange risk results primarily from movements of the functional currency of each legal entity against other currencies. As a result of significant transactions denominated in RMB, PHP and EUR, the consolidated statements of income can be affected significantly by movements in the USD versus these currencies. In 2017 and 2016, the Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than the Group's functional currency. Approximately 48% and 53% of the Group's sales for the years ended December 31, 2017 and 2016, respectively, and 44% and 43% of costs for the years ended December 31, 2017 and 2016, respectively, are denominated in currencies other than the Group's functional currency.

The Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider hedging any material exposure where appropriate.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their USD equivalent follows:

Renminbi (RMB)

	2017		2016	
	In USD	**In RMB**	In USD	In RMB
Cash and cash equivalents	**$23,135,310**	**RMB151,170,744**	$16,577,471	RMB115,209,331
Receivables	**66,072,151**	**431,728,647**	60,578,249	421,003,887
Accounts payable and accrued expenses	**(50,344,676)**	**(328,962,181)**	(42,505,531)	(295,402,952)
Net foreign currency-denominated assets	**$38,862,785**	**RMB253,937,210**	$34,650,189	RMB240,810,266

Philippine Peso (₱)

	2017		2016	
	In USD	**In PHP**	In USD	In PHP
Cash and cash equivalents	**$5,503,962**	**₱274,812,802**	$3,188,406	₱158,548,273
Receivables	**275,400**	**13,750,735**	676,493	33,639,648
Miscellaneous deposits	**691,463**	**34,524,738**	1,059,645	52,692,422
Accounts payable and accrued expenses	**(9,201,618)**	**(459,436,808)**	(17,222,268)	(856,403,199)
Net retirement liabilities	**(4,192,193)**	**(209,316,217)**	(3,174,729)	(157,868,158)
Other noncurrent liabilities	**(396,768)**	**(19,810,638)**	(398,392)	(19,810,638)
Net foreign currency-denominated liabilities	**($7,319,754)**	**(₱365,475,388)**	($15,870,845)	(₱789,201,652)

Euro (€)

	2017		2016	
	In USD	**In EUR**	In USD	In EUR
Cash and cash equivalents	**$2,442,491**	**€2,041,189**	$1,523,971	€1,459,187
Receivables	**3,891,129**	**3,251,817**	3,117,551	2,985,024
Accounts payable and accrued expenses	**(5,173,081)**	**(4,323,144)**	(4,756,835)	(4,554,622)
Long-term debt	**–**	**–**	(236,682)	(226,621)
Net foreign currency-denominated assets	**$1,160,539**	**€969,862**	($351,995)	€(337,032)

<u>Sensitivity Analysis</u>
The following tables demonstrate sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2017 and 2016. The reasonably possible change was computed based on one year average historical movement of exchange rates between the USD and other currencies.

There is no other impact on the Group's equity other than those already affecting income. The increase in USD rate as against other currencies demonstrates weaker functional currency while the decrease represents stronger USD value.

Currency	Increase/Decrease in USD Rate	**Effect on Net Income before Tax 2017**	2016
RMB	+1%	**($238,314)**	($197,413)
	-1%	**238,314**	197,413
PHP	+1%	**70,719**	88,429
	-1%	**(70,719)**	(88,429)
EUR	+1%	**(11,605)**	(2,085)
	-1%	**11,605**	2,085

<u>Derivatives</u>
The Parent Company entered into various short-term currency forwards with an aggregate notional amount of $5.85 million in 2017 and $9.00 million in 2016. As of December 31, 2017 and 2016, the outstanding forward contracts have a net negative fair value of $0.03 million. The changes in fair value of currency forwards recognized in 2017 and 2016 amounted to $0.03 million loss and $0.11 million gain, respectively. The changes in fair value of currency forwards are recognized in the consolidated statements of income under "Foreign exchange gains (losses) - net" account.

Fair Value Changes on Derivatives
The net movements in the fair value of the Group's derivative instruments as of December 31, 2017 and 2016 follow:

	2017	2016
Financial assets:		
At beginning of year	**$67,062**	$66,117
Fair value of currency forwards	**–**	100,807
Fair value of settled instruments	**(67,062)**	(99,862)
At end of year	**$–**	$67,062
Financial liabilities:		
At beginning of year	**$10,567**	$10,567
Fair value of currency forwards	**30,144**	214,262
Fair value of settled currency forwards	**(10,567)**	(214,262)
At end of year	**$30,144**	$10,567

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

No changes were made in the objectives, policies and processes for the years ended December 31, 2017 and 2016.

The Group monitors capital using a gearing ratio of debt to equity and net debt to equity. The Group considers bank borrowings in the determination of debt, which consist of trust receipts and loans payable and long-term bank debt. Net debt is equivalent to the total bank borrowings, less cash and cash equivalents.

	2017	2016
Loans and trust receipts payable	**$135,057,620**	$51,445,169
Long-term bank borrowings	**160,001,217**	122,742,296
Total bank debt	**295,058,837**	174,187,465
Less cash and cash equivalents	**90,627,228**	86,548,735
Net bank debt	**$204,431,609**	$87,638,730
Equity attributable to equity holders of the Parent Company	**$273,739,415**	$236,606,259
Debt-to-equity ratio	**1.08:1**	0.74:1
Net debt-to-equity ratio	**0.75:1**	0.37:1

The Group is not subject to externally imposed capital requirements.

34. Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested. The outcome of these cases is not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

35. **Notes to Consolidated Statements of Cash Flows**

The Group's noncash investing activities includes capitalization by the Group of depreciation related to the development phase of certain projects amounting to $1.15 million and $1.90 million for 2017 and 2016, respectively.

The following table shows the reconciliation of liabilities arising from financing activities:

		Cash Flows		Non-cash Changes				
	2016	Availment	Settlement/ Payment	Reclass	Declaration	Acquisition through business combination	Foreign currency translation	2017
Dividends payable	$–	$–	($8,434,600)	$–	$8,434,600	$–	$–	$–
Loans and trust receipts payable	51,445,169	87,655,238	(20,419,648)	–	–	14,849,005	1,527,856	135,057,620
Current portion of long-term debt	8,185,053	–	(8,548,036)	6,217,081	–	129,350	889,232	6,872,680
Long-term debt	121,144,043	43,422,063	(629,350)	(6,217,081)	–	129,350	375,031	158,224,056
	$180,774,265	$131,077,301	($38,031,634)	$–	$8,434,600	$15,107,705	$2,792,119	$300,154,356

36. **Events after Balance Sheet Date**

On February 20, 2018, the BOD of the Parent Company approved the declaration of cash dividend of $0.00458 or ₱0.235 per share to all outstanding common shares as of record date of March 7, 2018 payable on March 21, 2018.

On February 20, 2018, the BOD of the Parent Company approved the increase of the Parent Company's authorized capital stock from ₱2.45 billion to ₱3.0 billion, and the corresponding amendment of the Seventh Article of the Articles of Incorporation. This will be presented to the stockholders for approval at the annual meeting on April 13, 2018.

On January 30, 2018, IMI obtained the approval of the PSE for a stock rights offer of up to 350,000,000 new common shares to eligible shareholders in order to raise up to ₱5.00 billion proceeds. Under the rights offer, each shareholder is entitled to subscribe to one rights share for every 5.3551 existing common shares held as of record date February 14, 2018. The offer price was determined to be at ₱14.28 per rights share which was based on the 30-day volume-weighted average price of IMI common shares listed at the PSE as of February 7, 2018 at a discount of 25.3%. Offer period is from February 19 to February 23, 2018. The listing date is on March 2, 2018.

On January 5, 2018, the 33% share transfer related to the sale by STEL of SZSTE to Jinnuo Century Trading Limited was approved by the government. The remaining share transfers are still in process.

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