



PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS AT JUNE 30, 2014 (UNAUDITED) AND DECEMBER 31, 2013 (AUDITED)  
AND FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(in million pesos)

|  | As at June 30,<br>2014<br>(Unaudited) | As at December 31,<br>2013<br>(Audited) |
|--|---------------------------------------|---|
| <b>ASSETS</b>  |                                       |   |
| <b>Noncurrent Assets</b>   |                                       |   |
| Property, plant and equipment (Notes 3, 5, 9, 12 and 20)   | 186,394                               | 192,665                                 |
| Investments in associates, joint ventures and deposits (Notes 3, 4, 5, 10 and 24)                        | 43,451                                | 41,310                                  |
| Available-for-sale financial investments (Notes 6, 10 and 27)  | 222                                   | 220                                     |
| Investment in debt securities and other long-term investments – net of current portion (Notes 11 and 27) | 2,576                                 | 2,643                                   |
| Investment properties (Notes 3, 6, 9 and 12)   | 1,216                                 | 1,222                                   |
| Goodwill and intangible assets (Notes 3, 4, 14 and 21)   | 73,490                                | 73,918                                  |
| Deferred income tax assets – net (Notes 3, 4 and 7)  | 14,487                                | 14,181                                  |
| Derivative financial assets (Note 27)  | 26                                    | 24                                      |
| Prepayments – net of current portion (Notes 3, 5, 18, 24 and 25)   | 3,122                                 | 3,031                                   |
| Advances and other noncurrent assets – net of current portion (Note 27)                                  | 4,881                                 | 2,761                                   |
| <b>Total Noncurrent Assets</b>   | <b>329,865</b>                        | <b>331,975</b>                          |
| <b>Current Assets</b>  |                                       |   |
| Cash and cash equivalents (Notes 15 and 27)  | 42,867                                | 31,905                                  |
| Short-term investments (Note 27)   | 1,059                                 | 718                                     |
| Trade and other receivables (Notes 3, 5, 16, 24 and 27)  | 19,040                                | 17,564                                  |
| Inventories and supplies (Notes 4, 5 and 17)   | 3,530                                 | 3,164                                   |
| Derivative financial assets (Note 27)  | –                                     | 10                                      |
| Current portion of investment in debt securities and other long-term investments (Notes 11 and 27)       | 1,043                                 | –                                       |
| Current portion of prepayments (Note 18)   | 5,633                                 | 6,054                                   |
| Current portion of advances and other noncurrent assets (Notes 19, 27 and 28)                            | 8,115                                 | 8,248                                   |
| <b>Total Current Assets</b>  | <b>81,287</b>                         | <b>67,663</b>                           |
| <b>TOTAL ASSETS</b>  | <b>411,152</b>                        | <b>399,638</b>                          |
| <b>EQUITY AND LIABILITIES</b>  |                                       |   |
| <b>Equity</b>  |                                       |   |
| Non-voting serial preferred stock (Notes 8, 19, 27 and 28)   | 360                                   | 360                                     |
| Voting preferred stock (Note 19)   | 150                                   | 150                                     |
| Common stock (Notes 8, 19, 27 and 28)  | 1,093                                 | 1,093                                   |
| Treasury stock (Notes 8, 19 and 27)  | (6,505)                               | (6,505)                                 |
| Capital in excess of par value   | 130,535                               | 130,562                                 |
| Retained earnings (Note 19)  | 17,899                                | 22,968                                  |
| Other comprehensive income (Note 6)  | (13,432)                              | (11,481)                                |
| <b>Total Equity Attributable to Equity Holders of PLDT (Note 27)</b>                                     | <b>130,100</b>                        | <b>137,147</b>                          |
| Noncontrolling interests (Note 6)  | 165                                   | 179                                     |
| <b>TOTAL EQUITY</b>  | <b>130,265</b>                        | <b>137,326</b>                          |
| <b>Noncurrent Liabilities</b>  |                                       |   |
| Interest-bearing financial liabilities – net of current portion (Notes 3, 4, 5, 9, 20, 23 and 27)        | 108,970                               | 88,930                                  |
| Deferred income tax liabilities – net (Notes 4 and 7)  | 4,256                                 | 4,437                                   |
| Derivative financial liabilities (Note 27)   | 1,820                                 | 1,869                                   |

|   |                |                |
|---|----------------|----------------|
| Customers' deposits (Note 27)   | 2,475          | 2,545          |
| Pension and other employee benefits (Notes 3, 5 and 25)   | 15,181         | 13,439         |
| Deferred credits and other noncurrent liabilities (Notes 3, 5, 9, 21, 23, 27 and 28)                    | 19,377         | 22,045         |
| <b>Total Noncurrent Liabilities</b>   | <b>152,079</b> | <b>133,265</b> |
| <b>Current Liabilities</b>  |                |                |
| Accounts payable (Notes 22, 24, 26 and 27)  | 30,864         | 34,882         |
| Accrued expenses and other current liabilities (Notes 3, 10, 14, 19, 20, 21, 23, 24, 25, 26, 27 and 28) | 79,259         | 74,256         |
| Current portion of interest-bearing financial liabilities (Notes 3, 4, 5, 9, 20, 23 and 27)             | 14,031         | 15,171         |
| Provision for claims and assessments (Notes 3 and 26)   | 897            | 897            |
| Dividends payable (Notes 19 and 27)   | 1,015          | 932            |
| Derivative financial liabilities (Note 27)  | 105            | 105            |
| Income tax payable (Note 7)   | 2,637          | 2,804          |
| <b>Total Current Liabilities</b>  | <b>128,808</b> | <b>129,047</b> |
| <b>TOTAL LIABILITIES</b>  | <b>280,887</b> | <b>262,312</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>   | <b>411,152</b> | <b>399,638</b> |

*See accompanying Notes to Consolidated Financial Statements.*

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

**CONSOLIDATED INCOME STATEMENTS**  
For the Six Months and For the Three Months Ended June 30, 2014 and 2013  
(in million pesos, except earnings per common share amounts which are in pesos)

|   | Six Months Ended<br>June 30, |                | Three Months Ended<br>June 30, |                |
|---|------------------------------|----------------|--------------------------------|----------------|
|   | 2014                         | 2013           | 2014                           | 2013           |
| (Unaudited)   |                              |                |                                |                |
| <b>REVENUES</b>   |                              |                |                                |                |
| Service revenues (Notes 2, 3 and 4)   | 82,530                       | 81,037         | 41,313                         | 41,069         |
| Non-service revenues (Notes 3, 4 and 5)   | 2,898                        | 1,964          | 1,572                          | 972            |
|   | <b>85,428</b>                | <b>83,001</b>  | <b>42,885</b>                  | <b>42,041</b>  |
| <b>EXPENSES</b>   |                              |                |                                |                |
| Depreciation and amortization (Notes 3, 4 and 9)                                  | 14,490                       | 14,532         | 7,285                          | 7,304          |
| Compensation and employee benefits (Notes 3, 5 and 25)                            | 10,443                       | 10,858         | 5,283                          | 5,102          |
| Repairs and maintenance (Notes 12, 17 and 24)                                     | 7,111                        | 6,534          | 3,627                          | 3,233          |
| Cost of sales (Notes 5, 17 and 24)  | 6,925                        | 5,538          | 3,476                          | 3,127          |
| Interconnection costs (Note 2)  | 5,277                        | 5,356          | 2,614                          | 2,779          |
| Selling and promotions (Note 24)  | 4,928                        | 4,285          | 2,815                          | 2,363          |
| Professional and other contracted services (Note 24)                              | 3,383                        | 2,832          | 1,765                          | 1,429          |
| Rent (Notes 3, 24 and 27)   | 3,243                        | 2,851          | 1,705                          | 1,374          |
| Taxes and licenses (Note 26)  | 1,947                        | 1,741          | 1,026                          | 829            |
| Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)                            | 1,421                        | 1,391          | 784                            | 789            |
| Communication, training and travel  | 1,135                        | 1,063          | 573                            | 551            |
| Insurance and security services (Note 24)   | 906                          | 843            | 458                            | 421            |
| Amortization of intangible assets (Notes 3, 4 and 14)                             | 574                          | 453            | 288                            | 251            |
| Other expenses  | 732                          | 828            | 439                            | 513            |
|   | <b>62,515</b>                | <b>59,105</b>  | <b>32,138</b>                  | <b>30,065</b>  |
|   | <b>22,913</b>                | <b>23,896</b>  | <b>10,747</b>                  | <b>11,976</b>  |
| <b>OTHER INCOME (EXPENSES)</b>  |                              |                |                                |                |
| Equity share in net earnings of associates and joint ventures<br>(Notes 4 and 10) | 2,083                        | 1,505          | 1,367                          | 952            |
| Foreign exchange gains (losses) – net (Notes 4, 9 and 27)                         | 459                          | (1,922)        | 1,194                          | (2,135)        |
| Interest income (Notes 4, 5, 11 and 15)   | 395                          | 485            | 203                            | 189            |
| Gains (losses) on derivative financial instruments – net (Notes 4 and<br>27)      | (164)                        | 448            | (351)                          | 425            |
| Financing costs – net (Notes 4, 5, 9, 20 and 27)                                  | (2,498)                      | (3,327)        | (1,174)                        | (1,723)        |
| Other income – net (Notes 3, 4, 12 and 18)  | 3,048                        | 1,453          | 2,113                          | 1,123          |
|   | <b>3,323</b>                 | <b>(1,358)</b> | <b>3,352</b>                   | <b>(1,169)</b> |
| <b>INCOME BEFORE INCOME TAX FROM CONTINUING<br/>OPERATIONS</b> (Note 4)           | <b>26,236</b>                | <b>22,538</b>  | <b>14,099</b>                  | <b>10,807</b>  |
| <b>PROVISION FOR INCOME TAX</b> (Notes 2, 3, 4 and 7)                             | <b>6,235</b>                 | <b>4,677</b>   | <b>3,490</b>                   | <b>2,008</b>   |
| <b>NET INCOME FROM CONTINUING OPERATIONS</b> (Note 4)                             | <b>20,001</b>                | <b>17,861</b>  | <b>10,609</b>                  | <b>8,799</b>   |
| <b>NET INCOME FROM DISCONTINUED OPERATIONS</b> (Notes 2, 4 and<br>8)              | <b>–</b>                     | <b>1,863</b>   | <b>–</b>                       | <b>1,738</b>   |
| <b>NET INCOME</b> (Note 4)  | <b>20,001</b>                | <b>19,724</b>  | <b>10,609</b>                  | <b>10,537</b>  |

| ATTRIBUTABLE TO:   |        |        |        |        |
|--|--------|--------|--------|--------|
| Equity holders of PLDT (Notes 4 and 8)   | 20,023 | 19,707 | 10,644 | 10,529 |
| Noncontrolling interests (Notes 4 and 8)   | (22)   | 17     | (35)   | 8      |
|  | 20,001 | 19,724 | 10,609 | 10,537 |
| Earnings Per Share Attributable to Common Equity Holders of PLDT<br>(Notes 4 and 8)                            |        |        |        |        |
| Basic  | 92.54  | 91.09  | 49.20  | 48.67  |
| Diluted  | 92.54  | 91.09  | 49.20  | 48.67  |
| Earnings Per Share from Continuing Operations Attributable to Common<br>Equity Holders of PLDT (Notes 4 and 8) |        |        |        |        |
| Basic  | 92.54  | 82.47  | 49.20  | 40.63  |
| Diluted  | 92.54  | 82.47  | 49.20  | 40.63  |

*See accompanying Notes to Consolidated Financial Statements.*

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
For the Six Months and For the Three Months Ended June 30, 2014 and 2013  
(in million pesos)

|  | Six Months Ended<br>June 30, |        | Three Months Ended<br>June 30, |        |
|--|------------------------------|--------|--------------------------------|--------|
|  | 2014                         | 2013   | 2014                           | 2013   |
|  | (Unaudited)                  |        |                                |        |
| NET INCOME (Note 4)  | 20,001                       | 19,724 | 10,609                         | 10,537 |
| OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX<br>(Note 6)   |                              |        |                                |        |
| Share in the other comprehensive income (loss) of<br>associates and joint ventures accounted for using the<br>equity method<br>(Note 10) | 165                          | –      | (17)                           | –      |
| Net transactions on cash flow hedges:  | 10                           | (181)  | 5                              | 142    |
| Net fair value gains (losses) on cash flow hedges (Note<br>27)   | (1)                          | (227)  | (3)                            | 209    |
| Income tax related to fair value adjustments charged<br>directly to equity   | 11                           | 46     | 8                              | (67)   |
| Net gains (losses) on available-for-sale financial<br>investments:   | (8)                          | 25     | (9)                            | 7      |
| Gains (losses) from changes in fair value recognized<br>during the period  | (8)                          | 27     | (9)                            | 7      |
| Income tax related to fair value adjustments charged<br>directly to equity   | –                            | (2)    | –                              | –      |
| Foreign currency translation differences of subsidiaries   | (33)                         | 786    | (45)                           | 780    |
| Net other comprehensive income (loss) to be reclassified<br>to profit or loss in subsequent periods                                      | 134                          | 630    | (66)                           | 929    |
| Revaluation increment on investment properties:  | (1)                          | (1)    | (1)                            | –      |
| Depreciation of revaluation increment in investment<br>property transferred to property, plant and<br>equipment (Note 9)                 | (1)                          | (1)    | (1)                            | –      |
| Share in the other comprehensive income (loss) of<br>associates and joint ventures accounted for using the<br>equity method (Note 10)    | (270)                        | 531    | –                              | –      |
| Actuarial losses on defined benefit obligations:   | (1,811)                      | –      | (633)                          | –      |
| Remeasurement in actuarial losses on defined benefit<br>obligations  | (2,612)                      | –      | (894)                          | –      |
| Income tax related to remeasurement adjustments  | 801                          | –      | 261                            | –      |
| Net other comprehensive income (loss) not to be<br>reclassified to profit or loss in subsequent periods                                  | (2,082)                      | 530    | (634)                          | –      |
| Total Other Comprehensive Income (Loss) – Net of Tax   | (1,948)                      | 1,160  | (700)                          | 929    |

|                            |        |        |       |        |
|----------------------------|--------|--------|-------|--------|
| TOTAL COMPREHENSIVE INCOME | 18,053 | 20,884 | 9,909 | 11,466 |
| ATTRIBUTABLE TO:           |        |        |       |        |
| Equity holders of PLDT     | 18,072 | 20,873 | 9,941 | 11,461 |
| Noncontrolling interests   | (19)   | 11     | (32)  | 5      |
|                            | 18,053 | 20,884 | 9,909 | 11,466 |

*See accompanying Notes to Consolidated Financial Statements.*



PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
For the Six Months Ended June 30, 2014 and 2013  
(in million pesos)

|   | Preferred Stock | Common Stock | Treasury Stock | Capital in Excess of Par Value | Retained Earnings | Other Comprehensive Income (Loss) | Reserves of a Disposal Group Classified as Held-for-Sale | Total Equity Attributable to Equity Holders of PLDT | Noncontrolling Interests | Total Equity   |
|---|-----------------|--------------|----------------|--------------------------------|-------------------|-----------------------------------|--|---|--------------------------|----------------|
| Balances as at January 1, 2014  | 510             | 1,093        | (6,505)        | 130,562                        | 22,968            | (11,481)                          | -  | 137,147   | 179                      | 137,326        |
| Total comprehensive income:   | -               | -            | -              | -                              | 20,023            | (1,951)                           | -  | 18,072  | (19)                     | 18,053         |
| Net income (Notes 4 and 8)  | -               | -            | -              | -                              | 20,023            | -                                 | -  | 20,023  | (22)                     | 20,001         |
| Other comprehensive loss (Note 6)                                     | -               | -            | -              | -                              | -                 | (1,951)                           | -  | (1,951)   | 3                        | (1,948)        |
| Cash dividends (Note 19)  | -               | -            | -              | -                              | (25,092)          | -                                 | -  | (25,092)  | (24)                     | (25,116)       |
| Acquisition and dilution of noncontrolling interests (Notes 2 and 13) | -               | -            | -              | (27)                           | -                 | -                                 | -  | (27)  | 29                       | 2              |
| <b>Balances as at June 30, 2014 (Unaudited)</b>                       | <b>510</b>      | <b>1,093</b> | <b>(6,505)</b> | <b>130,535</b>                 | <b>17,899</b>     | <b>(13,432)</b>                   | <b>-</b>   | <b>130,100</b>                                      | <b>165</b>               | <b>130,265</b> |
| Balances as at January 1, 2013  | 510             | 1,093        | (6,505)        | 130,566                        | 25,416            | (3,387)                           | (2,143)  | 145,550   | 184                      | 145,734        |
| Total comprehensive income:   | -               | -            | -              | -                              | 19,707            | 1,166                             | -  | 20,873  | 11                       | 20,884         |
| Net income (Notes 4 and 8)  | -               | -            | -              | -                              | 19,707            | -                                 | -  | 19,707  | 17                       | 19,724         |
| Other comprehensive income (Note 6)                                   | -               | -            | -              | -                              | -                 | 1,166                             | -  | 1,166   | (6)                      | 1,160          |
| Cash dividends (Note 19)  | -               | -            | -              | -                              | (24,229)          | -                                 | -  | (24,229)  | (2)                      | (24,231)       |
| Discontinued operations (Notes 2 and 6)                               | -               | -            | -              | -                              | -                 | (735)                             | 2,143  | 1,408   | -                        | 1,408          |
| Acquisition and dilution of noncontrolling interests (Notes 2 and 13) | -               | -            | -              | (2)                            | -                 | -                                 | -  | (2)   | (7)                      | (9)            |
| <b>Balances as at June 30, 2013 (Unaudited)</b>                       | <b>510</b>      | <b>1,093</b> | <b>(6,505)</b> | <b>130,564</b>                 | <b>20,894</b>     | <b>(2,956)</b>                    | <b>-</b>   | <b>143,600</b>                                      | <b>186</b>               | <b>143,786</b> |

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Six Months Ended June 30, 2014 and 2013  
(in million pesos)

|  | 2014        | 2013    |
|--|-------------|---------|
|  | (Unaudited) |         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |             |         |
| Income before income tax and noncontrolling interest from continuing operations            | 26,236      | 22,538  |
| Income before income tax and noncontrolling interest from discontinued operations (Note 2) | –           | 1,918   |
| Income before income tax (Note 4)  | 26,236      | 24,456  |
| Adjustments for:   |             |         |
| Depreciation and amortization (Notes 3, 4 and 9)   | 14,490      | 14,685  |
| Interest on loans and other related items – net (Notes 4, 5, 9, 20 and 27)                 | 2,331       | 2,350   |
| Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)                                     | 1,421       | 1,393   |
| Pension benefit costs (Notes 3, 5 and 25)  | 872         | 592     |
| Incentive plans (Notes 3, 5 and 25)  | 839         | 851     |
| Amortization of intangible assets (Notes 3 and 14)   | 574         | 508     |
| Losses (gains) on derivative financial instruments – net (Notes 4 and 27)                  | 164         | (449)   |
| Accretion on financial liabilities – net (Notes 5, 20 and 27)                              | 84          | 697     |
| Losses (gains) on disposal of property, plant and equipment (Note 9)                       | (9)         | 86      |
| Interest income (Notes 4, 5 and 15)  | (395)       | (488)   |
| Foreign exchange losses (gains) – net (Notes 4, 9 and 27)                                  | (459)       | 1,918   |
| Gain on disposal of investments in subsidiaries  | (1,448)     | –       |
| Equity share in net earnings of associates and joint ventures (Notes 4 and 10)             | (2,083)     | (1,368) |
| Gain on disposal of investments available-for-sale   | –           | (2,198) |
| Others   | (190)       | (956)   |
| Operating income before changes in assets and liabilities                                  | 42,427      | 42,077  |
| Decrease (increase) in:  |             |         |
| Trade and other receivables  | (2,719)     | 60      |
| Inventories and supplies   | (341)       | 752     |
| Prepayments  | 233         | 86      |
| Advances and other noncurrent assets   | 116         | 88      |
| Increase (decrease) in:  |             |         |
| Accounts payable   | (4,580)     | (4,855) |
| Accrued expenses and other current liabilities   | 5,020       | 609     |
| Pension and other employee benefits  | (2,472)     | (2,185) |
| Customers' deposits  | (70)        | 21      |
| Other noncurrent liabilities   | 5           | (26)    |
| Net cash flows generated from operations   | 37,619      | 36,627  |
| Income taxes paid  | (5,963)     | (4,829) |
| Net cash flows from operating activities   | 31,656      | 31,798  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |             |         |

|  | 2014        | 2013   |
|--|-------------|--------|
|  | (Unaudited) |        |
| Dividends received (Note 10)                       | 1,855       | 431    |
| Interest received                                  | 285         | 535    |
| Proceeds from:                                     |             |        |
| Maturity of investment in debt securities          | 390         | 150    |
| Disposal of property, plant and equipment (Note 9) | 187         | 80     |
| Maturity of short-term investments                 | 110         | -      |
| Disposal of investment properties (Note 12)        | 5           | -      |
| Disposal of investment                             | -           | 13,035 |
| Sale of net assets held-for-sale                   | -           | 1,015  |

*See accompanying Notes to Consolidated Financial Statements.*

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *(continued)*

For the Six Months Ended June 30, 2014 and 2013

(in million pesos)

|   | 2014        | 2013     |
|---|-------------|----------|
|   | (Unaudited) |          |
| Payments for:   |             |          |
| Acquisition of intangible assets (Note 4)   | (174)       | (100)    |
| Purchase of share of minority shareholders and subsidiaries – net of cash acquired      | (191)       | (4)      |
| Interest paid – capitalized to property, plant and equipment (Notes 4, 5, 9, 20 and 27) | (224)       | (303)    |
| Purchase of investments in associates, joint ventures and deposits                      | (300)       | (1,644)  |
| Deposit for future PDRs subscription (Note 10)  | (300)       | (2,600)  |
| Purchase of short-term investments  | (455)       | (2,793)  |
| Purchase of investment in debt securities   | (1,420)     | (546)    |
| Purchase of investments available-for-sale  | –           | (15)     |
| Cash of deconsolidated subsidiaries   | –           | (1,166)  |
| Additions to property, plant and equipment (Notes 4 and 9)                              | (7,880)     | (4,484)  |
| Increase in advances and other noncurrent assets  | (2,129)     | (438)    |
| Net cash flows from (used in) investing activities                                      | (10,241)    | 1,153    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |             |          |
| Proceeds from:  |             |          |
| Availments of long-term debt (Note 20)  | 27,767      | 16,722   |
| Availments of long-term financing for capital expenditures                              | 3,987       | 2,236    |
| Payments for:   |             |          |
| Obligations under finance leases  | (3)         | (5)      |
| Derivative financial instruments (Note 27)  | (234)       | (187)    |
| Debt issuance costs (Note 20)   | (252)       | (112)    |
| Interest – net of capitalized portion (Notes 5, 20 and 27)                              | (2,143)     | (2,509)  |
| Long-term financing for capital expenditures  | (6,722)     | (5,474)  |
| Long-term debt (Note 20)  | (7,750)     | (18,066) |
| Cash dividends (Note 19)  | (25,012)    | (24,153) |
| Redemption of shares  | –           | (4)      |
| Net cash flows used in financing activities   | (10,362)    | (31,552) |
| NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS                | (91)        | 438      |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   | 10,962      | 1,837    |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD                                    | 31,905      | 38,296   |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD  | 42,867      | 40,133   |

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. Corporate Information

The Philippine Long Distance Telephone Company, or PLDT, or the Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, certain subsidiaries of First Pacific Company Limited, or First Pacific, and its Philippine affiliates (collectively the First Pacific Group and its Philippine affiliates), acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., or NTT-UK, became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DOCOMO, Inc., or NTT DOCOMO, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT, and together with NTT Communications beneficially owned approximately 20% of PLDT's outstanding common stock as at June 30, 2014. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial

ownership of approximately 26% in PLDT's outstanding common stock as at June 30, 2014. On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., or JGSHI, and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at June 30, 2014, the JG Summit Group owned approximately 8% of PLDT's outstanding common shares.

On October 16, 2012, PLDT and BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, or PLDT Beneficial Trust Fund, created pursuant to PLDT's Benefit Plan, subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at June 30, 2014. See *Note 19 – Equity – Voting Preferred Stock* and *Note 26 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition*.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, Inc., or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". There were approximately 44 million ADSs outstanding as at June 30, 2014.

PLDT and our Philippine-based fixed line and wireless subsidiaries operate under the jurisdiction of the Philippine National Telecommunications Commission, or NTC, which jurisdiction extends, among other things, to approving major services offered and certain rates charged to customers.

We are the leading telecommunications service provider in the Philippines. Through our three business segments, wireless, fixed line and others, we offer the largest and most diversified range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless, fixed line and satellite networks. Our principal activities are discussed in *Note 4 – Operating Segment Information*.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

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## 2. Summary of Significant Accounting Policies

### Basis of Preparation

Our consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards, or PFRSs, which conforms with the standards issued by the Philippine Financial Reporting Standards Council.

Our consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments, available-for-sale financial investments, certain short-term investments and investment properties that have been measured at fair values.

Our consolidated financial statements include adjustments consisting only of normal recurring adjustments, necessary to present fairly the results of operations for the interim periods. The results of operations for the six months ended June 30, 2014 are not necessarily indicative of the results of operations that may be expected for the full year.

Our consolidated financial statements are presented in Philippine peso, PLDT's functional and presentation currency, and all values are rounded to the nearest million, except when otherwise indicated.

## Basis of Consolidation

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group") as at June 30, 2014 and December 31, 2013:

| Name of Subsidiary  | Incorporation          | Principal Business Activity   | June 30,                |          | December 31, |          |
|---|------------------------|---|-------------------------|----------|--------------|----------|
|   |                        |   | 2014                    |          | 2013         |          |
|   |                        |   | (Unaudited)             |          | (Audited)    |          |
|   |                        |   | Percentage of Ownership |          |              |          |
|   |                        |   | Direct                  | Indirect | Direct       | Indirect |
| <b>Wireless</b>   |                        |   |                         |          |              |          |
| Smart:  | Philippines            | Cellular mobile services  | 100.0                   | –        | 100.0        | –        |
| Smart Broadband, Inc., or SBI, and Subsidiary                                       | Philippines            | Internet broadband distribution services  | –                       | 100.0    | –            | 100.00   |
| Primeworld Digital Systems, Inc., or PDSI   | Philippines            | Internet broadband distribution services  | –                       | 100.0    | –            | 100.00   |
| I-Contacts Corporation  | Philippines            | Call center services  | –                       | 100.0    | –            | 100.00   |
| Smart e-Money, Inc., or SeMI, (formerly Smarthub, Inc.) <sup>(a)</sup>              | Philippines            | Provide and market certain mobile payment services  | –                       | 100.0    | –            | 100.00   |
| Smart Money Holdings Corporation, or SMHC:  | Cayman Islands         | Investment company  | –                       | 100.0    | –            | 100.00   |
|   |                        | Mobile commerce solutions   |                         |          | –            | 100.00   |
| Smart Money, Inc., or SMI   | Cayman Islands         | marketing   | –                       | 100.0    |              |          |
| Far East Capital Limited, or FECL, and Subsidiary, or FECL Group                    | Cayman Islands         | Cost effective offshore financing and risk management activities for Smart  | –                       | 100.0    | –            | 100.00   |
| PH Communications Holdings Corporation  | Philippines            | Investment company  | –                       | 100.0    | –            | 100.00   |
| Francom Holdings, Inc.:   | Philippines            | Investment company  | –                       | 100.0    | –            | 100.00   |
| Connectivity Unlimited Resource Enterprise, or CURE                                 | Philippines            | Cellular mobile services  | –                       | 100.0    | –            | 100.00   |
| Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group               | British Virgin Islands | Content provider, mobile applications development and services  | –                       | 100.0    | –            | 100.00   |
| Smarthub Pte. Ltd., or SHPL:  | Singapore              | Investment company  | –                       | 100.0    | –            | 100.00   |
| Takatack Pte. Ltd., or TPL, (formerly SmartConnect Global Pte. Ltd.) <sup>(b)</sup> | Singapore              | International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications | –                       | 100.0    | –            | 100.00   |
| 3 <sup>rd</sup> Brand Pte. Ltd., or 3 <sup>rd</sup> Brand                           | Singapore              | Solutions and systems integration services  | –                       | 85.0     | –            | 85.0     |
| Voyager Innovations, Inc., or Voyager <sup>(c)</sup>                                | Philippines            | Mobile applications development and services  | –                       | 100.0    | –            | 100.00   |
| Telesat, Inc. <sup>(d)</sup>  | Philippines            | Satellite communications services   | 100.0                   | –        | 100.0        | –        |
| ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines                | Philippines            | Satellite information and messaging services  | 88.5                    | 11.5     | 88.5         | 11.5     |
| Digitel Mobile Philippines, Inc., or DMPI,  | Philippines            | Cellular mobile services  | –                       | 99.6     | –            | 99.6     |



| Name of Subsidiary<br>(a wholly-owned subsidiary of Digitel)                               | Incorporation          | Principal Business Activity   | June 30,                |          | December 31, |          |
|--|------------------------|---|-------------------------|----------|--------------|----------|
|  |                        |   | 2014                    |          | 2013         |          |
|  |                        |   | (Unaudited)             |          | (Audited)    |          |
|  |                        |   | Percentage of Ownership |          |              |          |
|  |                        |   | Direct                  | Indirect | Direct       | Indirect |
| <b>Fixed Line</b>  |                        |   |                         |          |              |          |
| PLDT Clark Telecom, Inc., or ClarkTel  | Philippines            | Telecommunications services   | 100.0                   | –        | 100.0        | –        |
| PLDT Subic Telecom, Inc., or SubicTel  | Philippines            | Telecommunications services   | 100.0                   | –        | 100.0        | –        |
| PLDT Global Corporation, or PLDT Global, and Subsidiaries                                  | British Virgin Islands | Telecommunications services   | 100.0                   | –        | 100.0        | –        |
| Smart-NTT Multimedia, Inc. <sup>(d)</sup>  | Philippines            | Data and network services   | 100.0                   | –        | 100.0        | –        |
| PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group                         | Philippines            | Telecommunications services   | 100.0                   | –        | 100.0        | –        |
| ePLDT, Inc., or ePLDT:   | Philippines            | Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and information technology, or IT, related services | 100.0                   | –        | 100.0        | –        |
| IP Converge Data Services, Inc., or IPCDSI, and Subsidiary, or IPCDSI Group <sup>(e)</sup> | Philippines            | Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services                             | –                       | 100.0    | –            | 100.0    |
| iPlus Intelligent Network, Inc., or iPlus <sup>(f)</sup>                                   | Philippines            | Managed IT outsourcing  | –                       | –        | –            | 100.0    |
| Curo Teknika, Inc., or Curo <sup>(g)</sup>   | Philippines            | Managed IT outsourcing  | –                       | 100.0    | –            | 100.0    |
| ABM Global Solutions, Inc., or AGS, and Subsidiaries, or AGS Group <sup>(h)</sup>          | Philippines            | Internet-based purchasing, IT consulting and professional services  | –                       | 99.5     | –            | 99.2     |
| ePDS, Inc., or ePDS  | Philippines            | Bills printing and other related value-added services, or VAS   | –                       | 67.0     | –            | 67.0     |
| netGames, Inc., or netGames <sup>(d)</sup>   | Philippines            | Gaming support services   | –                       | 57.5     | –            | 57.5     |
| <b>Digitel</b>   |                        |   |                         |          |              |          |
| Digitel Capital Philippines Ltd., or DCPL <sup>(i)</sup>                                   | British Virgin Islands | Telecommunications services   | –                       | 99.6     | –            | 99.6     |
| Digitel Information Technology Services, Inc. <sup>(j)</sup>                               | Philippines            | Internet services   | –                       | 99.6     | –            | 99.6     |
| PLDT-Maratel, Inc., or Maratel   | Philippines            | Telecommunications services   | 98.0                    | –        | 98.0         | –        |
| Bonifacio Communications Corporation, or BCC   | Philippines            | Telecommunications, infrastructure and related VAS  | 75.0                    | –        | 75.0         | –        |
| Pilipinas Global Network Limited, or PGNL, and Subsidiaries                                | British Virgin Islands | Internal distributor of Filipino channels and content   | 60.0                    | –        | 60.0         | –        |
| Pacific Global One Aviation Co., Inc., or PG1 <sup>(k)</sup>                               | Philippines            | Air transportation business   | 65.0                    | –        | –            | –        |

**Others**

| Name of Subsidiary   | Incorporation          | Principal Business Activity | June 30,                |          | December 31, |          |
|--|------------------------|-----------------------------|-------------------------|----------|--------------|----------|
|  |                        |                             | 2014                    |          | 2013         |          |
|  |                        |                             | (Unaudited)             |          | (Audited)    |          |
|  |                        |                             | Percentage of Ownership |          |              |          |
|  |                        |                             | Direct                  | Indirect | Direct       | Indirect |
| PLDT Global Investments Holdings, Inc., or PGIH, (formerly SPi Global Holdings, Inc.) <sup>(a)</sup> : | Philippines            | Investment company          | 100.0                   | –        | 100.0        | –        |
| Mabuhay Investments Corporation, or MIC <sup>(d)</sup>   | Philippines            | Investment company          | 67.0                    | –        | 67.0         | –        |
| PLDT Global Investments Corporation, or PGIC   | British Virgin Islands | Investment company          | –                       | 100.0    | –            | 100.0    |
| PLDT Communications and Energy Ventures, Inc., or PCEV   | Philippines            | Investment company          | –                       | 99.8     | –            | 99.8     |

<sup>(a)</sup> On July 12, 2013, the Philippine Securities and Exchange Commission, or Philippine SEC, approved the change in the business name of Smarthub, Inc. to Smart e-Money, Inc.

<sup>(b)</sup> On September 29, 2013, the Board of Directors of SmartConnect Global Pte. Ltd., by a special resolution, resolved to change its registered business name to Takatack Pte. Ltd.

<sup>(c)</sup> On January 7, 2013, Voyager was registered with the Philippine SEC to provide mobile applications development and services.

<sup>(d)</sup> Ceased commercial operations.

<sup>(e)</sup> On January 28, 2014, IPCDSI acquired 100% equity interest in Rack I.T. Data Center, Inc., or Rack IT.

<sup>(f)</sup> On April 8, 2014, ePLDT sold its 100% stake in iPlus through management buyout for a consideration of Php42 million.

<sup>(g)</sup> On October 30, 2013, Curo was incorporated to take-on the Outsourced IT Services as a result of the spin-off of iPlus.

<sup>(h)</sup> In December 2012 and January 2013, ePLDT acquired a total of additional 5.7% equity interest in AGS from its minority shareholders, thereby increasing ePLDT's ownership in AGS from 93.5% to 99.2%. In May 2014, ePLDT acquired an additional 0.3% equity in AGS from its minority shareholders thereby increasing ePLDT's ownership in AGS from 99.2% to 99.5%.

<sup>(i)</sup> Liquidated in January 2013.

<sup>(j)</sup> Corporate life shortened until June 2013.

<sup>(k)</sup> On March 10, 2014, PLDT acquired an additional 37.5 million shares of PGI, thereby increasing its ownership from 50% to 65%. See Note 10 – Investments in associates, joint ventures and deposits – Investments in Associates and Note 13 – Business Combinations.

<sup>(l)</sup> On December 4, 2012, our Board of Directors authorized the sale of our Business Process Outsourcing, or BPO, segment, which was wholly-owned by PGIH. The sale was completed in April 2013. Consequently, as at December 31, 2013, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. On June 3, 2013, the Philippine SEC approved the change in the business name of SPi Global Holdings, Inc. to PLDT Global Investments Holdings, Inc. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Classified as Held-for-Sale and Discontinued Operations.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the PLDT Group obtains control, and continue to be consolidated until the date that such control ceases. We control an investee when we are exposed, or have rights, to variable returns from our involvement with the investee and when we have the ability to affect those returns through our power over the investee.

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Noncontrolling interests share in losses even if the losses exceed the noncontrolling equity interest in the subsidiary.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

If the PLDT Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any noncontrolling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

#### PCEV's Common Stock

On November 2, 2011, the Board of Directors of PCEV authorized PCEV's management to take such steps necessary for the voluntary delisting of PCEV from the PSE in accordance with the PSE Rules on Voluntary Delisting. On December 2, 2011, PCEV's Board of Directors also created a special committee to review and evaluate any tender offer to be made by Smart (as the owner of 99.51% of the outstanding common shares of PCEV) to purchase the shares owned by the remaining noncontrolling shareholders representing 0.49% of the outstanding common stock of PCEV. Smart's tender offer commenced on March 19, 2012 and ended on April 18, 2012, with approximately 25.1 million shares, or 43.4% of PCEV's noncontrolling shares tendered, thereby increasing Smart's ownership to 99.7% of the outstanding common stock of PCEV at that time. The aggregate cost of the tender offer paid by Smart to noncontrolling shareholders on April 30, 2012 amounted to Php115 million. PCEV filed its petition with the PSE for voluntary delisting on March 19, 2012. On April 25, 2012, the PSE approved the petition for voluntary delisting and PCEV's shares were delisted and ceased to be tradable on the PSE effective May 18, 2012.

Following the voluntary delisting of the common stock of PCEV from the PSE on May 18, 2012, PCEV's Board of Directors and stockholders approved on June 6, 2012 and July 31, 2012, respectively, the following resolutions and amendments to the articles of incorporation of PCEV to decrease the authorized capital stock of PCEV, increase the par value of PCEV's common stock (and thereby decrease the number of shares of such common stock) and decrease the number of shares of preferred stock of PCEV as follows:

| Prior to Amendments |                  |           | After Amendments   |                  |           |
|---------------------|------------------|-----------|--------------------|------------------|-----------|
| Authorized Capital  | Number of Shares | Par Value | Authorized Capital | Number of Shares | Par Value |

|                                   |                   |                |      |                   |            |           |
|-----------------------------------|-------------------|----------------|------|-------------------|------------|-----------|
| Common Stock                      | Php12,060,000,000 | 12,060,000,000 | Php1 | Php12,060,006,000 | 574,286    | Php21,000 |
| Class I Preferred Stock           | 240,000,000       | 120,000,000    | 2    | 66,661,000        | 33,330,500 | 2         |
| Class II Preferred Stock          | 500,000,000       | 500,000,000    | 1    | 50,000,000        | 50,000,000 | 1         |
| Total Authorized Capital<br>Stock | Php12,800,000,000 |                |      | Php12,176,667,000 |            |           |

The decrease in authorized capital and amendments to the articles of incorporation were approved by the Philippine SEC on October 8, 2012. As a result of the increase in the par value of PCEV common stock, each multiple of 21,000 shares of PCEV common stock, par value Php1, was reduced to one PCEV share of common stock, with a par value of Php21,000. Shareholdings of less than 21,000 shares or in excess of an integral multiple of 21,000 shares of PCEV which could not be replaced with fractional shares were paid the fair value of such residual shares equivalent to Php4.50 per share of pre-amendments PCEV common stock, the same amount as the tender offer price paid by Smart during the last tender offer conducted from March 19 to April 18, 2012.

As a consequence of the foregoing, the number of outstanding shares of PCEV common stock decreased to approximately 555,716 from 11,683,156,455 (exclusive of treasury shares). The number of holders of PCEV common stock decreased to 121 as at June 30, 2014 and because the number of shareholders still exceeds 100 shareholders under the rules of the Philippine SEC, PCEV is still required to make filings of updates with the Philippine SEC. Smart's percentage of ownership in PCEV stood at 99.8% as at June 30, 2014.

On June 24, 2014, PCEV's Board of Directors approved a repurchase or buyback program of its common shares, which are owned by its remaining minority stockholders and offered for sale at a price of not more than Php100,000.00 per share. The buyback program shall be valid only until the end of October 2014. See *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investments in Joint Ventures*.

#### Divestment of CURE

On October 26, 2011, PLDT received the Order issued by the NTC approving the application jointly filed by PLDT and Digitel for the sale and transfer of approximately 51.6% of the outstanding common stock of Digitel to PLDT. The approval of the application was subject to conditions which included the divestment by PLDT of CURE, in accordance with the Divestment Plan, as follows:

- CURE must sell its *Red Mobile* business to Smart consisting primarily of its subscriber base, brand and fixed assets; and

- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band and related permits.

In compliance with the commitments in the divestment plan, CURE completed the sale and transfer of its *Red Mobile* business to Smart on June 30, 2012 for a total consideration of Php18 million through a series of transactions, which included: (a) the sale of CURE's *Red Mobile* trademark to Smart; (b) the transfer of CURE's existing *Red Mobile* subscriber base to Smart; and (c) the sale of CURE's fixed assets to Smart at net book value.

In a letter dated July 26, 2012, Smart informed the NTC that it has complied with the terms and conditions of the divestment plan as CURE had rearranged its assets, such that, except for assets necessary to pay off obligations due after June 30, 2012 and certain tax assets, CURE's only remaining assets as at June 30, 2012 were its congressional franchise, the 10 MHz of 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum Cost Recovery Amount, or CRA, to enable the PLDT Group to recover its investment in CURE includes, among others, the total cost of equity investments in CURE, advances from Smart for operating requirements, advances from stockholders and associated funding costs. Smart also informed the NTC that the divestment will be undertaken through an auction sale of CURE's shares of stock to the winning bidder and submitted CURE's audited financial statements as at June 30, 2012 to the NTC. In a letter dated January 21, 2013, the NTC referred the computation of the CRA to the Commissioners of the NTC. Smart sent a reply agreeing to the proposal and is awaiting advice from the NTC on the bidding and auction of the 3G license of CURE.

As at June 30, 2014, CURE is still waiting for advice from the NTC on how to proceed with the planned divestment.

Due to the planned divestment, franchise and licenses related to CURE qualify as noncurrent assets held-for-sale as at June 30, 2014. However, these were not presented separately in our consolidated statement of financial position as the carrying amounts are not material.

## ePLDT's Acquisition of Shares of AGS' Minority Stockholders

In December 2012 and January 2013, ePLDT acquired a total of additional 5.67% equity interest in AGS from its minority shareholders for a total consideration of Php5 million, thereby increasing ePLDT's ownership in AGS from 93.5% to 99.2%. Further, in May 2014, ePLDT acquired an additional 0.3% in AGS from its minority shareholders for a total consideration of Php0.3 million, thereby increasing ePLDT's ownership in AGS from 99.2% to 99.5% as at June 30, 2014.

## Discontinued Operations

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment, which sale was completed in April 2013. The results of operations of our BPO business for the six months ended June 30, 2013 was presented as discontinued operations. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Classified as Held-for-Sale and Discontinued Operations*.

On February 5, 2013, PLDT entered into an agreement to sell the BPO business owned by its wholly-owned subsidiary, PGIH, to Asia Outsourcing Gamma Limited, or AOGL, a company controlled by CVC Capital Partners, or CVC. The sale of the BPO business was completed on April 30, 2013. PLDT reinvested approximately US\$40 million of the proceeds from the sale in our acquisition of shares of Asia Outsourcing Beta Limited, or Beta, resulting in an approximately 18.24% economic interest, and will continue to participate in the growth of the business as a partner of CVC. Pursuant to the completion of the sale, PLDT is subject to certain obligations, including: (1) an obligation, for a period of five years, not to carry on or be engaged or concerned or interested in or assist any business which competes with the business process outsourcing business as carried on at the relevant time or at any time in the 12 months prior to such time in any territory in which business is carried on (excluding activities in the ordinary course of PLDT's business); and (2) an obligation, for a period of five years, to provide certain transitional services on a most-favored-nation basis (i.e., no less favorable material terms (including pricing) than those offered by PLDT or any of its controlled affiliates to any other customer in relation to services substantially similar to those provided or to be provided to AOGL and/or its designated companies). In addition, PLDT may be liable for certain damages actually suffered by AOGL until the time of sale arising out of, among others, breach of representation, tax matters and non-compliance with Indian employment laws by SPi Technologies India Pvt. Ltd., a joint subsidiary of SPi Technologies, Inc., or SPi, and SPi India Holdings (Mauritius), Inc., for the transactions that transpired up to the time of sale.

The results of the BPO segment, net of intercompany transactions, classified as discontinued

operations for the four months ended April 30, 2013 (closing period of the sale) are as follows:

|  | (in million pesos) |
|--|--------------------|
| Revenues (Notes 3 and 4)                               | 3,132              |
| Expenses:  |                    |
| Compensation and employee benefits (Notes 3 and 25)    | 2,047              |
| Professional and other contracted services (Note 24)   | 450                |
| Depreciation and amortization (Notes 3, 4 and 9)       | 153                |
| Repairs and maintenance (Notes 12, 17 and 24)          | 129                |
| Communication, training and travel                     | 118                |
| Rent (Notes 3, 24 and 27)                              | 86                 |
| Amortization of intangible assets (Notes 3 and 14)     | 55                 |
| Selling and promotions                                 | 27                 |
| Insurance and security services (Note 24)              | 21                 |
| Taxes and licenses (Note 26)                           | 14                 |
| Other expenses (Note 24)                               | 57                 |
|  | 3,157              |
|  | (25)               |
| Other income (expenses):                               |                    |
| Foreign exchange gains – net (Notes 9 and 27)          | 4                  |
| Interest income (Notes 11 and 15)                      | 3                  |
| Gains on derivative financial instruments – net        | 1                  |
| Financing costs (Notes 9, 20 and 27)                   | (4)                |
| Equity in net losses of subsidiaries                   | (137)              |
| Other income – net                                     | 2,076              |
|  | 1,943              |
| Income before income tax from discontinued operations  | 1,918              |
| Provision for income tax (Notes 2, 3 and 7)            | 55                 |
| Income after tax from discontinued operations (Note 8) | 1,863              |
| Earnings per share (Note 8):                           |                    |
| Basic – income from discontinued operations            | 8.62               |
| Diluted – income from discontinued operations          | 8.62               |

As indicated above, the sale of BPO segment was completed on April 30, 2013. Thus, our consolidated statement of financial position as at June 30, 2014 and December 31, 2013 does not include any assets and liabilities of the BPO segment.

The net cash flows generated by (used by) the BPO segment for the four months ended April 30, 2013 (closing period of sale) are as follows:

|  | (in million pesos) |
|--|--------------------|
|  |                    |

|  |      |
|--|------|
| Operating activities   | 144  |
| Investing activities   | 5    |
| Financing activities   | (10) |
| Net effect of foreign exchange rate changes on cash and cash equivalents | (67) |
| Net cash outflow   | 72   |

#### PLDT's Acquisition of Subscription Assets of Digitel

On July 1, 2013, PLDT entered into an agreement to acquire the subscription assets of Digitel for a total cost of approximately Php5.3 billion. The agreement covers the transfer, assignment and conveyance of Digitel's subscription agreements and subscriber list, and includes a transition mechanism to ensure uninterrupted availability of services to the Digitel subscribers until migration to the PLDT network is completed. This transaction is eliminated at the Group level, therefore, it has no impact on our consolidated financial statements.

#### IPCDSI's Acquisition of Rack IT

On January 28, 2014, IPCDSI entered into a Sale and Purchase Agreement with a third party to acquire 100% ownership in Rack IT for a total purchase price of Php164 million. Rack IT was incorporated to engage in the business of providing data center services, encompassing all the information technology and facility-related components or activities that support the projects and operations of a data center. As at the date of this report, Rack IT is still at the pre-operating phase and the construction of its data center facility, which is located in Sucat, Parañaque, is still on-going. See *Note 13 – Business Combinations* for more details.

#### PLDT's Acquisition of Additional Shares of PG1

On January 28, 2014, PLDT's Board of Directors approved the purchase of 37.5 million shares of PG1 owned by JSL which effectively increases PLDT's ownership in PG1 from 50% to 65%. The cash consideration for the shares purchased which was completed on March 10, 2014 was Php23 million. Thus, PLDT gained control of PG1 and, therefore, PG1's financial statements were included in our consolidated financial statements effective March 10, 2014.

#### Changes in Accounting Policies and Disclosures

Our accounting policies adopted in the preparation of our consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the following new standards and interpretations effective as at January 1, 2014:



*Amendments to PFRS 10, PFRS 12 and PAS 27 – Investment Entities.* These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under *PFRS 10, Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to us since none of our investees qualify as an investment entity under *PFRS 10*.

*Amendments to PAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities.* These amendments to *PAS 32* clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the *PAS 32* offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment does not have any impact on our net assets, changes in offsetting are expected to impact leverage ratios and regulatory capital requirements. The amendments to *PAS 32* are applied retrospectively for annual periods beginning on or after January 1, 2014.

*Amendments to PAS 36, Impairment of Assets Recoverable Amount of Disclosures for Non-Financial Assets.* These amendments remove the unintended consequences of *PFRS 13, Fair Value Measurement* on the disclosures required under *PAS 36*. In addition, these amendments require disclosure of the recoverable amounts for the assets cash-generating units, or CGUs, for which impairment loss has been recognized or reversed during the period. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014 but cannot be applied in periods (including comparative periods) in which *PFRS 13* is not applied. The amendments affect disclosures only and have no impact on our financial position or performance.

*Amendments to PAS 39, Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting.* These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. We have not novated our derivatives during the current period. However, these amendments would be considered for future novations.

*Philippine Interpretation IFRIC 21, Levies.* The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The interpretation has no significant impact on our financial position or performance.

We have not early adopted any standard, interpretation or amendment that has been issued

but is not yet effective.

## Summary of Significant Accounting Policies

The following is the summary of significant accounting policies we applied in preparing our consolidated financial statements:

### *Business Combinations and Goodwill*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any noncontrolling interest the acquiree. For each business combination, we elect whether to measure the components of the noncontrolling interest in the acquiree that are present ownership interest and entitle their holders to a proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. The fair value of previously held equity interest is then included in the amount of total consideration transferred.

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, Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in profit or loss or as a change in other comprehensive income. If the contingent consideration is not within the scope of *PAS 39*, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, we reassess whether we correctly identified all of the assets acquired and all of the liabilities assumed and review the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain in the form of negative goodwill is recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period which is no longer than one year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, we also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

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

Where goodwill acquired in a business combination has yet to be allocated to identifiable CGUs because the initial accounting is incomplete, such provisional goodwill is not tested for impairment unless indicators of impairment exist and we can reliably allocate the carrying amount of goodwill to a CGU or group of CGUs that are expected to benefit from the synergies of the business combination.

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

### *Investments in Associates*

An associate is an entity in which we have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies. The existence of significant influence is presumed to exist when we hold 20% or more, but less than 50% of the voting power of another entity. Significant influence is also exemplified when we have one or more of the following: (a) a representation on the board of directors or the equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions with the investee; (d) interchange managerial personnel with the investee; or (e) provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The cost of the investments includes transaction costs. The details of our investments in associates are disclosed in *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investments in Associates*.

Under the equity method, an investment in an associate is carried in our consolidated statement of financial position at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized nor individually tested for impairment. Our consolidated income statement reflects our share in the financial performance of our associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our consolidated statements: (1) statement of comprehensive income; and (2) statement of changes in equity. Unrealized gains and losses resulting from our transactions with and among our associates are eliminated to the extent of our interest in those associates.

Our share in the profits or losses of our associates is shown on the face of our consolidated income statement. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and net of noncontrolling interest in the subsidiaries of the associate.

When our share of losses exceeds our interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that we have an obligation or have made payments on behalf of the investee.

Our reporting dates and that of our associates are identical and our associates' accounting policies conform to those used by us for like transactions and events in similar circumstances. When necessary, adjustments are made to bring such accounting policies in line with our policies.

After application of the equity method, we determine whether it is necessary to recognize an additional impairment loss on our investments in associates. We determine at the end of each reporting period whether there is any objective evidence that our investment in associate is impaired. If this is the case, we calculate the amount of impairment as the difference between the recoverable amount of our investment in the associate and its carrying value and recognize the amount in our consolidated income statement.

Upon loss of significant influence over the associate, we measure and recognize any retained investment at its fair value. Any difference between the carrying amounts of our investment in the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

### *Joint Arrangements*

Joint arrangements are arrangements with respect to which we have joint control, established by contracts requiring unanimous consent from the parties sharing control for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

- Joint operation – when we have rights to the assets, and obligations for the liabilities, relating to an arrangement, we account for each of our assets, liabilities and transactions, including our share of those held or incurred jointly, in relation to the joint operation.
- Joint venture – when we have rights only to the net assets of the arrangements, we account for our interest using the equity method, the same as our accounting for investments in associates.

The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies of the joint venture in line with our policies. The details of our investments in joint ventures are disclosed in *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investments in Joint Ventures*.

Adjustments are made in our consolidated financial statements to eliminate our share of unrealized gains and losses on transactions between us and our joint venture. The joint venture is carried at equity method until the date on which we cease to have joint control over the joint venture.

Upon loss of joint control and provided that the former joint venture does not become a subsidiary or associate, we measure and recognize our remaining investment at fair value. Any difference between the carrying amount of the former joint venture upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate.

#### *Foreign Currency Transactions and Translations*

Our consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. The Philippine peso is the currency of the primary economic environment in which we operate. This is also the currency that mainly influences the revenue from and cost of rendering products and services. Each entity in our Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for SMHC, SMI, FECL Group, Piltel International Holdings Corporation, or PIHC, PLDT Global and certain of its subsidiaries, PGNL and certain of its subsidiaries, DCPL, and certain subsidiaries of Chikka, SHPL, TPL, 3<sup>rd</sup> Brand, CPL and ABM Global Solutions Pte. Ltd. (formerly CIP Singapore Pte. Ltd., or CISP), CCCBL, ABMGS Sdn. Bhd. (formerly BayanTrade (Malaysia) Sdn Bhd., or BTMS), PT Advance Business Microsystems Global Solutions (formerly PT Columbus IT Indonesia, or PTCI) is the Philippine peso.

Transactions in foreign currencies are initially recorded by entities under our Group at the respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the end of the reporting period. All differences arising on settlement or translation of monetary items are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of SMHC, SMI, FECL Group, PIHC, PLDT Global and certain of its subsidiaries, DCPL, and certain subsidiaries of Chikka is the U.S. dollar; the functional currency of SHPL, TPL, 3<sup>rd</sup> Brand, CPL and CISP, is the Singapore dollar; the functional currency of CCCBL is the Chinese renminbi; the functional currency of BTMS is the Malaysian ringgit; and the functional currency of PTCI is the Indonesian rupiah. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. On disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries is recognized in our consolidated income statement.

When there is a change in an entity's functional currency, the entity applies the translation procedures applicable to the new functional currency prospectively from the date of the change. The entity translates all assets and liabilities into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as the new historical cost. Exchange differences arising from the translation of a foreign operation previously recognized in other comprehensive income are not reclassified from equity to profit or loss until the disposal of the operation.

Foreign exchange gains or losses of the Parent Company and our Philippine-based subsidiaries are treated as taxable income or deductible expenses in the period such exchange gains or losses are realized.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

#### *Noncurrent Assets Held-for-sale and Discontinued Operations*

Noncurrent assets and disposal groups classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Noncurrent assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when we retain a noncontrolling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated income statement.

Property, plant and equipment and intangible assets once classified as held-for-sale are neither depreciated nor amortized.

#### *Financial Instruments – Initial recognition and subsequent measurement*

##### *Financial Assets*

##### *Initial recognition and measurement*

Financial assets within the scope of *PAS 39* are classified as financial assets at fair value through profit or loss, or FVPL, loans and receivables, held-to-maturity, or HTM, investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each financial year-end.

Financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.



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

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on the classification as described below:

#### *Financial assets at FVPL*

Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivative assets, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in our consolidated statement of financial position at fair value with net changes in gains or losses recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments (negative net changes in fair value) and "Other income – net" for non-derivative financial assets (positive net changes in fair value). Interest earned and dividends received from financial assets at FVPL are recognized in our consolidated income statement under "Interest income" and "Other income – net", respectively.

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on different bases; (ii) the assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial assets contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair

value with gains or losses arising from changes in fair value recognized in our consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL.

Our financial assets at FVPL include portions of short-term investments and short-term currency swap as at June 30, 2014 and December 31, 2013. See *Note 27 – Financial Assets and Liabilities*.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate, or EIR, method. This method uses an EIR that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Gains and losses are recognized in our consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our loans and receivables include trade and other receivables, portions of investment in debt securities and other short-term and long-term investments, and portions of advances and other noncurrent assets as at June 30, 2014 and December 31, 2013. See *Note 16 – Trade and Other Receivables* and *Note 27 – Financial Assets and Liabilities*.

### *HTM investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when we have the positive intention and ability to hold it to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR method. Gains or losses are recognized in our consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our HTM investments include portion of investment in debt securities and other long-term investments as at June 30, 2014 and December 31, 2013. See *Note 11 – Investment in Debt Securities and Other Long-term Investments* and *Note 27 – Financial Assets and Liabilities*.

### *Available-for-sale financial investments*

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to liquidity requirements or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income in the "Net gains available-for-sale financial investments – net of tax" account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in our consolidated income statement; or the investment is determined to be impaired, at which time the cumulative loss recorded in other comprehensive income is recognized in our consolidated income statement. Interest earned on holding available-for-sale financial investments are included under "Interest income" using the EIR method in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under "Other income – net" when the right to receive payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months from the end of the reporting period.

We evaluate whether the ability and intention to sell our available-for-sale financial investments in the near term is still appropriate. When, in rare circumstances, we are unable to trade these financial investments due to inactive markets and management's intention to do so significantly changes in the foreseeable future, we may elect to reclassify these financial investments. Reclassification to loans and receivables is permitted when the financial investments meet the definition of loans and receivables and we have the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial investment to maturity accordingly.

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

Our available-for-sale financial investments include listed and unlisted equity securities as at June 30, 2014 and December 31, 2013. See *Note 27 – Financial Assets and Liabilities*.

### *Financial Liabilities*

#### *Initial recognition and measurement*

Financial liabilities within the scope of *PAS 39* are classified as financial liabilities at FVPL, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as described below:

#### *Financial liabilities at FVPL*

Financial liabilities at FVPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative liabilities, including separated embedded derivatives are also classified as at FVPL unless they are designated as effective hedging instruments. Financial liabilities at FVPL are carried in our consolidated statement of financial position at fair value with gains or losses on liabilities held-for-trading recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments and "Other income – net" for non-derivative financial liabilities.

Financial liabilities may be designated at initial recognition as FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on different bases; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial liabilities contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Our financial liabilities at FVPL include long-term principal only currency swaps and interest rate swaps as at June 30, 2014 and December 31, 2013. See *Note 27 – Financial Assets and Liabilities*.

#### *Other financial liabilities*

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in our consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included under "Financing costs – net" in our consolidated income statement.

Our other financial liabilities include accounts payable, accrued expenses and other current liabilities, with the exemption of statutory payables, interest-bearing financial liabilities, customers' deposits, dividends payable, and accrual for long-term capital expenditures included under "Deferred credits and other noncurrent liabilities" account as at June 30, 2014 and December 31, 2013. See *Note 20 – Interest-bearing Financial Liabilities*, *Note 21 – Deferred Credits and Other Noncurrent Liabilities*, *Note 22 – Accounts Payable*, and *Note 23 – Accrued Expenses and Other Current Liabilities*.

#### *Offsetting of financial instruments*

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

#### *Amortized cost of financial instruments*

Amortized cost is computed using the EIR method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of EIR.

#### *"Day 1" difference*

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

amount.

### *Impairment of Financial Assets*

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that 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 debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### *Impairment of Trade and Other Receivables*

#### *Individual impairment*

##### *Retail subscribers*

We recognize impairment losses for the whole amount of receivables from permanently disconnected wireless and fixed line subscribers. Permanent disconnections are made after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnection usually occurs within a predetermined period from the last statement date.

We also recognize impairment losses for accounts with extended credit arrangements or promissory notes.

Regardless of the age of the account, additional impairment losses are also made for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber.

##### *Corporate subscribers*

Receivables from corporate subscribers are provided with impairment losses when they are specifically identified as impaired. Full allowance is generally provided for the whole amount of receivables from corporate accounts based on aging of individual account balances. In making this assessment, we take into account normal payment cycle, counterparty's payment history and industry-observed settlement periods.

*Foreign administrations and domestic carriers*

For receivables from foreign administration and domestic carriers, impairment losses are recognized when they are specifically identified as impaired regardless of the age of balances. Full allowance is generally provided after quarterly review of the status of settlement with the carriers. In making this assessment, we take into account normal payment cycle, counterparty carrier's payment history and industry-observed settlement periods.

*Dealers, agents and others*

Similar to carrier accounts, we recognize impairment losses for the full amount of receivables from dealers, agents and other parties based on our specific assessment of individual balances based on age and payment habits, as applicable.

*Collective impairment*

*Postpaid wireless and fixed line subscribers*

We estimate impairment losses for temporarily disconnected accounts for both wireless and fixed line subscribers based on the historical trend of temporarily disconnected accounts which eventually become permanently disconnected. Temporary disconnection is initiated after a series of collection activities is implemented, including the sending of a collection letter, call-out reminders and collection messages via text messaging. Temporary disconnection generally happens 90 days after the due date of the unpaid balance. If the account is not settled within 60 days from temporary disconnection, the account is permanently disconnected.

We recognize impairment losses on our postpaid wireless and fixed line subscribers through net flow-rate methodology which is derived from account-level monitoring of subscriber accounts between different age brackets, from current to one day past due to 120 days past due. The criterion adopted for making the allowance for doubtful accounts takes into



consideration the calculation of the actual percentage of losses incurred on each range of accounts receivable.

#### *Other subscribers*

Receivables that have been assessed individually and found not to be impaired are then assessed collectively based on similar credit risk characteristics to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual impairment assessment. Retail subscribers are provided with collective impairment based on a certain percentage derived from historical data/statistics.

#### *Financial assets carried at amortized cost*

For financial assets carried at amortized cost, we first assess 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 we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. 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 of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of 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. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "Asset impairment" in our consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. The financial asset together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss

is recognized in our consolidated income statement, to the extent that the carrying value of the asset does not exceed its original amortized cost at the reversal date. If a future write-off is later recovered, the recovery is recognized in profit or loss.

#### *Available-for-sale financial investments*

For available-for-sale financial investments, we assess at each reporting date whether there is objective evidence that an investment or a group of investment is impaired.

In the case of equity investments classified as available-for-sale financial investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. We treat "significant" generally as decline of 20% or more below the original cost of investment, and "prolonged" as greater than 12 months. When a decline in the fair value of an available-for-sale financial investment has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale financial investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost less any impairment loss on that investment previously recognized in our consolidated income statement and the current fair value. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in our consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in our consolidated income statement, the impairment loss is reversed in profit or loss.

## *Derecognition of Financial Assets and Liabilities*

### *Financial assets*

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; or (2) we have transferred its rights to receive cash flows from the asset or have 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) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred the rights to receive cash flows from an asset or have entered into a "pass-through" arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of our continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that we could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

The financial liability is also derecognized when equity instruments are issued to extinguish all or part of the financial liability. The equity instruments issued are recognized at fair value if it can be reliably measured, otherwise, it is recognized at the fair value of the financial liability extinguished. Any difference between the fair value of the equity instruments issued and the carrying value of the financial liability extinguished is recognized in profit or loss.

### *Derivative Financial Instruments and Hedge Accounting*

#### *Initial recognition and subsequent measurement*

We use derivative financial instruments, such as long-term currency swaps, foreign currency options, forward currency contracts and interest rate swaps to hedge our risks associated with foreign currency fluctuations and interest rate. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options, forward currency contracts and interest rate swap contracts is determined using applicable valuation techniques. See *Note 27 – Financial Assets and Liabilities*.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the "Gains (losses) on derivative financial instruments – net" in our consolidated income statement.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign currency risk); or (2) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized financial asset or liability, a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. In a situation when that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect our consolidated income statement.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

*Fair value hedges*

The change in the fair value of a hedging derivative is recognized in our consolidated income statement. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in our consolidated income statement.

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as a financial asset or liability with a corresponding gain or loss recognized in our consolidated income statement. The changes in the fair value of the hedging instrument are also recognized in our consolidated income statement.

### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement. See *Note 27 – Financial Assets and Liabilities* for more details.

Amounts taken to other comprehensive income are transferred to our consolidated income statement when the hedged transaction affects our consolidated income statement, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to our consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

We use an interest rate swap agreement to our interest rate exposure on certain outstanding loan balances. See *Note 27 – Financial Assets and Liabilities – ePLDT Group*.

### *Hedges of a net investment in a foreign operation*

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in our consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized in other comprehensive income is transferred to our consolidated income statement.

We use a loan as a hedge of its exposure to foreign exchange risk on its investment in foreign subsidiaries. See *Note 27 – Financial Assets and Liabilities* for more details.

### *Current versus noncurrent classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where we expect to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as effective hedging instruments are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

We recognize transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

### *Property, Plant and Equipment*

Property, plant and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing component parts of the property, plant and equipment when the cost is incurred, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the asset if the recognition criteria for a provision are met. Land is stated at cost less any impairment in value.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally recognized as expense in the period such 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 cost of the property, plant and equipment.

Depreciation and amortization commence once the property, plant and equipment are available for use and are calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in depreciating our property, plant and equipment are disclosed in *Note 9 – Property, Plant and Equipment*.

The asset's residual value, estimated useful life, and depreciation and amortization method are reviewed at least at each financial year-end to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment and are adjusted prospectively, if appropriate.

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

Property under construction is stated at cost less any impairment in value. This includes cost of construction, plant and equipment, capitalizable borrowing costs and other direct costs associated to construction. Property under construction is not depreciated until such time that the relevant assets are completed and available for its intended use.

Construction-in-progress is transferred to the related property, plant and equipment when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use have been completed, and the property, plant and equipment are ready for commercial service.



### *Borrowing Costs*

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalizable rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to our borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during the period shall not exceed the amount of borrowing costs incurred during that period.

Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

### *Asset Retirement Obligations*

We are legally required under various lease agreements to dismantle the installation in leased sites and restore such sites to their original condition at the end of the lease contract term. We recognize the liability measured at the present value of the estimated costs of these obligations and capitalize such costs as part of the balance of the related item of property, plant and equipment. The amount of asset retirement obligations are accreted and such accretion is recognized as interest expense. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

### *Investment Properties*

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair values, which have been determined annually based on the latest appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the period in which they arise, including the corresponding tax effect. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time that fair value can be determined or construction is completed.

Investment properties are derecognized when they have been disposed or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in our consolidated income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If an owner-occupied property becomes an investment property, we account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The difference between the carrying amount of the owner-occupied property and its fair value at the date of change is accounted for as revaluation increment recognized in other comprehensive income. On subsequent disposal of the investment property, the revaluation increment recognized in other comprehensive income is transferred to retained earnings.

No assets held under operating lease have been classified as investment properties.

### *Intangible Assets*

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired from business combinations is initially recognized at fair value on the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

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

The estimated useful lives used in amortizing our intangible assets are disclosed in *Note 14 – Goodwill and Intangible Assets*.

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

Intangible assets created within the business are not capitalized and expenditures are charged against operations in the period in which the expenditures are incurred.

#### *Inventories and Supplies*

Inventories and supplies, which include cellular and landline phone units, materials, spare parts, terminal units and accessories, are valued at the lower of cost and net realizable value.

Costs incurred in bringing inventories and supplies to its present location and condition are accounted using the weighted average method. Net realizable value is determined by either estimating the selling price in the ordinary course of the business, less the estimated cost to sell or determining the prevailing replacement costs.

### *Impairment of Non-Financial Assets*

We assess at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, we make an estimate of 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 or its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of 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 assessing the 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. In determining the 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. Impairment losses are recognized in our consolidated income statement.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, we make an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot 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 our consolidated income statement. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

The following assets have specific characteristics for impairment testing:

#### *Property, plant and equipment*

For property, plant and equipment, we also assess for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

#### *Investments in associates and joint ventures*

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income statement.

#### *Goodwill*

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU, or group of CGUs, is less than the carrying amount of the CGU, or group of CGUs, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

If there is incomplete allocation of goodwill acquired in a business combination to CGUs, or group of CGUs, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

#### *Intangible assets*

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the CGU level, as appropriate. We calculate the amount of impairment as being the difference between the recoverable amount of the intangible asset and its carrying amount and recognize the amount of impairment in our consolidated income statement. Impairment losses relating to intangible assets can be reversed in future periods.

#### *Investment in Debt Securities*

Investment in debt securities are government securities which are carried at amortized cost using the EIR method. Interest earned from these securities is recognized as "Interest income" in our consolidated income statement.

### *Cash and Cash Equivalents*

Cash includes cash on hand and in banks. Cash equivalents, which include temporary cash investments, are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition, and for which there is an insignificant risk of change in value.

### *Short-term Investments*

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from the date of acquisition.

### *Fair value measurement*

We measure financial instruments such as derivatives, available-for-sale financial investments, certain short-term investments and non-financial assets such as investment properties, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in *Note 27 – Financial Assets and Liabilities*.

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: (i) in the principal market for the asset or liability, or • (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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: (i) Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities; (ii) Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and (iii) 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 financial statements on a recurring basis, we determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

We determine the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted available-for-sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for valuation of significant assets, such as properties. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. At each reporting date, we analyze the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per our accounting policies. For this analysis, we verify the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

We, in conjunction with our external valuers, also compare the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations. For the purpose of fair value disclosures, we have 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.

### *Revenue Recognition*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us 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 and excluding value-added tax, or VAT, or overseas communication tax, where applicable. When deciding the most appropriate basis for presenting revenue and cost of revenue, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. When our role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

### *Service revenues from continuing operations*

Our revenues are principally derived from providing the following telecommunications services: cellular voice and data services in the wireless business; and local exchange, international and national long distance, data and other network, and information and communications services in the fixed line business. When determining the amount of revenue to be recognized in any period, the overriding principle followed is to match the revenue with the provision of service. Services may be sold separately or bundled with goods or other services. The specific recognition criteria are as follows:

### *Subscribers*

We provide telephone, cellular and data communication services under prepaid and postpaid payment arrangements as follows:

Postpaid service arrangements include fixed monthly charges (including consumable fixed monthly service fees) generated from postpaid cellular voice, SMS and data services through the postpaid plans of Smart and *Sun Cellular*, from cellular and local exchange services primarily through wireless, landline and related services, and from data and other network services primarily through broadband and leased line services, which we recognized on a straight-line basis over the customer's subscription period. Services provided to postpaid subscribers are billed throughout the month according to the billing cycles of subscribers. Services availed by subscribers in addition to these fixed fee arrangements are charged separately and recognized as the additional service is provided or as availed by the subscribers.



Our prepaid services include over-the-air reloading channels and prepaid cards provided by *Smart Prepaid*, *Talk 'N Text Prepaid* and *Sun Cellular Prepaid*. Proceeds from over-the-air reloading channels and prepaid cards are initially recognized as unearned revenue and realized upon actual usage of the airtime value (i.e., the pre-loaded airtime value of subscriber identification module, or SIM, cards and subsequent top-ups) for voice, short messaging services, or SMS, multimedia messaging services, or MMS, content downloading (inclusive of browsing), infotext services and prepaid unlimited and bucket-priced SMS and call subscriptions, net of free SMS allocation and bonus credits (load package purchased, i.e. free additional SMS or minute calls or Peso credits), or upon expiration of the usage period, whichever comes earlier. Interconnection fees and charges arising from the actual usage of prepaid cards are recorded as incurred.

Revenue from international and national long distance calls carried via our network is generally based on rates which vary with distance and type of service (direct dial or operator-assisted, paid or collect, etc.). Revenue from both wireless and fixed line long distance calls is recognized as the service is provided.

Nonrecurring upfront fees such as activation fees charged to subscribers for connection to our network are deferred and are recognized as revenue throughout the estimated average customer relationship. The related incremental costs are similarly deferred and recognized over the same period in our consolidated income statement.

#### *Connecting carriers*

Interconnection revenue for call termination, call transit and network usages is recognized in the period the traffic occurs. Revenue related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided and the equivalent amounts charged to us by other carriers are recorded under interconnection costs in our consolidated income statement. Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers and content providers.

#### *Value-Added Services, or VAS*

Revenues from VAS include MMS, content downloading and infotext services. The amount of revenue recognized is net of payout to content providers.

#### *Incentives*

We operate customer loyalty programmes in our wireless business which allows customers to

accumulate points when they purchase services or prepaid credits from us. The points can then be redeemed for free services and discounts, subject to a minimum number of points being obtained. Consideration received is allocated between the services and prepaid credits sold and the points issued, with the consideration allocated to the points equal to their value. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Product-based incentives provided to dealers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

*Multiple-deliverable arrangements*

In revenue arrangements including more than one deliverable, the deliverables are assigned to one or more separate units of accounting and the arrangement consideration is allocated to each unit of accounting based on their relative fair value to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method.

### *Other services*

Revenue from server hosting, co-location services and customer support services are recognized as the service is performed.

### *Service revenues from discontinued operations*

Our revenues are principally derived from knowledge processing solutions and customer relationship management services in the business process outsourcing business.

Revenue from outsourcing contracts under our knowledge processing solutions and customer relationship management businesses are recognized when evidence of an arrangement exists, the service has been provided, the fee is fixed or determinable, and collectability is reasonably assured. If the fee is not fixed or determinable, or collectability is not reasonably assured, revenue is not recognized until payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptable period or until a written notice of acceptance is received from the customer. Revenue on services rendered to customers whose ability to pay is in doubt at the time of performance of services is also not recorded. Rather, revenue is recognized from these customers as payment is received. Revenue contingent on meeting specific performance conditions are recognized to the extent of costs incurred to provide the service. Outsourcing contracts may also include incentive payments dependent on achieving performance targets. Revenue relating to such incentive payments is recognized when the performance target is achieved.

### *Non-service revenues*

Revenues from handset and equipment sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. The related cost or net realizable value of handsets or equipment, sold to customers is presented as "Cost of sales" in the consolidated income statements.

### *Interest income*

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the EIR.

### *Dividend income*

Revenue is recognized when our right to receive the payment is established.

### *Expenses*

Expenses are recognized as incurred.

### *Provisions*

We recognize a provision when we have a present obligation, legal or constructive, as a result of a past event, and when 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 we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in our consolidated income statement, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

### *Retirement Benefits*

#### *Defined benefit pension plans*

We have separate and distinct retirement plans for PLDT and majority of our Philippine-based operating subsidiaries, administered by the respective Fund's Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement costs comprise the following:

- Service cost;
- Net interest on the net defined benefit obligation or asset; and
- Remeasurements of net defined benefit obligation or asset

Service cost which includes current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of compensation and employee benefits account in the consolidated income statements. These amounts are calculated periodically by an independent qualified actuaries.

Net interest on the net defined benefit asset or obligation is the change during the period in the net defined benefit asset or obligation that arises from the passage of time which is determined by applying the discount rate based on the government bonds to the net defined benefit liability or asset. Net deferred benefit asset is recognized as part of advances and other noncurrent assets and net defined benefit obligation is recognized as part of pension and other employee benefits in our consolidated statement of financial position.

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

The net defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds, as explained in *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Estimating Pension Benefit Costs and Other Employee Benefits*), net of the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by a long-term employee benefit fund or qualifying insurance policies and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. See *Note 25 – Employee Benefits – Defined Benefit Pension Plans* for more details.

#### *Defined contribution plans*

Smart and certain of its subsidiaries maintain a defined contribution plan that covers all regular full-time employees under which it pays fixed contributions based on the employees’ monthly salaries. Smart and certain of its subsidiaries, however, are covered under Republic Act 7641, or R.A. 7641, otherwise known as “The Philippine Retirement Law”, which provides for qualified employees to receive a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service

based on the provisions of R.A. 7641.

Accordingly, Smart and certain of its subsidiaries account for its retirement obligation under the higher of the defined benefit obligation related to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. Smart and certain of its subsidiaries determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

The defined contribution liability, on the other hand, is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

When the benefits of the plan are changed or when the plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. Gains or losses on the settlement of the defined benefit plan are recognized when the settlement occurs. See *Note 25 – Employee Benefits – Defined Contribution Plans* for more details.

### *Other Long-term Employee Benefits*

Our liability arising from 2010 to 2012 Long-term Incentive Plan, or 2010 to 2012 LTIP, and 2012 to 2014 Long-term Incentive Plan, or the revised LTIP, is determined using the projected unit credit method. Employee benefit costs include current service cost, net interest on the net defined benefit obligation, and remeasurements of the net defined benefit obligation. Past service costs and actuarial gains and losses are recognized immediately in profit or loss. See *Note 25 – Employee Benefits – Other Long-term Employee Benefits* for more details.

The long-term employee benefit liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds) at the end of the reporting period.

### *Leases*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A reassessment is made after the inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the agreement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

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

*As a Lessor.* Leases where we retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Rental income is recognized in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest

income is accrued over the lease term and lease amortization is accounted for as reduction of lease receivable.

*As a Lessee.* Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. A finance lease gives rise to the recognition of a leased asset and finance lease liability. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term. Interest expense is recognized over the lease term.

### *Income Taxes*

#### *Current income tax*

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period where we operate and generate taxable income.

#### *Deferred income tax*

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

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward benefits of unused tax credits from excess minimum corporate income tax, or



MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized, except: (1) when the deferred income tax asset relating to the deductible temporary difference 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 (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting period.

Deferred income tax relating to items recognized in other comprehensive income account is included in the statement of comprehensive income and not in our consolidated income statement.

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

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

## VAT

Revenues, expenses and assets are recognized net of the amount of VAT except: (1) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and (2) where receivables and payables are stated with the amount of VAT included.

## *Contingencies*

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

## *Events After the End of the Reporting Period*

Post quarter-end events up to the date of approval of the Board of Directors that provide additional information about our financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post quarter-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## *Equity*

Preferred and common stocks are measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value are recognized as capital in excess of par value.

Treasury stocks are our own equity instruments which are reacquired and recognized at cost and presented as reduction in equity. No gain or loss is recognized in our consolidated income statement on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and any impact is presented as part of capital in excess of par value.

Retained earnings represent our net accumulated earnings less cumulative dividends declared.

Other comprehensive income comprises of income and expense, including reclassification adjustments that are not recognized in profit or loss as required or permitted by PFRSs.

*New Accounting Standards and Amendments and Interpretations to Existing Standards Effective Subsequent to June 30, 2014*

We will adopt the following standards, amendments and interpretations to existing standards enumerated below which are relevant to us when these become effective. Except as otherwise indicated, we do not expect the adoption of these standards, amendments and interpretations to PFRS to have a significant impact on our consolidated financial statements.

*PFRS 9, Financial Instruments: Classification and Measurement.* *PFRS 9*, as issued, reflects the first and third phases of the project to replace *PAS 39* and applies to the classification and measurement of financial assets and financial liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still on-going, with a view to replace *PAS 39* in its entirety. *PFRS 9* requires all financial to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option, or FVO, is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at FVPL. All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held-for-trading must be measured at FVPL. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a financial liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other *PAS 39* classification and measurement requirements for financial liabilities have been carried forward to *PFRS 9*, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of *PFRS 9* will have an effect on the classification and measurement of our financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, *PFRS 9* replaces the rules-based hedge accounting model of *PAS 39*

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

*PFRS 9* currently has no mandatory effective date. *PFRS 9* may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. We will not adopt the standard before the completion of the limited amendments and the second phase of the project.

*Amendments to PFRS 11, Joint Arrangements.* The amendments clarify the accounting for acquisition of an interest in a joint operation when the operation constitutes a business such that the acquirer is required to apply all of the principles on business combinations in *PFRS 3* and other PFRSs with the exception of those principles that conflict with the guidance in *PFRS 11*. The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. We shall consider these amendments for future acquisition of an interest in a joint operation.

*Amendments to PAS 16 and PAS 38, Clarification of Acceptable Methods of Depreciation and Amortization.* The amendments clarify that a depreciation method that is based on revenue generated by an activity that includes the use of an asset is not appropriate as such methods reflect a pattern of generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits. The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. The amendments have no impact on our financial position or performance since our depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

*Amendments to PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions.* The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to *PAS 19* are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendments do not apply to us since our employees are not required to make contributions to the Plan.

*Philippine Interpretation IFRIC 15, Agreement for the Construction of Real Estate.* This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue Standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue Standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on our consolidated financial statements.

#### Improvements to PFRS

*The Annual Improvements to PFRSs (2010-2012 Cycle) contain necessary but non-urgent amendments to the following standards:*

*PFRS 2, Share-based Payment – Definition of Vesting Condition.* The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to us as we have no share-based payments.

*PFRS 3, Business Combinations – Accounting for Contingent Consideration in a Business Combination.* The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with *PAS 32*. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of *PFRS 9* (or *PAS 39*, if *PFRS 9* is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. We shall consider this amendment for future business combinations.

*PFRS 8, Operating Segments – Aggregation of Operating Segments and Reconciliation of the*

*Total of the Reportable Segments' Assets to the Entity's Assets.* The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on our financial position or performance.

*PFRS 13, Fair Value Measurement – Short-term Receivables and Payables.* The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

*PAS 16, Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation.* The amendment clarifies that, upon revaluation of an item property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways: (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses; and (b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on our financial position or performance.

*PAS 24, Related Party Disclosures – Key Management Personnel.* The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on our financial position or performance.

*PAS 38, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization.* The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways: (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses; and (b) the accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on our financial position or performance.

*The Annual Improvements to PFRS (2011-2013 Cycle) contain necessary but non-urgent amendments to the following standards:*

*PFRS 1, First-time Adoption of International Financial Reporting Standards – Meaning of “Effective PFRSs”.* The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity’s first PFRS financial statements. This amendment is not applicable to us as we are not a first-time adopter of PFRS.

*PFRS 3, Business Combinations – Scope Exceptions for Joint Arrangements.* The amendment clarifies that *PFRS 3* does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

*PFRS 13, Fair Value Measurement – Portfolio Exception.* The amendment clarifies that the portfolio exception in *PFRS 13* can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on our financial position and performance.

*PAS 40, Investment Property.* The amendment clarifies the inter-relationship between *PFRS 3* and *PFRS 40* when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of *PFRS 3*. This judgment is based on the guidance of *PFRS 3*. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on our financial position or performance.

We have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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### 3. Management's Use of Accounting Judgments, Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with PFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the end of each reporting period. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future years.

#### *Judgments*

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



#### *Assets classified as held-for-sale and discontinued operations*

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment, which sale was completed in April 2013. Consequently, the BPO segment as at December 31, 2012 has been classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment was then available for immediate sale and could be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer and a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. The results of operations of our BPO business for the four months ended April 30, 2013 were presented as discontinued operations. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*.

#### *Determination of functional currency*

The functional currencies of the entities under the PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue from and cost of rendering products and services.

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso, except for: (a) SMHC, SMI, FECL Group, PIHC, PLDT Global and certain of its subsidiaries, PGNL and certain of its subsidiaries, DCPL, and certain subsidiaries of Chikka, which use the U.S. dollar; (b) SHPL, TPL, 3<sup>rd</sup> Brand, CPL and CISP, which use the Singapore dollar; (c) CCCBL, which use the Chinese renminbi; (d) BTMS, which use the Malaysian ringgit; and (e) PTCI, which use the Indonesian rupiah.

## *Leases*

As a lessee, we have various lease agreements in respect of certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on *PAS 17, Leases*. Total lease expense arising from operating leases from continuing operations amounted to Php3,243 million and Php2,851 million for the six months ended June 30, 2014 and 2013, respectively, while that from discontinued operations amounted to Php86 million for the six months ended June 30, 2013. Total finance lease obligations amounted to Php8 million and Php12 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases* and *Note 27 – Financial Assets and Liabilities – Liquidity Risk*.

### *Accounting for investments in MediaQuest Holdings, Inc., or MediaQuest, through Philippine Depositary Receipts, or PDRs*

ePLDT made various investments in PDRs issued by MediaQuest in relation to its direct interest in Satventures, Inc., or Satventures, and indirect interest in Cignal TV, Inc., or Cignal TV. Satventures is a wholly-owned subsidiary of MediaQuest and Cignal TV is a wholly-owned subsidiary of Satventures. ePLDT's investments in PDRs are part of our overall strategy to broaden our distribution platform and increase our ability to deliver multi-media content. On September 27, 2013, the Satventures and Cignal TV PDRs were issued and provided ePLDT a 40% economic interest each in the common shares of Satventures and Cignal TV, or an aggregate of 64% economic interest in Cignal TV.

Based on our judgment at PLDT Group level, ePLDT's investments in PDRs give ePLDT a significant influence over Satventures and Cignal TV as evidenced by inter-change of managerial personnel, provision of essential technical information and material transactions among PLDT, Smart, Satventures and Cignal TV, thus accounted for as investments in associates using the equity method.

The carrying value of our investments in PDRs issued by MediaQuest amounted to Php9,634 million and Php9,522 million as at June 30, 2014 and December 31, 2013, respectively. See related discussion on *Note 10 – Investment in Associates, Joint Ventures and Deposits – Investment in MediaQuest*.

### *Estimates and Assumptions*

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below. We based our 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 PLDT. Such changes are reflected in the assumptions when they occur.

#### *Asset impairment*

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets, requires us to make estimates and assumptions in the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause us to conclude that property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future impairment charges under PFRS.

In 2013, Smart and DMPI launched a network convergence program designed to consolidate the networks of Smart and DMPI into a single network enabling subscribers of both companies to take advantage of the combined network. The convergence is expected to result in savings from synergies in terms of optimized capital expenditures and cost efficiencies from colocation of base stations, consolidation of core systems, and operating expenses. The program, however, rendered certain network equipment and site facilities obsolete. In view of this, Smart and DMPI recognized full impairment provision on the net book value of the affected network equipment and site facilities amounting to Php378 million and Php1,764 million, respectively.

In 2014, PLDT has implemented massive fiber optic footprint and backbone expansion which increased bandwidth connectivity between different regions of the country and rendered subscribers opportunities for better services. In relation to this, PLDT has recognized an impairment provision on the net book value of certain transmission facilities consequently replaced by the program amounting to Php227 million.

Total asset impairment recognized on noncurrent assets amounted to Php227 million and nil for the six months ended June 30, 2014 and 2013, respectively.

See *Note 5 – Income and Expenses – Asset Impairment* and *Note 9 – Property, Plant and Equipment – Impairment of Certain Wireless Network Equipment and Facilities*.

The carrying values of our property, plant and equipment, investments in associates, joint ventures and deposits, goodwill and intangible assets, and prepayments are separately disclosed in *Notes 9, 10, 14 and 18*, respectively.

### *Estimating useful lives of property, plant and equipment*

We estimate the useful lives of each item of our property, plant and equipment based on the periods over which our assets are expected to be available for use. Our estimate of the useful lives of our property, plant and equipment is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property, plant and equipment are reviewed every year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment would increase our recorded depreciation and amortization and decrease our property, plant and equipment.

The total depreciation and amortization of property, plant and equipment from continuing operations amounted to Php14,490 million and Php14,532 million for the six months ended June 30, 2014 and 2013, respectively, while that from discontinued operations amounted to Php153 million for the six months ended June 30, 2013. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization amounted to Php186,394 million and Php192,665 million as at June 30, 2014 and December 31, 2013, respectively.

See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 4 – Operating Segment Information* and *Note 9 – Property, Plant and Equipment*.

### *Estimating useful lives of intangible assets with finite life*

Intangible assets acquired from business combination with finite lives are amortized over the expected useful life using the straight-line method of accounting. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

The total amortization of intangible assets from continuing operations with finite life amounted to Php574 million and Php453 million for the six months ended June 30, 2014 and 2013, respectively, while that from discontinued operations amounted to Php55 million for the six months ended June 30, 2013. Total carrying values of intangible assets with finite life amounted to Php6,748 million and Php7,286 million as at June 30, 2014 and December 31, 2013, respectively.

See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 4 – Operating Segment Information* and *Note 14 – Goodwill and Intangible Assets*.

*Goodwill and intangible assets with indefinite useful life*

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method, which require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in our consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance.

Total carrying values of goodwill and intangible assets with indefinite useful life amounted to Php66,742 million and Php66,632 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 14 – Goodwill and Intangible Assets*.

*Recognition of deferred income tax assets*

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized. We also review the level of projected gross margin for the use of Optional Standard Deduction, or OSD method, and assess the future tax consequences for the recognition of deferred income tax assets. Based on Smart and

SBI's projected gross margin, they expect to continue using the OSD method in the foreseeable future.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php11,870 million and Php12,426 million as at June 30, 2014 and December 31, 2013, respectively. In addition, our unrecognized net deferred income tax assets for items which would not result in future tax benefits when using the OSD method amounted to Php4,418 million and Php4,496 million as at June 30, 2014 and December 31, 2013, respectively. Total consolidated provision for deferred income tax from continuing operations amounted to Php290 million for the six months ended June 30, 2014, while total consolidated benefit from deferred income tax from continuing operations amounted to Php1,567 million for the six months ended June 30, 2013, while provision for deferred income tax from discontinued operations amounted to Php30 million for the six months ended June 30, 2013. Total consolidated net deferred income tax assets amounted to Php14,487 million and Php14,181 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 4 – Operating Segment Information* and *Note 7 – Income Taxes*.

#### *Estimating allowance for doubtful accounts*

If we assessed that there was an objective evidence that an impairment loss has been incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The amount of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristic, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total provision for doubtful accounts for trade and other receivables from continuing operations recognized in our consolidated income statements amounted to Php1,085 million and Php1,296 million for the six months ended June 30, 2014 and 2013, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php19,040 million and Php17,564 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 4 – Operating Segment Information*, *Note 5 – Income and Expenses – Asset Impairment*, *Note 16 – Trade and Other Receivables* and *Note 27 – Financial Assets and Liabilities*.

*Estimating pension benefit costs and other employee benefits*

The cost of defined benefit and contribution plans and present value of the pension obligation are determined using the projected unit credit method. Actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. See *Note 25 – Employee Benefits*. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed every year-end.

Net consolidated pension benefit costs from continuing operations amounted to Php872 million and Php583 million for the six months ended June 30, 2014 and 2013, respectively, while net consolidated pension benefit costs from discontinued operations amounted to Php9 million for the six months ended June 30, 2013. The prepaid benefit costs amounted to Php212 million and Php199 million as at June 30, 2014 and December 31, 2013, respectively. The accrued benefit costs amounted to Php11,214 million and Php10,310 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*, *Note 5 – Income and Expenses – Compensation and Employee Benefits*, *Note 18 – Prepayments* and *Note 25 – Employee Benefits – Defined Benefit Pension Plans*.



To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, the 2012 to 2014 LTIP, covering the period from January 1, 2012 to December 31, 2014, was approved by the Board of Directors with the endorsement of the Employees Compensation Commission, or ECC, on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, intended to align the execution of the business strategies of the expanded PLDT Group, including Digitel, over the three year period from 2012 to 2014. In addition, the 2012 to 2014 LTIP allows for the participation of a number of senior executives and certain newly hired executives and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs recognized for the six months ended June 30, 2014 and 2013 amounted to Php839 million and Php740 million, respectively. Total outstanding liability and fair value of 2012 to 2014 LTIP cost amounted to Php3,968 million and Php3,129 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits* and *Note 25 – Employee Benefits – Other Long-term Employee Benefits*.

#### *Provision for asset retirement obligations*

Provision for asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php2,205 million and Php2,144 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

#### *Provision for legal contingencies and tax assessments*

We are currently involved in various legal proceedings and tax assessments. Our estimates of the probable costs for the resolution of these claims have been developed in consultation with our counsel handling the defense in these matters and are based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 26 – Provisions and Contingencies*.

Based on management's assessment, appropriate provisions were made; however, management has decided not to disclose further details of these provisions as they may prejudice our position in certain legal proceedings.

#### *Revenue recognition*

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation. However, we cannot assure you that the use of such estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our fixed line and wireless businesses are split into separately identifiable components based on their relative fair value in order to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method. We account for mobile contracts in accordance with *PAS 18, Revenue Recognition*, and have concluded that the handset and the mobile services may be accounted for as separate identifiable components. The handset (with activation) is delivered first, followed by the mobile service (which is provided over the contract period, generally one or two years). Because some amount of the arrangement consideration that may be allocated to the handset generally is contingent on providing the mobile service, the amount that is allocated to the handset is limited to the cash received (i.e., the amount paid for the handset) at the time of the handset delivery.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and only to such amount as determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn rate analysis.

*Determination of fair values of financial assets and liabilities*

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Other than those whose carrying amounts are reasonable approximations of fair values, total fair values of financial assets and liabilities as at June 30, 2014 amounted to Php6,807 million and Php130,998 million, respectively, while the total fair values of financial assets and liabilities as at December 31, 2013 amounted to Php4,965 million and Php115,885, respectively. See *Note 27 – Financial Assets and Liabilities*.

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#### 4. Operating Segment Information

Operating segments are components of the PLDT Group that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT Group). The operating results of these operating segments are regularly reviewed by the chief operating decision maker, or our Management Committee, to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

For management purposes, we are organized into business units based on our products and services and based on the reorganization as discussed below. We have three reportable operating segments, as follows:

- Wireless – wireless telecommunications services provided by Smart and DMPI, which owns the *Sun Cellular* business and is a wholly-owned subsidiary of Digitel, our cellular service providers; SBI and PDSI, our wireless broadband service providers; Voyager and

Chikka Group, our wireless content operators; ACeS Philippines, our satellite operator; and PLDT Global, our mobile virtual network operations provider;

- Fixed Line – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, ClarkTel, SubicTel, Philcom Group, Maratel, SBI, PDSI, BCC, PLDT Global and Digitel, all of which together account for approximately 7% of our consolidated fixed line subscribers; information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by ePLDT, IPCDSI Group, AGS Group and Curo; distributor of Filipino channels and content provided by PGNL and its subsidiaries; air transportation service provided by PG1; and bills printing and other VAS-related services provided by ePDS; and
- Others – PGIH, MIC, PGIC and PCEV, our investment companies.

See *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations and Acquisition of Noncontrolling Interests*, for further discussion.

As at June 30, 2014, our chief operating decision maker categorizes our business activities into three business units: Wireless, Fixed Line and Others. On December 4, 2012, our Board of Directors authorized the sale of our BPO segment, which was completed in April 2013. Consequently, the results of operations of our BPO business for the four months ended April 30, 2013 was presented as discontinued operations. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations* and *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Classified as Held-for-Sale and Discontinued Operations*.

The chief operating decision maker monitors the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income (loss) for the period; earnings before interest, taxes and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income (loss) for the period is measured consistent with net income (loss) in the consolidated financial statements.

EBITDA for the period is measured as net income from continuing operations excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other

income (expenses) – net.

EBITDA margin for the period is measured as EBITDA from continuing operations divided by service revenues.

Core income for the period is measured as net income attributable to equity holders of PLDT (net income less net income attributable to noncontrolling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, other nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures.

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated in full upon consolidation.

Core earnings per common share, or core EPS, for the period is measured as core income divided by the weighted average number of outstanding common shares. See *Note 8 – Earnings Per Common Share* for the weighted average number of common shares.

EBITDA, EBITDA margin, core income and core EPS are non-PFRS measures.

The amount of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in the consolidated financial statement, which is in accordance with PFRS.

The segment revenues, net income, and other segment information of our reportable operating segments for the six months ended June 30, 2014 and 2013 and assets and liabilities as at June 30, 2014 and December 31, 2013 are as follows:

|                                      | Wireless      | Fixed Line    | Others   | Inter-segment<br>Transactions | Consolidated  |
|--------------------------------------|---------------|---------------|----------|-------------------------------|---------------|
| (in million pesos)                   |               |               |          |                               |               |
| <i>June 30, 2014 (Unaudited)</i>     |               |               |          |                               |               |
| <b>Revenues</b>                      |               |               |          |                               |               |
| External customers                   | 58,829        | 26,599        | –        | –                             | 85,428        |
| Service revenues (Note 3)            | 57,021        | 25,509        | –        | –                             | 82,530        |
| Non-service revenues (Notes 3 and 5) | 1,808         | 1,090         | –        | –                             | 2,898         |
| Inter-segment transactions           | 867           | 6,728         | –        | (7,595)                       | –             |
| Service revenues (Note 3)            | 867           | 6,727         | –        | (7,594)                       | –             |
| Non-service revenues (Notes 3 and 5) | –             | 1             | –        | (1)                           | –             |
| <b>Total revenues</b>                | <b>59,696</b> | <b>33,327</b> | <b>–</b> | <b>(7,595)</b>                | <b>85,428</b> |

|  | Wireless       | Fixed Line     | Others        | Inter-segment<br>Transactions | Consolidated   |
|--|----------------|----------------|---------------|-------------------------------|----------------|
| (in million pesos)   |                |                |               |                               |                |
| <b>Results</b>   |                |                |               |                               |                |
| Depreciation and amortization (Notes 3 and 9)                                | 7,845          | 6,645          | –             | –                             | 14,490         |
| Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)                          | 1,120          | 301            | –             | –                             | 1,421          |
| Equity share in net earnings of associates and joint ventures (Note 10)      | –              | 106            | 1,977         | –                             | 2,083          |
| Interest income (Note 5)   | 109            | 156            | 155           | (25)                          | 395            |
| Financing costs – net (Notes 5, 9, 20 and 27)                                | 804            | 1,719          | –             | (25)                          | 2,498          |
| Provision for income tax (Notes 3 and 7)                                     | 4,738          | 1,471          | 26            | –                             | 6,235          |
| Net income / Segment profit  | 12,203         | 4,151          | 3,647         | –                             | 20,001         |
| EBITDA   | 25,450         | 12,596         | (2)           | 160                           | 38,204         |
| EBITDA margin  | 44%            | 39%            | –             | (2%)                          | 46%            |
| Core income  | 12,080         | 4,104          | 3,650         | –                             | 19,834         |
| <b>Assets and liabilities</b>  |                |                |               |                               |                |
| Operating assets   | 193,686        | 181,788        | 16,461        | (38,721)                      | 353,214        |
| Investments in associates, joint ventures and deposits (Notes 3, 5 and 10)   | 300            | 11,993         | 31,158        | –                             | 43,451         |
| Deferred income tax assets – net (Notes 3 and 7)                             | 1,354          | 13,133         | –             | –                             | 14,487         |
| <b>Total assets</b>  | <b>195,340</b> | <b>206,914</b> | <b>47,619</b> | <b>(38,721)</b>               | <b>411,152</b> |
| Operating liabilities  | 131,493        | 160,659        | 1,911         | (17,432)                      | 276,631        |
| Deferred income tax liabilities – net (Notes 3 and 7)                        | 3,480          | 768            | 8             | –                             | 4,256          |
| <b>Total liabilities</b>   | <b>134,973</b> | <b>161,427</b> | <b>1,919</b>  | <b>(17,432)</b>               | <b>280,887</b> |
| <b>Other segment information</b>   |                |                |               |                               |                |
| Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21) | 3,615          | 4,489          | –             | –                             | 8,104          |
| <b>June 30, 2013 (Unaudited)</b>   |                |                |               |                               |                |
| <b>Revenues</b>  |                |                |               |                               |                |
| External customers   | 57,987         | 25,014         | –             | –                             | 83,001         |
| Service revenues (Note 3)  | 56,765         | 24,272         | –             | –                             | 81,037         |
| Non-service revenues (Notes 3 and 5)   | 1,222          | 742            | –             | –                             | 1,964          |
| Inter-segment transactions   | 850            | 6,462          | –             | (7,312)                       | –              |
| Service revenues (Note 3)  | 850            | 6,402          | –             | (7,252)                       | –              |
| Non-service revenues (Notes 3 and 5)   | –              | 60             | –             | (60)                          | –              |
| <b>Total revenues</b>  | <b>58,837</b>  | <b>31,476</b>  | <b>–</b>      | <b>(7,312)</b>                | <b>83,001</b>  |

|  |        |        |       |     |        |
|--|--------|--------|-------|-----|--------|
| <b>Results</b>   |        |        |       |     |        |
| Depreciation and amortization (Notes 3 and 9)                                    | 8,144  | 6,388  | –     | –   | 14,532 |
| Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)                              | 796    | 595    | –     | –   | 1,391  |
| Equity share in net earnings (losses) of associates and joint ventures (Note 10) | (41)   | (12)   | 1,558 | –   | 1,505  |
| Interest income (Note 5)   | 226    | 227    | 40    | (8) | 485    |
| Financing costs – net (Notes 5, 9, 20 and 27)                                    | 1,512  | 1,823  | –     | (8) | 3,327  |
| Provision for income tax (Notes 3 and 7)   | 3,837  | 767    | 73    | –   | 4,677  |
| Net income / Segment profit  | 12,664 | 3,153  | 1,898 | 146 | 19,724 |
| Continuing operations  | 12,664 | 3,153  | 1,898 | 146 | 17,861 |
| Discontinued operations (Notes 2 and 8)  | –      | –      | –     | –   | 1,863  |
| EBITDA from continuing operations  | 28,068 | 11,370 | (2)   | 372 | 39,808 |

|   | Wireless           | Fixed Line     | Others        | Inter-segment<br>Transactions | Consolidated   |
|---|--------------------|----------------|---------------|-------------------------------|----------------|
|   | (in million pesos) |                |               |                               |                |
| EBITDA margin   | 49%                | 37%            | –             | (5%)                          | 49%            |
| Core income   | 13,911             | 3,911          | 1,526         | 146                           | 19,395         |
| Continuing operations   | 13,911             | 3,911          | 1,526         | 146                           | 19,494         |
| Discontinued operations   | –                  | –              | –             | –                             | (99)           |
| <i>December 31, 2013 (Audited)</i>  |                    |                |               |                               |                |
| <b>Assets and liabilities</b>   |                    |                |               |                               |                |
| Operating assets  | 195,212            | 172,293        | 15,522        | (38,880)                      | 344,147        |
| Investments in associates, joint ventures and deposits<br>(Notes 3, 5 and 10)   | –                  | 11,685         | 29,625        | –                             | 41,310         |
| Deferred income tax assets – net (Notes 3 and 7)                                | 999                | 13,182         | –             | –                             | 14,181         |
| <b>Total assets</b>   | <b>196,211</b>     | <b>197,160</b> | <b>45,147</b> | <b>(38,880)</b>               | <b>399,638</b> |
| Operating liabilities   | 133,977            | 143,891        | 1,220         | (21,213)                      | 257,875        |
| Deferred income tax liabilities – net (Notes 3 and 7)                           | 3,591              | 819            | 27            | –                             | 4,437          |
| <b>Total liabilities</b>  | <b>137,568</b>     | <b>144,710</b> | <b>1,247</b>  | <b>(21,213)</b>               | <b>262,312</b> |
| <i>June 30, 2013 (Unaudited)</i>  |                    |                |               |                               |                |
| <b>Other segment information<sup>(1)</sup></b>                                  |                    |                |               |                               |                |
| Capital expenditures, including capitalized interest<br>(Notes 5, 9, 20 and 21) | 2,753              | 2,034          | –             | –                             | 4,787          |

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the six months ended June 30, 2014 and 2013:

|   | June 30,           |          |
|---|--------------------|----------|
|   | 2014               | 2013     |
|   | (Unaudited)        |          |
|   | (in million pesos) |          |
| EBITDA from continuing operations   | 38,204             | 39,808   |
| Add (deduct) adjustments to continuing operations:                              |                    |          |
| Other income – net (Notes 2 and 18)   | 3,048              | 1,453    |
| Equity share in net earnings of associates and joint ventures (Note 10)         | 2,083              | 1,505    |
| Foreign exchange gains (losses) – net (Notes 2 and 27)                          | 459                | (1,922)  |
| Interest income (Notes 2, 5, 11 and 15)   | 395                | 485      |
| Gains (losses) on derivative financial instruments – net (Notes 2 and 27)       | (164)              | 448      |
| Asset impairment (Notes 3, 5 and 9)   | (227)              | –        |
| Amortization of intangible assets (Notes 3 and 14)                              | (574)              | (453)    |
| Financing costs – net (Notes 2, 5, 9, 20 and 27)                                | (2,498)            | (3,327)  |
| Provision for income tax (Notes 2, 3 and 7)                                     | (6,235)            | (4,677)  |
| Depreciation and amortization (Notes 3 and 9)                                   | (14,490)           | (14,532) |
| Retroactive effect of adoption of Revised <i>PAS 19</i> (Note 2) <sup>(1)</sup> | –                  | (927)    |
| Total adjustments   | (18,203)           | (21,947) |
| Net income from continuing operations   | 20,001             | 17,861   |
| Net income from discontinued operations (Notes 2 and 8)                         | –                  | 1,863    |
| Consolidated net income   | 20,001             | 19,724   |

<sup>(1)</sup> The Revised *PAS 19* modifies the timing of recognition for termination benefits. The modification requires termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.



The following table shows the reconciliation of our consolidated core income to our consolidated net income for the six months ended June 30, 2014 and 2013:

|  | June 30,           |         |
|--|--------------------|---------|
|  | 2014               | 2013    |
|  | (Unaudited)        |         |
|  | (in million pesos) |         |
| Core income from continuing operations   | 19,834             | 19,494  |
| Core income from discontinued operations   | –                  | (99)    |
| Consolidated core income   | 19,834             | 19,395  |
| Add (deduct) adjustments to continuing operations:   |                    |         |
| Foreign exchange gains (losses) – net (Notes 2 and 27)   | 459                | (1,922) |
| Core income adjustment on equity share in net earnings (losses) of associates and joint ventures | (4)                | 89      |
| Gains (losses) on derivative financial instruments – net, excluding hedge cost (Notes 2 and 27)  | (10)               | 594     |
| Net income (loss) attributable to noncontrolling interests                                       | (22)               | 17      |
| Net tax effect of aforementioned adjustments   | (29)               | 516     |
| Asset impairment (Notes 3, 5 and 9)  | (227)              | –       |
| Retroactive effect of adoption of Revised <i>PAS 19</i> (Note 2) <sup>(1)</sup>                  | –                  | (927)   |
| Total adjustments  | 167                | (1,633) |
| Adjustments to discontinued operations   | –                  | 1,962   |
| Net income from continuing operations  | 20,001             | 17,861  |
| Net income from discontinued operations (Notes 2 and 8)  | –                  | 1,863   |
| Consolidated net income  | 20,001             | 19,724  |

<sup>(1)</sup> The Revised *PAS 19* modifies the timing of recognition for termination benefits. The modification requires termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

The following table shows the reconciliation of our consolidated basic and diluted core EPS to our consolidated basic and diluted EPS attributable to common equity holder of PLDT for the six months ended June 30, 2014 and 2013:

|  | June 30,    |         |        |         |
|--|-------------|---------|--------|---------|
|  | 2014        |         | 2013   |         |
|  | Basic       | Diluted | Basic  | Diluted |
|  | (Unaudited) |         |        |         |
| Core EPS from continuing operations  | 91.66       | 91.66   | 90.10  | 90.10   |
| Core EPS from discontinued operations  | –           | –       | (0.46) | (0.46)  |
| Consolidated core EPS  | 91.66       | 91.66   | 89.64  | 89.64   |
| Add (deduct) adjustments to continuing operations:   |             |         |        |         |
| Foreign exchange gains (losses) – net (Notes 2 and 27)   | 1.67        | 1.67    | (6.44) | (6.44)  |
| Core income adjustment on equity share in net earnings (losses) of associates and joint ventures | (0.01)      | (0.01)  | 0.41   | 0.41    |
| Gains (losses) on derivative financial instruments – net, excluding hedge cost (Notes 2 and 27)  | (0.04)      | (0.04)  | 1.92   | 1.92    |
| Asset impairment (Notes 3, 5 and 9)  | (0.74)      | (0.74)  | –      | –       |
| Retroactive effect of adoption of Revised <i>PAS 19</i> (Note 2) <sup>(1)</sup>                  | –           | –       | (3.52) | (3.52)  |
| Total adjustments  | 0.88        | 0.88    | (7.63) | (7.63)  |
| Adjustments to discontinued operations   | –           | –       | 9.08   | 9.08    |
| EPS from continuing operations attributable to common equity holders of PLDT (Note 8)            | 92.54       | 95.54   | 82.47  | 82.47   |
| EPS from discontinued operations attributable to common equity holders of PLDT (Notes 2 and 8)   | –           | –       | 8.62   | 8.62    |
| Consolidated EPS attributable to common equity holders of PLDT (Note 8)                          | 92.54       | 95.54   | 91.09  | 91.09   |

<sup>(1)</sup> The Revised *PAS 19* modifies the timing of recognition for termination benefits. The modification requires termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

The following table presents our revenues from external customers by category of products and services for the six months ended June 30, 2014 and 2013:

|   | June 30,      |               |
|---|---------------|---------------|
|   | 2014          | 2013          |
| (Unaudited)   |               |               |
| (in million pesos)  |               |               |
| <b>Wireless services</b>  |               |               |
| Service revenues:   |               |               |
| Cellular  | 51,454        | 51,441        |
| Broadband, satellite and others   | 5,567         | 5,324         |
|   | 57,021        | 56,765        |
| Non-service revenues:   |               |               |
| Sale of cellular handsets, cellular SIM-packs and broadband data modems | 1,808         | 1,222         |
| <b>Total wireless revenues</b>  | <b>58,829</b> | <b>57,987</b> |
| <b>Fixed line services</b>  |               |               |
| Service revenues:   |               |               |
| Local exchange  | 8,194         | 8,074         |
| International long distance   | 3,282         | 3,499         |
| National long distance  | 2,013         | 2,158         |
| Data and other network  | 11,601        | 10,194        |
| Miscellaneous   | 419           | 347           |
|   | 25,509        | 24,272        |
| Non-service revenues:   |               |               |
| Sale of computers   | 675           | 529           |
| Point-product-sales   | 415           | 213           |
| <b>Total fixed line revenues</b>  | <b>26,599</b> | <b>25,014</b> |
| <b>Total revenues from continuing operations</b>                        | <b>85,428</b> | <b>83,001</b> |

Disclosure of the geographical distribution of our revenues from external customers and the geographical location of our total assets are not provided since the majority of our consolidated revenues are derived from our operations within the Philippines.

For each of the six months ended June 30, 2014 and 2013, no revenue transaction with a single external customer accounted for 10% or more of our consolidated revenues from external customers.

## 5. Income and Expenses

### *Non-service Revenues*

Non-service revenues for the six months ended June 30, 2014 and 2013 consist of the following:

|  | June 30, |       |
|--|----------|-------|
|  | 2014     | 2013  |
| (Unaudited)  |          |       |
| (in million pesos)   |          |       |
| Sale of computers, cellular handsets, cellular SIM-packs and broadband data modems | 2,483    | 1,751 |
| Point-product-sales  | 415      | 213   |
| (Note 4)   | 2,898    | 1,964 |

### *Compensation and Employee Benefits*

Compensation and employee benefits for the six months ended June 30, 2014 and 2013 consist of the following:

|  | June 30, |        |
|--|----------|--------|
|  | 2014     | 2013   |
| (Unaudited)                            |          |        |
| (in million pesos)                     |          |        |
| Salaries and other employee benefits   | 8,599    | 8,558  |
| Pension benefit costs (Notes 3 and 25) | 872      | 583    |
| Incentive plans (Notes 3 and 25)       | 839      | 740    |
| Manpower rightsizing program, or MRP   | 133      | 977    |
|  | 10,443   | 10,858 |

Over the past years, we have been implementing MRP in line with our continuing efforts to reduce the cost base of our businesses. The decision to implement the MRP was a result of challenges faced by our businesses as significant changes in technology, increasing competition, and shifting market preferences have reshaped the future of our businesses. The MRP is being implemented in compliance with the Labor Code of the Philippines and all other relevant labor laws and regulations in the Philippines.

### *Cost of Sales*

Cost of sales for the six months ended June 30, 2014 and 2013 consist of the following:

|   | June 30,           |              |
|---|--------------------|--------------|
|   | 2014               | 2013         |
|   | (Unaudited)        |              |
|   | (in million pesos) |              |
| Cost of computers, cellular handsets, cellular SIM-packs sold and broadband data modems | 6,551              | 5,362        |
| Cost of point-product-sales   | 360                | 149          |
| Cost of satellite air time and terminal units (Note 24)                                 | 14                 | 27           |
|   | <b>6,925</b>       | <b>5,538</b> |

### *Asset Impairment*

Asset impairment for the six months ended June 30, 2014 and 2013 consist of the following:

|   | June 30,           |              |
|---|--------------------|--------------|
|   | 2014               | 2013         |
|   | (Unaudited)        |              |
|   | (in million pesos) |              |
| Trade and other receivables (Notes 3 and 16)  | 1,085              | 1,296        |
| Property, plant and equipment (Notes 3 and 9) | 227                | -            |
| Inventories and supplies (Note 17)            | 109                | 95           |
|   | <b>1,421</b>       | <b>1,391</b> |

## Interest Income

Interest income for the six months ended June 30, 2014 and 2013 consist of the following:

|  | June 30,           |      |
|--|--------------------|------|
|  | 2014               | 2013 |
|  | (Unaudited)        |      |
|  | (in million pesos) |      |
| Interest income on other loans and receivables | 280                | 480  |
| Interest income on HTM investments (Note 11)   | 102                | 5    |
| Interest income on FVPL<br>(Note 4)            | 13                 | –    |
|  | 395                | 485  |

## Financing Costs – net

Financing costs – net for the six months ended June 30, 2014 and 2013 consist of the following:

|   | June 30,           |       |
|---|--------------------|-------|
|   | 2014               | 2013  |
|   | (Unaudited)        |       |
|   | (in million pesos) |       |
| Interest on loans and other related items (Notes 20 and 27) | 2,555              | 2,649 |
| Accretion on financial liabilities (Notes 20 and 27)        | 84                 | 697   |
| Financing charges   | 83                 | 284   |
| Capitalized interest (Note 9)                               | (224)              | (303) |
| (Note 4)  | 2,498              | 3,327 |

## 6. Components of Other Comprehensive Income

Changes in other comprehensive income under equity of our consolidated statements of financial position for the six months ended June 30, 2014 and 2013 are as follows:

|   | Foreign<br>currency<br>translation<br>differences of<br>subsidiaries | Net gains on<br>available-for-sale<br>financial<br>investments<br>– net of tax | Net<br>transactions on<br>cash flow hedges<br>– net of tax | Revaluation<br>increment on<br>investment<br>properties<br>– net of tax | Actuarial losses on<br>defined<br>benefit plans<br>– net of tax | Share in the other<br>comprehensive<br>income of<br>associates and joint<br>ventures accounted<br>for using the equity<br>method | Total other<br>comprehensive<br>income (loss)<br>attributable to equity<br>holders of PLDT | Share of<br>noncontrolling<br>interests | Total other<br>comprehensive<br>income (loss)<br>– net of tax |
|---|--|--|--|---|---|--|--|---|---|
|   | (in million pesos)   |  |  |   |   |  |  |   |   |
| Balances as at January 1, 2014              | 496  | 67   | 40   | 239   | (13,333)  | 1,010  | (11,481)   | (2)                                     | (11,483)  |
| Other comprehensive income<br>(loss)        | (36)   | (8)  | 10   | (1)   | (1,811)   | (105)  | (1,951)  | 3                                       | (1,948)   |
| Balances as at June 30, 2014<br>(Unaudited) | 460  | 59   | 50   | 238   | (15,144)  | 905  | (13,432)   | 1                                       | (13,431)  |
| Balances as at January 1, 2013              | 431  | 75   | 44   | 240   | (4,177)   | –  | (3,387)  | 8                                       | (3,379)   |
| Other comprehensive income                  | 792  | 25   | (181)  | (1)   | –   | 531  | 1,166  | (6)                                     | 1,160   |

|   | Foreign<br>currency<br>translation<br>differences of<br>subsidiaries | Net gains on<br>available-for-sale<br>financial<br>investments<br>– net of tax | Net<br>transactions on<br>cash flow hedges<br>– net of tax | Revaluation<br>increment on<br>investment<br>properties<br>– net of tax | Actuarial losses on<br>defined<br>benefit plans<br>– net of tax | Share in the other<br>comprehensive<br>income of<br>associates and joint<br>ventures accounted<br>for using the equity<br>method | Total other<br>comprehensive<br>income (loss)<br>attributable to equity<br>holders<br>of PLDT | Share of<br>noncontrolling<br>interests | Total other<br>comprehensive<br>income (loss)<br>– net of tax |
|---|--|--|--|---|---|--|---|---|---|
|   | (in million pesos)   |  |  |   |   |  |   |   |   |
| (loss) from:                                |  |  |  |   |   |  |   |   |   |
| Continuing operations                       |  |  |  |   |   |  |   |   |   |
| Discontinued operations<br>(Note 2)         | (747)  | –  | 12   | –   | –   | –  | (735)   | –                                       | (735)   |
| Balances as at June 30, 2013<br>(Unaudited) | 476  | 100  | (125)  | 239   | (4,177)   | 531  | (2,956)   | 2                                       | (2,954)   |

Revaluation increment on investment properties pertains to the difference between the carrying value and fair value of property, plant and equipment transferred to investment property at the time of change in classification.

## 7. Income Taxes

### *Corporate Income Tax*

The major components of consolidated net deferred income tax assets (liabilities) recognized in our consolidated statements of financial position as at June 30, 2014 and December 31, 2013 are as follows:

|  | June 30,<br>2014<br>(Unaudited) | December 31,<br>2013<br>(Audited) |
|--|---------------------------------|-----------------------------------|
|  | (in million pesos)              |                                   |
| Net deferred income tax assets (Notes 3 and 4) | 14,487                          | 14,181                            |
| Net deferred income tax liabilities (Note 4)   | (4,256)                         | (4,437)                           |

The components of our consolidated net deferred income tax assets and liabilities as at June 30, 2014 and December 31, 2013 are as follows:

|  | June 30,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
|  | (Unaudited)      | (Audited)            |
| (in million pesos)   |                  |                      |
| Net deferred income tax assets:  |                  |                      |
| Pension and other employee benefits  | 3,919            | 3,623                |
| Accumulated provision for doubtful accounts  | 2,660            | 2,597                |
| Unamortized past service pension costs   | 2,630            | 2,312                |
| Unearned revenues  | 2,627            | 2,980                |
| Unrealized foreign exchange losses   | 1,356            | 1,548                |
| Customer list  | 1,216            | 1,318                |
| Derivative financial instruments   | 526              | 528                  |
| Provision for other assets   | 490              | 367                  |
| Fixed asset impairment   | 414              | 125                  |
| Accumulated write-down of inventories to net realizable values                       | 213              | 205                  |
| NOLCO  | 87               | 130                  |
| MCIT   | 2                | 34                   |
| Undepreciated capitalized interest charges   | (1,680)          | (1,751)              |
| Capitalized taxes and duties – net of amortization                                   | –                | (5)                  |
| Others   | 27               | 170                  |
| <b>Total deferred income tax assets</b>  | <b>14,487</b>    | <b>14,181</b>        |
| Net deferred income tax liabilities:   |                  |                      |
| Intangible assets and fair value adjustment on assets acquired – net of amortization | 3,078            | 3,182                |
| Unrealized foreign exchange gains  | 650              | 675                  |
| Unamortized fair value adjustment on fixed assets from business combinations         | 573              | 644                  |
| Undepreciated capitalized interest charges   | 9                | 9                    |
| Others   | (54)             | (73)                 |
| <b>Total deferred income tax liabilities</b>   | <b>4,256</b>     | <b>4,437</b>         |



Changes in our consolidated net deferred income tax assets (liabilities) as at June 30, 2014 and December 31, 2013 are as follows:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Net deferred income tax assets – balance at beginning of the period<br>(Notes 3 and 4) | 14,181             | 7,225                |
| Net deferred income tax liabilities – balance at beginning of the period<br>(Note 4)   | (4,437)            | (5,713)              |
| Net balance at beginning of the period   | 9,744              | 1,512                |
| Movement charged directly to other comprehensive income                                | 822                | 3,833                |
| Business combinations (Note 13)  | (5)                | –                    |
| Excess MCIT deducted against RCIT due  | (32)               | –                    |
| Benefit from (provision for) deferred income tax                                       | (290)              | 4,401                |
| Others   | (8)                | (2)                  |
| Net balance at end of the period   | 10,231             | 9,744                |
| Net deferred income tax assets – balance at end of the period (Notes 3<br>and 4)       | 14,487             | 14,181               |
| Net deferred income tax liabilities – balance at end of the period (Note 4)            | (4,256)            | (4,437)              |

The analysis of our consolidated net deferred income tax assets as at June 30, 2014 and December 31, 2013 are as follows:

|   | June 30,<br>2014   | December 31,<br>2013 |
|---|--------------------|----------------------|
|   | (Unaudited)        | (Audited)            |
|   | (in million pesos) |                      |
| Deferred income tax assets:                                       |                    |                      |
| Deferred income tax assets to be recovered after 12<br>months     | 15,631             | 13,181               |
| Deferred income tax assets to be recovered within 12<br>months    | 2,192              | 3,283                |
|   | 17,823             | 16,464               |
| Deferred income tax liabilities:                                  |                    |                      |
| Deferred income tax liabilities to be settled after 12<br>months  | (1,945)            | (1,645)              |
| Deferred income tax liabilities to be settled within 12<br>months | (1,391)            | (638)                |
|   | (3,336)            | (2,283)              |
| Net deferred income tax assets (Notes 3 and 4)                    | 14,487             | 14,181               |

The analysis of our consolidated net deferred income tax liabilities as at June 30, 2014 and December 31, 2013 are as follows:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Deferred income tax assets:                                    |                    |                      |
| Deferred income tax assets to be recovered after 12 months     | 45                 | 58                   |
| Deferred income tax assets to be recovered within 12 months    | 11                 | 15                   |
|  | 56                 | 73                   |
| Deferred income tax liabilities:                               |                    |                      |
| Deferred income tax liabilities to be settled after 12 months  | (3,507)            | (4,005)              |
| Deferred income tax liabilities to be settled within 12 months | (805)              | (505)                |
|  | (4,312)            | (4,510)              |
| Net deferred income tax liabilities (Note 4)                   | (4,256)            | (4,437)              |

Provision for (benefit from) corporate income tax from continuing operations for the six months ended June 30, 2014 and 2013 consist of:

|                   | June 30,           |         |
|-------------------|--------------------|---------|
|                   | 2014               | 2013    |
|                   | (Unaudited)        |         |
|                   | (in million pesos) |         |
| Current           | 5,945              | 6,244   |
| Deferred (Note 3) | 290                | (1,567) |
|                   | 6,235              | 4,677   |

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for corporate income tax for the six months ended June 30, 2014 and 2013 are as follows:

|   | June 30,           |                |
|---|--------------------|----------------|
|   | 2014               | 2013           |
|   | (Unaudited)        |                |
|   | (in million pesos) |                |
| Provision for income tax at the applicable statutory tax rate:                |                    |                |
| Continuing operations   | 7,871              | 6,761          |
| Discontinued operations (Note 2)  | –                  | 575            |
|   | <u>7,871</u>       | <u>7,336</u>   |
| Tax effects of:   |                    |                |
| Nondeductible expenses  | 175                | 145            |
| Income subject to lower tax rate  | (34)               | (648)          |
| Income not subject to income tax  | (543)              | (100)          |
| Income subject to final tax   | (116)              | (440)          |
| Equity share in net earnings of associates and joint ventures                 | (625)              | (330)          |
| Difference between OSD and itemized deductions                                | (397)              | (643)          |
| Net movement in unrecognized deferred income tax assets and other adjustments | (96)               | (588)          |
|   | <u>(1,636)</u>     | <u>(2,604)</u> |
| Actual provision for corporate income tax:                                    |                    |                |
| Continuing operations   | 6,235              | 4,677          |
| Discontinued operations (Note 2)  | –                  | 55             |
|   | <u>6,235</u>       | <u>4,732</u>   |

In accordance with Republic Act 9504 as implemented by Revenue Regulations No. 16-2008, corporations may elect a standard deduction in an amount equivalent to 40% of gross income in lieu of the itemized allowed deductions.

For taxable year 2014, Smart opted to use OSD method in computing its taxable income. In line with this, certain deferred income tax assets and liabilities of Smart, for which the related income and expenses are not considered in determining gross income for income tax purposes, are not recognized as deferred income tax assets and liabilities in the consolidated statements of financial position. This is because the manner by which they expect to recover or settle the underlying assets and liabilities would not result in any future tax consequence. Deferred income tax assets and liabilities, for which the related income and expenses are considered in determining gross income for income tax purposes, are recognized only to the

extent of their future tax consequence assuming OSD method was applied, which results in such deferred income tax assets and liabilities being reduced by the 40% allowable deduction that are provided for under the OSD method. Accordingly, the deferred income tax assets and liabilities that were not recognized due to the OSD method amounted to Php4,418 million and Php4,496 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Recognition of Deferred Income Tax Assets and Liabilities*.

The breakdown of our consolidated deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of the OSD method) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets as at June 30, 2014 and December 31, 2013 are as follows:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Fixed asset impairment   | 17,900             | 20,507               |
| Unearned revenues  | 5,601              | 6,529                |
| Provisions for other assets                                    | 4,580              | 5,694                |
| Accumulated provision for doubtful accounts                    | 4,079              | 3,765                |
| NOLCO  | 3,301              | 2,085                |
| Pension and other employee benefits                            | 1,224              | 362                  |
| Asset retirement obligation                                    | 918                | 537                  |
| MCIT   | 415                | 382                  |
| Accumulated write-down of inventories to net realizable values | 131                | 191                  |
| Derivative financial instruments                               | 98                 | 130                  |
| Unrealized foreign exchange losses                             | 42                 | 34                   |
| Operating lease and others                                     | 307                | 314                  |
|  | <b>38,596</b>      | <b>40,530</b>        |
| Unrecognized deferred income tax assets (Note 3)               | 11,870             | 12,426               |

As at June 30, 2014, Digitel Group’s deferred income tax assets were not recognized because management believes that there is no sufficient future taxable income that will be available upon which these can be utilized. Digitel Group’s unrecognized deferred income tax assets amounted to Php11,589 million and Php12,172 million as at June 30, 2014 and December 31, 2013, respectively.

Our consolidated deferred income tax assets have been recorded to the extent that such

consolidated deferred income tax assets are expected to be utilized against sufficient future taxable profit. Deferred income tax assets related to the preceding table were not recognized as we believe that future taxable profit will not be sufficient to realize these deductible temporary differences and carryforward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO in the future.

The breakdown of our consolidated excess MCIT and NOLCO as at June 30, 2014 are as follows:

| Date Incurred  | Expiry Date       | MCIT  | NOLCO |
|--|-------------------|-------|-------|
| (in million pesos)                                   |                   |       |       |
| June 30, 2014  | December 31, 2014 | 61    | 182   |
| December 31, 2012                                    | December 31, 2015 | 91    | 139   |
| December 31, 2013                                    | December 31, 2016 | 232   | 2,017 |
| December 31, 2014                                    | December 31, 2017 | 33    | 1,253 |
|  |                   | 417   | 3,591 |
| Consolidated tax benefits                            |                   | 417   | 1,077 |
| Consolidated unrecognized deferred income tax assets |                   | (415) | (990) |
| Consolidated recognized deferred income tax assets   |                   | 2     | 87    |

The excess MCIT totaling Php417 million as at June 30, 2014 can be deducted against future RCIT due. The excess MCIT that was deducted against RCIT due amounted to Php32 million and Php107 million for the six months ended June 30, 2014 and 2013, respectively. The amount of expired portion of excess MCIT amounted to nil and Php2 million for the six months ended June 30, 2014 and 2013, respectively.

NOLCO totaling Php3,591 million as at June 30, 2014 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php138 million and Php226 million for the six months ended June 30, 2014 and 2013, respectively. There was no expired portion of excess NOLCO for each of the six months ended June 30, 2014 and 2013.

*Registration with Subic Bay Freeport and Clark Special Economic Zone*

SubicTel is registered as a Subic Bay Freeport Enterprise, while ClarkTel is registered as a Clark Special Economic Zone Enterprise under Republic Act 7227, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and a special income tax rate of 5% of gross income, as defined in R.A. 7227.

*Registration with Philippine Economic Zone Authorities, or PEZA*

On July 23, 2013, PEZA approved IPCDSI's application for pioneer status as an Ecozone IT enterprise and was granted a three-year ITH for its expansion project up to June 29, 2015. Income from its IT operations shall be covered by the 5% gross income tax incentive, in lieu of all national and local taxes, including additional deductions for training expenses.

*Registration with BOI*

On January 3, 2007, the BOI approved ePLDT's application for pioneer status as a new IT service firm in the field of services related to Internet Data Center for its new data center facility. ePLDT was granted a six-year ITH for its new data center facility starting January 2007. Income derived after the expiration of the ITH is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

Consolidated income derived from non-registered activities with Economic Zone and BOI is subject to the RCIT rate as at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI amounted to Php27 million and Php12 million for the six months ended June 30, 2014 and 2013, respectively.

## 8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the six months ended June 30, 2014 and 2013:

|  | June 30,   |         |         |         |
|--|--|---------|---------|---------|
|  | 2014   |         | 2013    |         |
|  | Basic  | Diluted | Basic   | Diluted |
|  | (Unaudited)  |         |         |         |
|  | (in million pesos)   |         |         |         |
| Net income attributable to equity holders of PLDT from:                    |  |         |         |         |
| Continuing operations  | 20,023   | 20,023  | 17,844  | 17,844  |
| Discontinued operations (Notes 2 and 4)                                    | –  | –       | 1,863   | 1,863   |
| Consolidated net income attributable to equity holders of PLDT<br>(Note 4) | 20,023   | 20,023  | 19,707  | 19,707  |
| Dividends on preferred shares (Note 19)                                    | (29)   | (29)    | (27)    | (27)    |
| Consolidated net income attributable to common equity<br>holders of PLDT   | 19,994   | 19,994  | 19,680  | 19,680  |
|  | (in thousands, except per share amounts<br>which are in pesos) |         |         |         |
| Weighted average number of common shares                                   | 216,056  | 216,056 | 216,056 | 216,056 |
| EPS from continuing operations (Note 4)                                    | 92.54  | 92.54   | 82.47   | 82.47   |
| EPS from discontinued operations (Notes 2 and 4)                           | –  | –       | 8.62    | 8.62    |
| EPS attributable to common equity holders of PLDT (Note 4)                 | 92.54  | 92.54   | 91.09   | 91.09   |

Basic EPS amounts are calculated by dividing our consolidated net income for the period attributable to common equity holders of PLDT (consolidated net income adjusted for dividends on all series of preferred shares, except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares issued and outstanding during the period.

Diluted EPS amounts are calculated in the same manner assuming that, at the beginning of the year or at the time of issuance during the period, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to consolidated net income are effected for the related income and expenses on preferred shares. Outstanding stock options will have a dilutive effect only when the average market price of the underlying common share during the period exceeds the exercise price of the stock option.

Convertible preferred shares are deemed dilutive when required dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, decreases the basic EPS. As such, the diluted EPS is calculated by dividing our consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the period related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares excluding the weighted average number of common shares held as treasury shares, and including the common shares equivalent arising from the conversion of the dilutive convertible preferred shares and from the mandatory tender offer for all remaining Digitel shares.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.



## 9. Property, Plant and Equipment

Changes in property, plant and equipment account for the six months ended June 30, 2014 and for the year ended December 31, 2013 are as follows:

|   | Cable and wire facilities | Central office equipment | Cellular facilities | Buildings and improvements | Vehicles, aircraft, furniture and other network equipment | Communications satellite | Information origination and termination equipment | Land and land improvements | Property under construction | Total          |
|---|---------------------------|--------------------------|---------------------|----------------------------|---|--------------------------|---|----------------------------|-----------------------------|----------------|
| (in million pesos)  |                           |                          |                     |                            |   |                          |   |                            |                             |                |
| As at January 1, 2013 (Audited)   |                           |                          |                     |                            |   |                          |   |                            |                             |                |
| Cost  | 157,036                   | 95,258                   | 100,935             | 24,333                     | 42,628  | 966                      | 9,341   | 3,224                      | 47,312                      | 481,033        |
| Accumulated depreciation, impairment and amortization   | (96,545)                  | (74,730)                 | (52,543)            | (12,417)                   | (35,218)  | (966)                    | (8,278)   | (258)                      | –                           | (280,955)      |
| <b>Net book value (Note 3)</b>  | <b>60,491</b>             | <b>20,528</b>            | <b>48,392</b>       | <b>11,916</b>              | <b>7,410</b>  | <b>–</b>                 | <b>1,063</b>                                      | <b>2,966</b>               | <b>47,312</b>               | <b>200,078</b> |
| Year Ended December 31, 2013 (Audited)  |                           |                          |                     |                            |   |                          |   |                            |                             |                |
| Net book value at beginning of the year (Note 3)  | 60,491                    | 20,528                   | 48,392              | 11,916                     | 7,410   | –                        | 1,063   | 2,966                      | 47,312                      | 200,078        |
| Additions   | 2,456                     | 583                      | 5,331               | 333                        | 1,908   | –                        | 627   | 437                        | 16,802                      | 28,477         |
| Disposals/Retirements   | (626)                     | (128)                    | (269)               | (42)                       | (107)   | –                        | (1)   | (440)                      | (384)                       | (1,997)        |
| Translation differences charged directly to cumulative translation adjustments  | 8                         | (3)                      | –                   | (3)                        | 10  | –                        | –   | –                          | –                           | 12             |
| Impairment losses recognized during the year (Note 5)   | (305)                     | –                        | (1,778)             | –                          | (50)  | –                        | (9)   | –                          | –                           | (2,142)        |
| Reclassifications (Notes 12 and 17)   | 21                        | 64                       | 1,086               | (147)                      | (10)  | –                        | –   | (280)                      | (2,191)                     | (1,457)        |
| Transfers and others  | 4,643                     | 3,172                    | 5,172               | 272                        | 1,053   | –                        | 179   | 3                          | (14,494)                    | –              |
| Depreciation of revaluation increment on investment properties transferred to property, plant and equipment charged to other comprehensive income | –                         | –                        | –                   | (2)                        | –   | –                        | –   | –                          | –                           | (2)            |
| Depreciation and amortization   | (9,984)                   | (3,788)                  | (10,923)            | (1,325)                    | (3,680)   | –                        | (602)   | (2)                        | –                           | (30,304)       |
| <b>Net book value at end of the year (Note 3)</b>   | <b>56,704</b>             | <b>20,428</b>            | <b>47,011</b>       | <b>11,002</b>              | <b>6,534</b>  | <b>–</b>                 | <b>1,257</b>                                      | <b>2,684</b>               | <b>47,045</b>               | <b>192,665</b> |
| As at December 31, 2013 (Audited)   |                           |                          |                     |                            |   |                          |   |                            |                             |                |
| Cost  | 175,695                   | 115,625                  | 152,885             | 26,441                     | 48,595  | 966                      | 11,091  | 2,943                      | 47,045                      | 581,286        |
| Accumulated depreciation, impairment and amortization   | (118,991)                 | (95,197)                 | (105,874)           | (15,439)                   | (42,061)  | (966)                    | (9,834)   | (259)                      | –                           | (388,621)      |
| <b>Net book value (Note 3)</b>  | <b>56,704</b>             | <b>20,428</b>            | <b>47,011</b>       | <b>11,002</b>              | <b>6,534</b>  | <b>–</b>                 | <b>1,257</b>                                      | <b>2,684</b>               | <b>47,045</b>               | <b>192,665</b> |
| Period Ended June 30, 2014 (Unaudited)  |                           |                          |                     |                            |   |                          |   |                            |                             |                |
| Net book value at beginning of the period (Note 3)  | 56,704                    | 20,428                   | 47,011              | 11,002                     | 6,534   | –                        | 1,257   | 2,684                      | 47,045                      | 192,665        |
| Additions   | 759                       | 174                      | 3,523               | 114                        | 1,000   | –                        | 311   | 5                          | 3,409                       | 9,295          |
| Disposals/Retirements   | (2)                       | (2)                      | (143)               | (1)                        | (35)  | –                        | –   | –                          | (1)                         | (184)          |
| Translation differences charged directly to cumulative translation adjustments  | (3)                       | 4                        | –                   | (5)                        | 1   | –                        | –   | –                          | –                           | (3)            |
| Acquisition through business combinations (Note 13)   | –                         | –                        | –                   | –                          | 503   | –                        | –   | –                          | 38                          | 541            |
| Reclassifications (Notes 12 and 17)   | (55)                      | (111)                    | 6                   | –                          | –   | –                        | 114   | –                          | (1,156)                     | (1,202)        |
| Transfers and others  | 2,894                     | 1,235                    | 1,583               | 111                        | 382   | –                        | 34  | –                          | (6,239)                     | –              |
| Impairment losses recognized during the period (Notes 3 and 5)  | –                         | (227)                    | –                   | –                          | –   | –                        | –   | –                          | –                           | (227)          |
| Depreciation of revaluation increment on investment properties transferred to property, plant and equipment                                       | –                         | –                        | –                   | (1)                        | –   | –                        | –   | –                          | –                           | (1)            |

|   | Cable and wire facilities | Central office equipment | Cellular facilities | Buildings and improvements | Vehicles, aircraft, furniture and other network equipment | Communications satellite | Information origination and termination equipment | Land and land improvements | Property under construction | Total     |
|---|---------------------------|--------------------------|---------------------|----------------------------|---|--------------------------|---|----------------------------|-----------------------------|-----------|
| (in million pesos)                                    |                           |                          |                     |                            |   |                          |   |                            |                             |           |
| charged to other comprehensive income                 |                           |                          |                     |                            |   |                          |   |                            |                             |           |
| Depreciation and amortization (Notes 2, 3 and 4)      | (4,502)                   | (1,991)                  | (5,291)             | (676)                      | (1,702)   | –                        | (327)   | (1)                        | –                           | (14,490)  |
| Net book value at end of the period (Note 3)          | 55,795                    | 19,510                   | 46,689              | 10,544                     | 6,683   | –                        | 1,389   | 2,688                      | 43,096                      | 186,394   |
| As at June 30, 2014 (Unaudited)                       |                           |                          |                     |                            |   |                          |   |                            |                             |           |
| Cost  | 178,720                   | 115,893                  | 154,457             | 26,659                     | 48,608  | 966                      | 11,546  | 2,949                      | 43,096                      | 582,894   |
| Accumulated depreciation, impairment and amortization | (122,925)                 | (96,383)                 | (107,768)           | (16,115)                   | (41,925)  | (966)                    | (10,157)  | (261)                      | –                           | (396,500) |
| Net book value (Note 3)                               | 55,795                    | 19,510                   | 46,689              | 10,544                     | 6,683   | –                        | 1,389   | 2,688                      | 43,096                      | 186,394   |

Substantially all of our telecommunications equipment are purchased outside the Philippines. Our significant sources of financing for such purchases are foreign loans requiring repayment in currencies other than the Philippine peso, which are principally in U.S. dollars. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

Interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php224 million and Php303 million for the six months ended June 30, 2014 and 2013, respectively. See *Note 5 – Income and Expenses – Financing Costs, net*. Our undepreciated interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php6,515 million and Php6,885 million as at June 30, 2014 and December 31, 2013, respectively. The average interest capitalization rates used were approximately 4% each for the six months ended June 30, 2014 and 2013.

Our undepreciated capitalized net foreign exchange losses that qualified as borrowing costs amounted to Php76 million and Php80 million as at June 30, 2014 and December 31, 2013, respectively. There were no additional capitalized foreign exchange differences, which qualified as borrowing costs for the six months ended June 30, 2014 and 2013.

The useful lives of our property, plant and equipment are estimated as follows:

|   |               |
|---|---------------|
| Cable and wire facilities                                 | 10 – 15 years |
| Central office equipment                                  | 3 – 15 years  |
| Cellular facilities                                       | 3 – 10 years  |
| Buildings   | 25 years      |
| Vehicles, aircraft, furniture and other network equipment | 3 – 7 years   |
| Information origination and termination equipment         | 3 – 5 years   |
| Leasehold improvements                                    | 3 – 5 years   |
| Land improvements   | 10 years      |

Property, plant and equipment include the net carrying value of capitalized vehicles, aircraft,

furniture and other network equipment under financing leases, which amounted to Php16 million and Php18 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases*.

*Impairment of Certain Network Equipment and Facilities*

In 2013, Smart and DMPI launched a network convergence program designed to consolidate the networks of Smart and DMPI into a single network enabling subscribers of both companies to take advantage of the combined network. The convergence is expected to result in savings from synergies in terms of optimized capital expenditures and cost efficiencies from colocation of base stations, consolidation of core systems, and operating expenses. The program, however, rendered certain network equipment and site facilities obsolete. In view of this, Smart and DMPI recognized full impairment provision on the net book value of the affected network equipment and site facilities amounting to Php378 million and Php1,764 million, respectively.

In 2014, PLDT has implemented massive fiber optic footprint and backbone expansion which increased bandwidth connectivity between different regions of the country and rendered subscribers opportunities for better services. In relation to this, PLDT has recognized an impairment provision on the net book value of certain transmission facilities consequently replaced by the program amounting to Php227 million.

See *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Asset Impairment*.

## 10. Investments in Associates, Joint Ventures and Deposits

As at June 30, 2014 and December 31, 2013, this account consists of:

|   | June 30,<br>2014 | December 31,<br>2013 |
|---|------------------|----------------------|
|   | (Unaudited)      | (Audited)            |
| (in million pesos)  |                  |                      |
| Carrying value of investments in associates:  |                  |                      |
| MediaQuest (Note 3)   | 9,634            | 9,522                |
| Digitel Crossing, Inc., or DCI  | 109              | 102                  |
| PG1 (Note 13)   | –                | 111                  |
| Beta  | –                | –                    |
| ACeS International Limited, or AIL  | –                | –                    |
| Asia Netcom Philippines Corp., or ANPC  | –                | –                    |
|   | 9,743            | 9,735                |
| Carrying value of investments in joint ventures:  |                  |                      |
| Beacon  | 31,158           | 29,625               |
| PLDT Italy S.r.l., or PLDT Italy  | –                | –                    |
|   | 31,158           | 29,625               |
| Deposit for future PDRs subscription:   |                  |                      |
| MediaQuest  | 2,250            | 1,950                |
| Deposit for future stock subscription:  |                  |                      |
| Automated Fare Collection System, or AFCS   | 300              | –                    |
|   | 2,550            | 1,950                |
| Total carrying value of investments in associates, joint ventures and deposits (Note 4) | 43,451           | 41,310               |

Changes in the cost of investments and deposits for the six months ended June 30, 2014 and for the year ended December 31, 2013 are as follows:

|                                    | June 30,<br>2014   | December 31,<br>2013 |
|------------------------------------|--------------------|----------------------|
|                                    | (Unaudited)        | (Audited)            |
|                                    | (in million pesos) |                      |
| Balance at beginning of the period | 37,074             | 26,312               |
| Additions during the period        | 600                | 5,557                |
| Business combinations (Note 13)    | (155)              | -                    |
| Reclassification                   | -                  | 5,440                |
| Disposal during the period         | -                  | (254)                |
| Translation and other adjustments  | (4)                | 19                   |
| Balance at end of the period       | 37,515             | 37,074               |

Changes in the accumulated impairment losses for the six months ended June 30, 2014 and for the year ended December 31, 2013 are as follows:

|                                    | June 30,<br>2014   | December 31,<br>2013 |
|------------------------------------|--------------------|----------------------|
|                                    | (Unaudited)        | (Audited)            |
|                                    | (in million pesos) |                      |
| Balance at beginning of the period | 1,883              | 1,877                |
| Translation and other adjustments  | (1)                | 6                    |
| Balance at end of the period       | 1,882              | 1,883                |

Changes in the accumulated equity share in net earnings of associates and joint ventures for the six months ended June 30, 2014 and for the year ended December 31, 2013 are as follows:

|   | June 30,<br>2014   | December 31,<br>2013 |
|---|--------------------|----------------------|
|   | (Unaudited)        | (Audited)            |
|   | (in million pesos) |                      |
| Balance at beginning of the period  | 6,119              | 2,642                |
| Equity share in net earnings (losses) of associates and joint ventures (Note 4):                                      | 2,083              | 2,742                |
| Beacon  | 2,075              | 2,769                |
| MediaQuest  | 112                | (78)                 |
| DCI   | 7                  | 13                   |
| PG1   | (13)               | (21)                 |
| Beta  | (98)               | 113                  |
| Mobile Payment Solutions Pte. Ltd., or MPS  | –                  | (54)                 |
| Realized portion of deferred gain on the transfer of Meralco shares   | 1,418              | –                    |
| Business combinations (Note 13)   | 57                 | –                    |
| Share in the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method | (105)              | 1,020                |
| Dividends   | (1,855)            | (405)                |
| Disposals   | –                  | 253                  |
| Translation and other adjustments   | 101                | (133)                |
| Balance at end of the period  | 7,818              | 6,119                |

### *Investments in Associates*

#### *Investment in MediaQuest*

In 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the PLDT-BTF, for the issuance of PDRs by MediaQuest in relation to its indirect interest in Cignal TV. Cignal TV is a wholly-owned subsidiary of Satventures, which is a wholly-owned subsidiary of MediaQuest. The Cignal TV PDRs confer an economic interest in common shares of Cignal TV indirectly owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Cignal TV. Cignal TV operates a direct-to-home, or DTH, Pay-TV business under the brand name "Cignal TV", which is the largest DTH Pay-TV operator in the Philippines with 755 thousand net subscribers as at June 30, 2014.

On March 5, 2013, PLDT's Board of Directors approved two further investments in additional PDRs of MediaQuest:

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation

to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Satventures; and

- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings Holdings, Inc., or Hastings. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest, and when issued, will provide ePLDT with a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including equity interests in the three leading newspapers: The Philippine Star, the Philippine Daily Inquirer, and Business World. See *Note 25 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest*.

The Php6 billion Cignal TV PDRs and Php3.6 billion Satventures PDRs were issued on September 27, 2013. These PDRs will provide ePLDT an aggregate of 64% economic interest in Cignal TV. The carrying value of investment in MediaQuest amounted to Php9,634 million and Php9,522 million as at June 30, 2014 and December 31, 2013, respectively.

On March 4, 2014, PLDT's Board of Directors approved an additional investment of up to Php500 million in Hastings PDRs to be issued by MediaQuest, which will increase ePLDT's investment in Hastings PDRs from Php1.95 billion up to Php2.45 billion representing a 60% economic interest in Hastings. A new investor is expected to subscribe for a 40% economic interest in Hastings either directly through Hastings or PDRs to be issued by MediaQuest in relation to its interest in Hastings.

On March 11, 2014, MediaQuest received from ePLDT an amount aggregating to Php300 million representing deposits for future PDRs subscription.

ePLDT's deposit for future Hastings PDRs subscription amounted to Php2.25 billion and Php1.95 billion as at June 30, 2014 and December 31, 2013, respectively.

As at the date of issuance of this report, the Hastings PDRs have not yet been issued.

The PLDT Group's financial investment in PDRs of MediaQuest is part of the PLDT Group's overall strategy of broadening its distribution platforms and increasing the Group's ability to deliver multi-media content to its customers across the Group's broadband and mobile networks.

*Investment of Digitel in DCI and ANPC*

Digitel has 60% and 40% interest in Asia Netcom Philippines Corporation, or ANPC, and Digitel Crossing, Inc., or DCI, respectively. DCI is involved in the business of cable system linking Philippines, United States and other neighboring countries in Asia. ANPC is an investment holding company owning 20% of DCI.

In December 2000, Digitel, Pacnet Network (Philippines), Inc., or PNPI, (formerly Asia Global Crossing Ltd.) and BT Group O/B Broadband Infrastructure Group Ltd., or BIG, entered into a Joint Venture Agreement, or JVA, under which the parties agreed to form DCI with each party owning 40%, 40% and 20%, respectively. DCI was incorporated to develop, provide and market backhaul network services, among others.

On April 19, 2001, after BIG withdrew from the proposed joint venture, or JV, Digitel and PNPI formed ANPC to replace BIG. Digitel contributed US\$2 million, or Php69 million, for a 60% equity interest in ANPC while PNPI owned the remaining 40% equity interest.

Digitel provided full impairment loss on its investment in DCI and ANPC in prior years on the basis that DCI and ANPC have incurred significant recurring losses in the past. In 2011, Digitel recorded a reversal of impairment loss amounting to Php92 million following improvement in the associates' operations.

Digitel has no control over ANPC despite owning more than half of voting interest because of certain governance matters, and management has assessed that Digitel only has significant influence.

Digitel's investment in DCI does not qualify as investment in JV as there is no provision for joint control in the JV agreement among Digitel, PNPI and ANPC.

Following PLDT's acquisition of a controlling stake in Digitel, PNPI, on November 4, 2011, sent a notice to exercise its Call Right under Section 6.3 of the JVA, which provides for a Call Right exercisable by PNPI following the occurrence of a Digitel change in control. As at the date of issuance of this report, Digitel management is ready to conclude the transfer of its investment in DCI, subject to PNPI's ability to meet certain regulatory and valuation requirements.



### *Investment in PG1*

On June 14, 2011, PLDT, Meralco Powergen Corporation, or MPG, Philex Mining Corporation, or Philex, Metro Pacific Tollways Corporation, or MPTC, Metro Pacific Investments Corporation, or MPIC, and Jubilee Sky Limited, or JSL, entered into a shareholders' agreement to establish PG1, with the purpose of carrying on, by means of aircraft of every kind or description, the general business of common and/or private carrier. PLDT subscribed to 125 million common shares with an aggregate value of Php125 million, representing 50% equity interest in PG1 and 30 million preferred shares with an aggregate value of Php30 million, which were all paid by assigning to PG1 certain aircraft and other related assets of PLDT. The difference between the Php244 million fair value of the assets and the Php155 million total subscription price amounting to Php89 million was booked as advances and shall be paid by PG1 to PLDT in cash after incorporation, as soon as reasonably practicable. PLDT has agreed to transfer 10% of its common shares to MPG, within a reasonable time after incorporation of PG1, to increase MPG's ownership to 15% and reduce PLDT's ownership to 40% of the outstanding common shares of PG1.

As at December 31, 2013, MPG, Philex, MPTC, MPIC and JSL own 5%, 15%, 5%, 10% and 15% of PG1, respectively. PLDT has significant influence in PG1; consequently, PLDT has accounted for its investment in PG1 as an investment in associate.

On January 28, 2014, PLDT's Board of Directors approved the purchase of 37.5 million shares of PG1 owned by JSL which effectively increases PLDT's ownership in PG1 from 50% to 65%. The cash consideration for the shares purchased which was completed on March 10, 2014 was Php23 million. Thus, PLDT gained control of PG1 and, therefore, PG1's financial statements were included in our consolidated financial statements effective March 10, 2014.

#### *Investment of PGIC in Beta*

On February 5, 2013, PLDT entered into a Subscription and Shareholders' Agreement with Asia Outsourcing Alpha Limited, or Alpha, and Beta, wherein PLDT, through its indirect subsidiary PGIC, acquired from Alpha approximately 19.7% equity interest in Beta for a total cost of approximately US\$40 million, which consists of preferred shares of US\$39.8 million and ordinary shares of US\$0.2 million. In June 2013, PGIC transferred 112 ordinary shares and 41,069 preferred shares to certain employees of Beta for a total consideration price of US\$42 thousand. The equity interest of PGIC in Beta remained at 19.7% after the transfer with economic interest of 18.24%. See related discussion on *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*.

Alpha and Beta are both exempted limited liability companies incorporated under the laws of Cayman Islands and are both controlled by CVC. Beta has been designated to be the holding company of the SPi Technologies, Inc. and Subsidiaries, or SPi Group.

The carrying value of PGIC's investment in Beta's preferred shares amounting to Php1,820 million and Php1,862 million were presented as part of investment in debt securities and other long-term investments in our consolidated statements of financial position as at June 30, 2014 and December 31, 2013, respectively. See related discussion on *Note 11 – Investment in Debt Securities and Other Long-term Investments*. The carrying value of investment in common shares amounted to nil as at June 30, 2014 and December 31, 2013.

PGIC is a wholly-owned subsidiary of PLDT Global, which was incorporated under the laws of British Virgin Islands.

#### *Investment of ACeS Philippines in AIL*

As at June 30, 2014, ACeS Philippines held 36.99% equity interest in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia.

AIL has incurred recurring significant operating losses, negative operating cash flows, and significant levels of debt. The financial condition of AIL was partly due to the National Service Providers', or NSPs, inability to generate the amount of revenues originally expected as the growth in subscriber numbers has been significantly lower than budgeted. These factors raised substantial doubt about AIL's ability to continue as a going concern. On this basis, we recognized a full impairment provision of Php1,896 million in respect of our investment in AIL in 2003.

Unrecognized share in net income of AIL amounted to Php8 million and Php167 million for the six months ended June 30, 2014 and 2013, respectively. Share in net cumulative losses amounting to Php1,791 million and Php1,412 million as at June 30, 2014 and December 31, 2013, respectively, were not recognized as we do not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AIL.

See *Note 24 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AIL Related Agreements* and *Note 27 – Financial Assets and Liabilities – Liquidity Risk – Unconditional Purchase Obligations* for further details as to the contractual relationships with respect to AIL.

#### *Summarized Financial Information of Associates*

The following tables present our share in the summarized financial information of our investments in associates in conformity with PFRS for equity investees in which we have significant influence as at June 30, 2014 and December 31, 2013 and for the six months ended June 30, 2014 and 2013:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| <b>Statements of Financial Position:</b> |                    |                      |
| Noncurrent assets                        | 3,074              | 5,547                |
| Current assets                           | 1,261              | 2,563                |
| Equity                                   | (1,528)            | (725)                |
| Noncurrent liabilities                   | 3,627              | 4,935                |
| Current liabilities                      | 2,236              | 3,900                |

|                              | June 30,           |      |
|------------------------------|--------------------|------|
|                              | 2014               | 2013 |
|                              | (Unaudited)        |      |
|                              | (in million pesos) |      |
| <b>Income Statements:</b>    |                    |      |
| Revenues                     | 1,155              | 366  |
| Expenses                     | 998                | 342  |
| Other income (expense) – net | (157)              | 53   |
| Net income                   | –                  | 77   |
| Other comprehensive income   | –                  | –    |
| Total comprehensive income   | –                  | 77   |

We have no outstanding contingent liabilities or capital commitments with our associates as at June 30, 2014 and December 31, 2013.

#### *Investments in Joint Ventures*

##### *Investment in Beacon*

On March 1, 2010, PCEV, MPIC and Beacon, entered into an Omnibus Agreement, or OA. Beacon was incorporated in the Philippines and organized with the sole purpose of holding the respective shareholdings in Meralco of PCEV and MPIC. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity interest in Meralco. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon. Beacon, PCEV and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers.

Beacon is merely a special purpose vehicle created for the main purpose of holding and investing in Meralco using the same Meralco shares as collateral for funding such additional investment. The OA entered into by Beacon, PCEV and MPIC effectively delegates the decision making power of Beacon over the Meralco shares to PCEV and MPIC and that Beacon does not exercise any discretion over the vote to be taken in respect of the Meralco shares but is obligated to vote on the Meralco shares strictly in accordance with the instructions of PCEV and MPIC. Significant influence over the relevant financing and operating activities of Meralco is exercised at the respective Board of PCEV and MPIC.

PCEV accounts for its investment in Beacon as investment in joint venture since the OA establishes joint control over Beacon.

### *Beacon's Capitalization*

Beacon's authorized capital stock of Php5,000 million consists of 3,000 million common shares with a par value of Php1 per share and 2,000 million preferred shares with a par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon and have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preferred shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

On March 30, 2010, MPIC subscribed to 1,157 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 164 million Meralco shares at a price of Php150 per share, or an aggregate amount of Php24,540 million; and (2) Php6,600 million in cash, as further discussed in "Transfer of Meralco Shares to Beacon" section below for further information.

PCEV likewise subscribed to 1,157 million common shares of Beacon on March 30, 2010 in consideration of the transfer of 154 million Meralco common shares at a price of Php150 per share, or an aggregate amount of Php23,130 million.

### *Transfer of Meralco Shares to Beacon*

Alongside the subscription to the Beacon shares pursuant to the OA, Beacon purchased 154 million and 164 million Meralco common shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares. PCEV transferred the 154 million Meralco common shares to Beacon on May 12, 2010. The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

PCEV recognized a deferred gain of Php8,047 million for the difference between the Php23,130 million transfer price of the Meralco shares to Beacon and the Php15,083 million carrying amount in PCEV's books of the Meralco shares transferred since the transfer was between entities with common shareholders. The deferred gain, presented as a reduction in PCEV's investment in Beacon common shares, will only be realized upon the disposal of the Meralco shares to a third party.

On October 25, 2011, PCEV transferred to Beacon its remaining investment in 69 million of Meralco's common shares for a total cash consideration of Php15,136 million. PCEV also subscribed to 1,199 million Beacon preferred shares at the same value. The transfer of the Meralco shares was implemented by a cross sale through the PSE.

Since the transactions involve entities with common shareholders, PCEV recognized a deferred gain on transfer of the Meralco shares amounting to Php8,145 million, equivalent to the difference between the Php15,136 million transfer price of the Meralco shares and the Php6,991 million carrying amount in PCEV's books of the Meralco shares transferred. The deferred gain was presented as an adjustment to the investment cost of the Beacon preferred shares in 2011. Similar to the deferred gain on the transfer of the 154 million Meralco shares, the deferred gain will only be realized upon the disposal of the Meralco shares to a third party.

The carrying value of PCEV's investment in Beacon, representing 50% of Beacon's common shares outstanding, was Php24,908 million and Php23,375 million as at June 30, 2014 and December 31, 2013, respectively.

#### *PCEV's Additional Investment in Beacon Common Shares*

On January 20, 2012, PCEV subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million. On the same date, MPIC also subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million.

#### *Sale of Beacon Preferred Shares to MPIC*

On June 6, 2012, PCEV sold approximately 282 million of its investment in Beacon preferred shares to MPIC for a total cash consideration of Php3,563 million which took effect on June 29, 2012. Beacon preferred shares were sold to an entity not included in PLDT Group, PCEV realized a portion of the deferred gain, amounting to Php2,012 million, which was recorded when the underlying Meralco shares were transferred to Beacon.

#### *Change in View and Purpose of Investment in Beacon Preferred Shares*

On October 30, 2013, PCEV's Board of Directors approved the change in view and purpose of investment in Beacon preferred shares, from investment available-for-sale financial investments to strategic investment which PCEV intends to hold on to in the long-term, similar to its investment in common shares. As a result, the investment in Beacon preferred shares was reclassified from available-for-sale financial investments to investment in a joint

venture (both are noncurrent assets). The carrying value of PCEV's investment in Beacon preferred shares amounted to Php6,250 million as at June 30, 2014 and December 31, 2013 (net of deferred gain of Php6,133 million as at June 30, 2014 and December 31, 2013).

Dividends received amounted to Php405 million for the year ended December 31, 2013 was deducted from the carrying value of the investment in a joint venture following the reclassification from available-for-sale financial investments.

In March 2014, Beacon declared 7% cumulative preferred dividend on its preferred shareholders in the amount of Php810 million. Such dividend was received in May 2014 and was deducted from the carrying value of the investment in a joint venture.

#### *Sale of Beacon's Meralco Shares to MPIC*

On June 24, 2014, Beacon and MPIC, with PCEV's approval, entered into a Share Purchase Agreement to sell 56 million common shares, comprising approximately 5% interest in Meralco to MPIC at a price of Php235 per share for an aggregate consideration of Php13,243 million. Based on the agreement, the consideration payable by MPIC to Beacon will be settled as Php3,000 million immediately upon signing and the balance on or before February 2015. Since Beacon sold these shares to an entity not included in the PLDT Group, PCEV realized a portion of the deferred gain, amounting to Php1,418 million, which was recorded when the Meralco shares were transferred to Beacon. After this transaction, the remaining deferred gain on transfer of Meralco shares amounted to Php6,629 million as at June 30, 2014. See *Note 2 – Summary of Significant Accounting Policies – PCEV's Common Stock*.

Upon completion of the sale, PCEV's interest in Meralco will be reduced to an effective interest of 22.48%, while MPIC will directly own 5% of Meralco shares, and through Beacon, a further 22.48% thereby taking its effective interest in Meralco to 27.48%. There will be no change in the aggregate, joint interest of MPIC and Beacon in Meralco which remains at 49.96%.

### *Beacon's Acquisition of Additional Meralco Shares*

A summary of Beacon's purchases and sale of Meralco shares are shown below:

| Date  | Beneficial Ownership | Number of Shares | Nominal Value Per Share | Aggregate Cost* |
|---|----------------------|------------------|-------------------------|-----------------|
| (in millions, except for nominal value per share) |                      |                  |                         |                 |
| Various dates in 2011                             | 4.40%                | 49.9             | Php-                    | Php14,310.0     |
| January 2012                                      | 2.70%                | 30.0             | 295                     | 9,103.8         |
| November 2012                                     | 0.30%                | 3.2              | 262                     | 841.7           |
| December 2012                                     | 0.03%                | 0.3              | 249                     | 89.5            |
| July 19, 2013                                     | 0.89%                | 10.0             | 270                     | 2,728.0         |
| July 30, 2013                                     | 0.74%                | 8.3              | 291                     | 3,207.0         |
| June 24, 2014                                     | (5.00%)              | (56.4)           | 235                     | (12,537.0)      |

\* Inclusive of transaction costs.

As at June 30, 2014, Beacon effectively owns 507 million Meralco common shares representing approximately 44.96% effective ownership in Meralco with a carrying value of Php112,739 million and market value of Php129,632 million based on quoted price of Php256 per share. As at December 31, 2013, Beacon effectively owned 563 million Meralco common shares representing approximately 49.96% effective ownership in Meralco with a carrying value of Php124,717 million and market value of Php141,344 million based on quoted price of Php251 per share.

### *Beacon's Financing*

On March 22, 2010, Beacon entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation, or FMIC, and PNB Capital and Investment Corporation, or PNB Capital, as joint lead arrangers and various local financial institutions as noteholders. The initial drawdown of Php16,200 million (Php16,031 million, net of debt issuance cost of Php168.5 million) under this notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option in March 2010. In May 2011, the remaining Php1,800 million was drawn to partially finance the acquisition of the additional 49.9 million Meralco common shares including shares purchased under a deferred payment scheme. The loan was prepaid in full on March 27, 2013.



On May 24, 2011, Beacon entered into an Php11,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The amount drawn under this facility as at December 31, 2011 amounting to Php4,000 million was also used to partially finance the acquisition of the additional 49.9 million Meralco common shares. The remaining Php7,000 million was subsequently drawn on July 9, 2012 and used for the payment of the final tranche of the deferred purchase made in May 2011. The outstanding balance of the facility amounted to Php10,363 million and Php10,780 million as at June 30, 2014 and December 31, 2013, respectively.

On November 9, 2011, Beacon entered into a Php5,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The full amount was drawn on February 1, 2012 and was used to finance the acquisition of the additional 30 million Meralco common stock from FPUC. The loan was prepaid in full on August 1, 2013.

On February 6, 2013, Beacon entered into a Php17,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The proceeds were used to refinance the Php18,000 million ten-year Corporate Notes Facility under a Facility Agreement dated March 22, 2010. The loan facility is divided into two tranches with the first tranche amounting to Php2,285 million (the "Tranche A") and the second tranche amounting to Php14,715 million (the "Tranche B").

Both tranches have a term of ten years with semi-annual interest and principal payments starting May 27, 2013 with final repayment on March 27, 2023. The Tranche A bears a fixed interest rate based on the ten-year PDST-F plus a spread, subject to a floor rate. The Tranche B bears a fixed interest rate for the first five years from the Drawdown Date based on the five-year PDST-F plus a spread, subject to a floor rate. For the next five years, the fixed interest rate for Tranche B will be repriced based on the five-year PDST-F on the Business Day immediately preceding the Repricing Date plus a spread, provided that such interest rate shall not be lower than the applicable interest rate for the first five years. The outstanding balance of the facility amounted to Php16,541 million and Php16,872 million as at June 30, 2014 and December 31, 2013, respectively.

On May 27, 2013, Beacon entered into a Forward Starting Interest Rate Swap, or Forward Starting IRS, to hedge the interest repricing risk on the outstanding balance of the Tranche B (Php14,715 million) by the end of the fifth year. The Forward Starting IRS will have a receive leg based on a rate which will be determined on March 26, 2018 and pay leg of 6.98% fixed rate that virtually matches the debt's critical terms (i.e., benchmark rate and fixing date). The hedge is expected to be highly effective and such as Beacon designates the Forward Starting IRS as a cash flow hedge. The changes in fair value of the Forward Starting IRS will be deferred in equity under Beacon's other comprehensive income (loss) reserve account.

On July 29, 2013, Beacon entered into a Php9,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The proceeds were used to refinance the Php5,000 million ten-year corporate notes facility under a Facility Agreement dated November 9, 2011 and to partially finance the acquisition of the additional 18.3 million Meralco common shares. This facility was fully drawn on August 1, 2013 with semi-annual interest and principal payments starting July 31, 2013 with final repayment on July 31, 2023. The loan facility is divided into two tranches with the first tranche amounting to Php2,950 million (the "Tranche A") and the second tranche amounting to Php6,050 million (the "Tranche B"). The outstanding balance of the facility amounted to Php8,759 million and Php8,933 million as at June 30, 2014 and December 31, 2013, respectively.

On August 13, 2013, Beacon availed of two short-term notes from local banks, each with a principal sum of Php200 million. Both notes bear interest at a fixed rate equivalent to the higher of 4.5% per annum and the Bangko Sentral ng Pilipinas Overnight Reverse Repurchase Agreement Rate prevailing on the interest setting date plus 1%. Both notes were paid in full on November 13, 2013.

The above facilities were secured by a pledge over the Meralco shares and were not guaranteed by PLDT. Also, the above facilities were not included in our consolidated long-term debt.

#### *Investment of PLDT Global in PLDT Italy*

PLDT Global holds 100% equity interest in PLDT Italy, a company incorporated under the laws of Italy, which is intended to carry the joint venture business between PLDT Global and Hutchison Global Communications Limited, or HGC, a company based in Hong Kong. On March 12, 2008, PLDT Global and HGC entered into a Co-operation Agreement wherein the parties agreed to launch their first commercial venture in Italy by offering mobile telecommunications services through PLDT Italy. Under the terms of the agreement, PLDT Global and HGC agreed to share equally the profit or loss from the operations of PLDT Italy. As a condition precedent to the effectiveness of the Co-Operation Agreement, PLDT Global pledged 50% of its shareholdings in PLDT Italy to HGC.

The amount of funding contributed by each partner to the joint venture is Euro 3.9 million, or a total of Euro 7.8 million each as at June 30, 2014 and December 31, 2013. PLDT Global has made a full impairment provision on its investment to PLDT Italy as at June 30, 2014 and December 31, 2013.

#### *Investment of SeMI in MPS*

In June 2010, SeMI and MasterCard Asia/Pacific Pte. Ltd., or MasterCard Asia, entered into a JVA under which the parties agreed to form MPS. The joint venture will develop, provide and market certain mobile payment services among other activities as stipulated in the agreement. MPS was incorporated in Singapore on June 4, 2010 and is 40% and 60% owned by SeMI and MasterCard Asia, respectively. On November 9, 2010, SeMI contributed US\$2.4 million representing 40% ownership in MPS.

On November 21, 2011, the Board of Directors of MPS approved the allotment and issuance of additional 5 million shares for US\$5 million and 3 million shares for US\$3 million to MasterCard Asia and SeMI, respectively. On April 25, 2012, SeMI remitted the amount of US\$2 million representing the 60% payment for the additional shares allotted to SeMI. On August 23, 2012, the balance of US\$1 million representing the 40% of the remaining additional shares was paid.

On March 26, 2012, SeMI entered into a licensing agreement with MasterCard Asia to accept and process MasterCard Asia's debit and credit card transactions of accredited merchants. SeMI became the first non-bank institution in the country to be granted an acquiring license by MasterCard Asia.

On November 21, 2013, SeMI and MasterCard Asia executed a Stock Purchase Agreement wherein SeMI sold all of its shares in MPS totaling to approximately 6 million shares to MasterCard Asia for a purchase price of US\$1.00. On the same date, both companies executed a Settlement Agreement wherein MPS agreed to settle its outstanding payables to SeMI as at August 31, 2013, after deducting SeMI's 40% share in the net liabilities of MPS. The net settlement amount as at the cut-off date amounted to US\$2.18 million. However, SeMI shall continue to be a supplier of MPS by virtue of their independent Contractor Services Agreement.

The carrying values of SeMI's investment in MPS amounted to nil as at June 30, 2014 and December 31, 2013.

#### *Summarized Financial Information of Joint Ventures*

The table below presents the summarized financial information of Beacon as at June 30, 2014 and December 31, 2013 and for the six months ended June 30, 2014 and 2013:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| <b>Statements of Financial Position:</b> |                    |                      |
| Noncurrent assets                        | 112,739            | 124,717              |
| Current assets                           | 12,136             | 686                  |
| Equity                                   | 87,915             | 87,664               |
| Noncurrent liabilities                   | 34,769             | 35,556               |
| Current liabilities                      | 2,191              | 2,183                |
| <b>Additional Information:</b>           |                    |                      |
| Cash and cash equivalents                | 1,888              | 683                  |
| Current financial liabilities*           | 936                | 936                  |
| Noncurrent financial liabilities*        | 34,727             | 35,195               |

\* Excluding trade, other payables and provisions.

|   | June 30,           |       |
|---|--------------------|-------|
|   | 2014               | 2013  |
|   | (Unaudited)        |       |
|   | (in million pesos) |       |
| <b>Income Statements:</b>               |                    |       |
| Revenues - equity share in net earnings | 4,719              | 4,360 |
| Expenses                                | 2                  | 151   |
| Interest income                         | 7                  | 21    |
| Interest expense                        | 1,186              | 1,251 |
| Net income                              | 4,166              | 3,006 |
| Other comprehensive income              | 154                | -     |
| Total comprehensive income              | 4,320              | 3,006 |

The following table presents the reconciliation between the share in Beacon's equity and the carrying value of investment in Beacon as at June 30, 2014 and December 31, 2013:

|  | June 30,           | December 31, |
|--|--------------------|--------------|
|  | 2014               | 2013         |
|  | (Unaudited)        | (Audited)    |
|  | (in million pesos) |              |
| Beacon's equity                                  | 87,915             | 87,664       |
| Less: Cumulative dividends to preferred shares   | (1,620)            | (1,620)      |
| Preferred shares                                 | (23,146)           | (23,146)     |
| Net assets attributable to common shares         | 63,149             | 62,898       |
| PCEV's ownership interest                        | 50%                | 50%          |
| Share in net assets of Beacon                    | 31,574             | 31,449       |
| Carrying value of investment in preferred shares | 6,250              | 6,250        |
| Purchase price allocation adjustments            | (37)               | (39)         |
| Deferred gain on transfer of Meralco shares      | (6,629)            | (8,047)      |
| Others   | -                  | 12           |
| Carrying amount of interest in Beacon            | 31,158             | 29,625       |

The following table presents our aggregate share in the summarized financial information of our investments in individually immaterial joint ventures as at June 30, 2014 and December 31, 2013 and for the six months ended June 30, 2014 and 2013:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| <b>Statements of Financial Position:</b> |                    |                      |
| Noncurrent assets                        | –                  | –                    |
| Current assets                           | 5                  | 4                    |
| Equity                                   | 4                  | 4                    |
| Current liabilities                      | 1                  | –                    |
| <hr/>                                    |                    |                      |
|  | June 30,           |                      |
|  | 2014               | 2013                 |
|  | (Unaudited)        |                      |
|  | (in million pesos) |                      |
| <b>Income Statements:</b>                |                    |                      |
| Revenues                                 | –                  | 22                   |
| Expenses                                 | –                  | 18                   |
| Other expenses – net                     | –                  | 56                   |
| Net loss                                 | –                  | 52                   |
| Other comprehensive income               | –                  | –                    |
| Total comprehensive loss                 | –                  | 52                   |

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at June 30, 2014 and December 31, 2013.

***Automated Fare Collection System Project Awarded to Ayala-First Pacific Consortium, or AF Consortium***

In 2013, Smart, along with other companies of conglomerates MPIC and Ayala Corporation, or Ayala, embarked on a venture to bid for the Automated Fare Collection System, or AFCS, project of the Department of Transportation and Communications, or DOTC, and Light Rail Transit Authority. The project aims to upgrade the Light Rail Transit 1 and 2, and Metro Rail Transit ticketing systems by substantially speeding up payments, reducing queuing time and facilitating efficient passenger transfer to other rail lines. The AF Consortium led by MPIC and Ayala, composed of AC Infrastructure Holdings Corporation, BPI Card Finance Corporation, and Globe Telecom, Inc., for the Ayala Group, and MPIC, Meralco Financial Services Corporation, and Smart for the MPIC Group bid for the AFCS Project and on January 30, 2014, received a Notice of Award from the DOTC declaring it as the winning

bidder. The AF Consortium will form a corporation with Smart taking 20% ownership.

On February 10, 2014, the Automated Fare Collection Services, Inc., or AFCSI, the joint venture company, was incorporated in the Philippines and registered with the Philippine SEC.

On June 30, 2014, the MPIC and Ayala Group signed a ten-year concession agreement with the DOTC to build and implement the AFCS project. On the same date, Smart made a deposit for future stock subscription of Php300 million representing 20% ownership in AFCSI.

## 11. Investment in Debt Securities and Other Long-term Investments

As at June 30, 2014 and December 31, 2013, this account consists of:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Beta's preferred shares (Note 10)                          | 1,820              | 1,862                |
| Philippine Treasury Bills                                  | 400                | -                    |
| PSALM Bonds  | 378                | 321                  |
| Philippine RTB   | 336                | -                    |
| Security Bank Corporation, or Security Bank, Time Deposits | 305                | 310                  |
| GT Capital Bond  | 150                | 150                  |
| Home Development Mutual Fund, or HDMF Bond                 | 102                | -                    |
| National Development Company, or NDC Bond                  | 75                 | -                    |
| National Power Corporation, or NAPOCOR, Bond               | 53                 | -                    |
|  | 3,619              | 2,643                |
| Less current portion (Note 27)                             | 1,043              | -                    |
| Noncurrent portion (Note 27)                               | 2,576              | 2,643                |

### *Investment in Beta's Preferred Shares*

See *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment of PGIC in Beta* for the detailed discussion of our investment.

### *Philippine Treasury Bills*

In January 2014, Smart purchased, at a discount, Treasury Bills with face value of Php90 million, which matured on April 10, 2014 with yield-to-maturity at 1.40% gross. Interest income, net of withholding tax, recognized on this investment amounted to Php257 thousand for the six months ended June 30, 2014.

In March 2014, Smart purchased, at a discount, additional Treasury Bills with face value of Php300 million, which matured on June 4, 2014 with yield-to-maturity at 1.43% gross. Interest income, net of withholding tax, recognized on this investment amounted to Php616 thousand for the six months ended June 30, 2014.

In April 2014, Smart purchased, at a discount, additional Treasury Bills with total face value of Php400 million, which matured on July 9, 2014 with weighted average yield-to-maturity at 1.60% gross. Interest income, net of withholding tax, recognized on this investment amounted to Php1.1 million for the six months ended June 30, 2014. The carrying value of these Treasury Bills amounted to Php400 million as at June 30, 2014.

These Treasury bill investments were recognized as held-to-maturity investments. Discounts are amortized using the EIR method.

#### *PSALM Bonds*

In April 2013, Smart purchased, at a premium, a PSALM Bond with face value of Php200 million maturing on April 22, 2017 with yield-to-maturity at 4.25% gross. The bond has a gross coupon of 7.75% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php3.5 million for the six months ended June 30, 2014. The carrying value of this investment amounted to Php214 million and Php217 million as at June 30, 2014 and December 31, 2013, respectively.

In August 2013, Smart purchased, at a premium, a PSALM Bond with face value of Php100 million maturing on April 22, 2015 with yield-to-maturity at 3.25% gross. The bond has a gross coupon of 6.88% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php1.4 million for the six months ended June 30, 2014. The carrying value of this investment amounted to Php102 million and Php104 million as at June 30, 2014 and December 31, 2013, respectively.



In January 2014, Smart purchased, at a premium, additional PSALM Bonds with face value of Php60 million maturing on April 22, 2015 with yield-to-maturity at 3.00% gross. The bond has a gross coupon of 6.88% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php1.1 million for the six months ended June 30, 2014. The carrying value of this investment amounted to Php62 million as at June 30, 2014.

#### *Philippine RTB*

In January 2014, Smart purchased, at a premium, a Philippine RTB with face value of Php32.29 million maturing on August 19, 2015 with yield-to-maturity at 2.38% gross. The bond has a gross coupon of 5.88% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php467 thousand for the six months ended June 30, 2014. The carrying value of this investment amounted to Php33 million as at June 30, 2014.

In April 2014, Smart purchased, at a premium, a Philippine RTB with face value of Php300 million maturing on September 24, 2014 with yield-to-maturity at 1.66% gross. The bond has a gross coupon of 6.25% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php951 thousand for the six months ended June 30, 2014. The carrying value of this investment amounted to Php303 million as at June 30, 2014.

#### *Security Bank Time Deposits*

In October 2012, PLDT and Smart invested US\$2.5 million each in a five-year time deposit with Security Bank maturing on October 11, 2017 at a gross coupon rate of 4.00%. These long-term fixed rate time deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Interest income, net of withholding tax, recognized on this investment amounted to US\$93 thousand, or Php4.1 million, and US\$93 thousand, or Php4 million, for the six months ended June 30, 2014 and 2013, respectively. The carrying value of this investment amounted to Php218 million and Php222 million as at June 30, 2014 and December 31, 2013, respectively.

In May 2013, PLDT invested US\$2.0 million in a five-year time deposit with Security Bank maturing on May 31, 2018 at a gross coupon rate of 3.5%. These long-term fixed rate time

deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Interest income, net of withholding tax, recognized on this investment amounted to US\$32.6 thousand, or Php1.5 million, and US\$5 thousand, or Php0.2 million, for the six months ended June 30, 2014 and 2013, respectively. The carrying value of this investment amounted to Php87 million and Php88 million as at June 30, 2014 and December 31, 2013, respectively.

#### *GT Capital Bond*

In February 2013, Smart purchased at par a seven-year GT Capital Bond with a face value of Php150 million, maturing on February 27, 2020. The bond has a gross coupon of 4.84% payable on a quarterly basis, and was recognized as held-to-maturity investment. Interest income, net of withholding tax, recognized on this investment amounted to Php2.9 million and Php2 million for the six months ended June 30, 2014 and 2013, respectively. The carrying value of this investment amounted to Php150 million each as at June 30, 2014 and December 31, 2013.

#### *HDMF Bond*

In June 2014, Smart purchased, at a premium, an HDMF Bond with face value of Php100 million maturing on March 12, 2015 with yield-to-maturity at 2.20%. The bond has a coupon of 5.00% payable on a semi-annual basis, and was recognized as held-to-maturity investment. This investment is a tax-exempt bond. Premium is amortized using the EIR method. Interest income recognized on this investment amounted to Php125 thousand for the six months ended June 30, 2014. The carrying value of this investment amounted to Php102 million as at June 30, 2014.

#### *NDC Bond*

In May 2014, Smart purchased, at a premium, an NDC Bond with face value of Php73.5 million maturing on November 27, 2014 with yield-to-maturity at 1.85%. The bond has a coupon of 5.13% payable on a semi-annual basis, and was recognized as held-to-maturity investment. This investment is a tax-exempt bond. Premium is amortized using the EIR method. Interest income recognized on this investment amounted to Php176 thousand for the six months ended June 30, 2014. The carrying value of this investment amounted to Php75 million as at June 30, 2014.

#### *NAPOCOR Bond*

In March 2014, Smart purchased, at a premium, a NAPOCOR Bond with a face value of Php50 million maturing on December 19, 2016 with yield-to-maturity at 3.38% gross. The bond has a net coupon of 5.88% payable on a semi-annual basis, and was recognized as held-to-maturity investment. This investment is a tax-exempt bond. Premium is amortized using the EIR method. Interest income recognized on this investment amounted to Php487 thousand for the six months ended June 30, 2014. The carrying value of this investment amounted to Php53 million as at June 30, 2014.

#### *RCBC Note*

In 2008, Smart purchased at par a ten-year RCBC Tier 2 Note, or RCBC Note, with a face value of Php150 million bearing a fixed rate of 7.00% for the first five years and the step-up interest rate from the fifth year up to maturity date. The RCBC early redeemed its Tier 2 Note with face value of Php150 million and interest payment of Php2 million on February 22, 2013 pursuant to the exercise of Redemption at the Option of the Issuer and as approved by the Bangko Sentral ng Pilipinas. Interest income, net of withholding tax, recognized on the RCBC Note amounted to Php1 million for the six months ended June 30, 2013.

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## 12. Investment Properties

Changes in investment properties account for the six months ended June 30, 2014 and for the year ended December 31, 2013 are as follows:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Balance at beginning of the period   | 1,222              | 712                  |
| Disposals  | (6)                | –                    |
| Transfers from property, plant and equipment – net (Note 9)                    | –                  | 431                  |
| Net gains from fair value adjustments charged to profit or loss <sup>(1)</sup> | –                  | 79                   |
| Balance at end of the period (Note 3)  | 1,216              | 1,222                |

<sup>(1)</sup> Presented as part of "Other income – net" in our consolidated income statement.

Investment properties, which consist of land and building, are stated at fair values, which have been determined annually based on the year-end appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. None of our investment properties are being leased to third parties that earn rental income.

The valuation for land was based on market approach valuation technique using price per square meter ranging from Php8 to Php154 thousand. The valuation for building and land improvements were based on cost approach valuation technique using current material and labor costs for improvements based on external and independent reviewers.

We have determined that the highest and best use of some of the idle or vacant land properties at the measurement date would be to convert the properties for residential or commercial development. For strategic reasons, the properties are not being used in this manner.

We have no restrictions on the realizability of our investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Repairs and maintenance expenses related to investment properties that do not generate rental income amounted to Php27 million and Php38 million for the six months ended June

30, 2014 and 2013, respectively.

The above investment properties were categorized under Level 3 fair value hierarchy. There were no transfers in and out of Level 3 fair value hierarchy.

Significant increases (decreases) in price per square meter for land and current material and labor costs of improvements would result in a significantly higher (lower) fair value measurement.

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### 13. Business Combinations

#### *2014 Acquisitions*

##### *ePLDT's Acquisition of Rack IT*

On January 28, 2014, IPCDSI and a third party, with the conformity of Rack IT, entered into a Sale and Purchase Agreement whereby the third party sold its 100% ownership in Rack IT to IPCDSI for a total purchase price of Php164 million, of which Php25 million will be paid upon completion of certain closing conditions in May 2014. On May 28, 2014, ePLDT granted the request of the third party to extend the deadline of the completion of closing conditions on or before December 31, 2014.

Rack IT was incorporated to engage in the business of providing data center services, encompassing all the information technology and facility-related components or activities that support the projects and operations of a data center. As at the date of the report, Rack IT is still at pre-operating phase and construction phase of its data center facility, which is located in Sucat, Parañaque, is still on-going. See *Note 2 – Summary of Significant Accounting Policies – ePLDT's Acquisition of Rack IT*.

The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of provisional values at the date of acquisition and the corresponding carrying amounts immediately before the acquisition are as follows:

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|  | Previous<br>Carrying Values | Provisional<br>Values<br>Recognized on<br>Acquisition |
|--|-----------------------------|---|
|  | (in million pesos)          |   |
| Assets:                                |                             |   |
| Property, plant and equipment (Note 9) | 39                          | 39  |
| Other noncurrent assets                | 2                           | 2   |

|  | Previous<br>Carrying Values | Provisional<br>Values<br>Recognized on<br>Acquisition |
|--|-----------------------------|---|
|  | (in million pesos)          |   |
| Trade and other receivables                | 15                          | 15  |
| Prepayments and other current assets       | 15                          | 15  |
|  | 71                          | 71  |
| <b>Liabilities:</b>                        |                             |   |
| Accounts payable                           | 14                          | 14  |
| Total identifiable net assets acquired     | 57                          | 57  |
| Goodwill from the acquisition (Note 14)    | –                           | 107   |
| Purchase consideration transferred         | 57                          | 164   |
| <b>Cash flows from investing activity:</b> |                             |   |
| Cash paid                                  | –                           | (164)   |

The net assets acquired at the date of acquisition were based on a provisional assessment of fair value, while we sought an independent valuation on the value of Rack IT's assets. The results of this valuation had not been finalized as at the date of release of the June 30, 2014 consolidated financial statements were approved for issuance by the Board of Directors.

The fair value and gross amount of trade and other receivables amounted to Php15 million.

The goodwill of Php107 million pertains to the fair value of Rack IT's data center business.

Our consolidated net income would have decreased by Php3 million for the six months ended June 30, 2014 had the acquisition of Rack IT actually taken place on January 1, 2014. Total net loss of Rack IT included in our consolidated income statement from January 28, 2014 to June 30, 2014 amounted to Php6 million.

### *PLDT's Acquisition of PG1*

On January 28, 2014, PLDT's Board of Directors approved the purchase of 37.5 million shares of PG1 owned by JSL which effectively increases PLDT's ownership in PG1 from 50% to 65%. The cash consideration for the shares purchased, which was completed on March 10, 2014, was Php23 million. On March 10, 2014, PLDT gained control in PG1 and therefore accounted for its investment in PG1 as investment in a subsidiary. See *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in PG1* for related discussion.

The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of provisional values at the date of acquisition and the corresponding carrying amounts immediately before the acquisition are as follows:

|   | Previous<br>Carrying Values | Provisional<br>Values<br>Recognized on<br>Acquisition |
|---|-----------------------------|---|
|   | (in million pesos)          |   |
| <b>Assets:</b>                                |                             |   |
| Property, plant and equipment (Note 9)        | 502                         | 502   |
| Other noncurrent assets                       | 37                          | 37  |
| Cash and cash equivalents                     | 21                          | 21  |
| Trade and other receivables                   | 6                           | 6   |
| Prepayments and other current assets          | 12                          | 12  |
|   | 578                         | 578   |
| <b>Liabilities:</b>                           |                             |   |
| Accounts payable                              | 413                         | 413   |
|   | 165                         | 165   |
| Goodwill from the acquisition (Note 14)       | –                           | 3   |
| Total identifiable net assets acquired        | 165                         | 168   |
| Noncontrolling interest                       | –                           | (47)  |
| Purchase consideration transferred            | 165                         | 121   |
|   |                             | 23  |
| Cash paid                                     |                             | 98  |
| Fair value of previous interest               |                             | 121   |
|   |                             | 21  |
| <b>Cash flows from investing activity:</b>    |                             |   |
| Net cash acquired with subsidiary             |                             | (23)  |
| Cash paid                                     |                             | (2)   |
| Purchase of subsidiary – net of cash acquired |                             | (2)   |

The net assets acquired at the date of acquisition were based on a provisional assessment of fair value, while we sought an independent valuation on the value of PG1's assets. The

results of this valuation had not been finalized as at the date of release of the June 30, 2014 consolidated financial statements were approved for issuance by the Board of Directors.

The fair value and gross amount of trade and other receivables amounted to Php6 million.

The goodwill of Php3 million pertains to the fair value of PG1's air transportation business.

Our consolidated net income would have decreased by Php14 million for the period ended June 30, 2014 had the acquisition of PG1 actually taken place on January 1, 2014. Total revenues and net loss of PG1 included in our consolidated income statement from March 10, 2014 to June 30, 2014 amounted to Php3 million and Php33 million, respectively.



## 14. Goodwill and Intangible Assets

Changes in goodwill and intangible assets for the six months ended June 30, 2014 and for the year ended December 31, 2013 are as follows:

|   | Intangible Assets with Indefinite Life | Intangible Assets with Definite Life |           |          |          |        | Total Intangible Assets with | Total             | Goodwill | Total Goodwill and Intangible Assets |
|---|--|--------------------------------------|-----------|----------|----------|--------|------------------------------|-------------------|----------|--------------------------------------|
|   | Trademark                              | Customer List                        | Franchise | Licenses | Spectrum | Others | Definite Life                | Intangible Assets |          | Intangible Assets                    |
| (in million pesos)                        |  |                                      |           |          |          |        |                              |                   |          |                                      |
| June 30, 2014 (Unaudited)                 |  |                                      |           |          |          |        |                              |                   |          |                                      |
| Costs:                                    |  |                                      |           |          |          |        |                              |                   |          |                                      |
| Balance at beginning of the period        | 4,505                                  | 4,726                                | 3,016     | 936      | 1,205    | 1,199  | 11,082                       | 15,587            | 62,826   | 78,413                               |
| Business combinations (Note 13)           | -                                      | -                                    | -         | -        | -        | -      | -                            | -                 | 110      | 110                                  |
| Additions                                 | -                                      | -                                    | -         | 36       | -        | -      | 36                           | 36                | -        | 36                                   |
| Translation and other adjustments         | -                                      | -                                    | -         | -        | -        | (2)    | (2)                          | (2)               | -        | (2)                                  |
| Balance at end of the period              | 4,505                                  | 4,726                                | 3,016     | 972      | 1,205    | 1,197  | 11,116                       | 15,621            | 62,936   | 78,557                               |
| Accumulated amortization and impairment:  |  |                                      |           |          |          |        |                              |                   |          |                                      |
| Balance at beginning of the period        | -                                      | 1,237                                | 403       | 287      | 750      | 1,119  | 3,796                        | 3,796             | 699      | 4,495                                |
| Amortization during the period (Note 3)   | -                                      | 255                                  | 93        | 179      | 40       | 7      | 574                          | 574               | -        | 574                                  |
| Translation and other adjustments         | -                                      | -                                    | -         | -        | -        | (2)    | (2)                          | (2)               | -        | (2)                                  |
| Balance at end of the period              | -                                      | 1,492                                | 496       | 466      | 790      | 1,124  | 4,368                        | 4,368             | 699      | 5,067                                |
| Net balance at end of the period (Note 3) | 4,505                                  | 3,234                                | 2,520     | 506      | 415      | 73     | 6,748                        | 11,253            | 62,237   | 73,490                               |
| Estimated useful lives (in years)         | -                                      | 1 – 9                                | 16        | 1 – 18   | 15       | 1 – 10 | -                            | -                 | -        | -                                    |
| Remaining useful lives (in years)         | -                                      | 6                                    | 14        | 1 – 8    | 5        | 1 – 6  | -                            | -                 | -        | -                                    |
| December 31, 2013 (Audited)               |  |                                      |           |          |          |        |                              |                   |          |                                      |
| Costs:                                    |  |                                      |           |          |          |        |                              |                   |          |                                      |
| Balance at beginning of the year          | 4,505                                  | 4,726                                | 3,016     | 135      | 1,205    | 1,177  | 10,259                       | 14,764            | 62,939   | 77,703                               |
| Additions                                 | -                                      | -                                    | -         | 801      | -        | -      | 801                          | 801               | -        | 801                                  |
| Business combinations                     | -                                      | -                                    | -         | -        | -        | -      | -                            | -                 | (113)    | (113)                                |
| Translation and other adjustments         | -                                      | -                                    | -         | -        | -        | 22     | 22                           | 22                | -        | 22                                   |
| Balance at end of the year                | 4,505                                  | 4,726                                | 3,016     | 936      | 1,205    | 1,199  | 11,082                       | 15,587            | 62,826   | 78,413                               |
| Accumulated amortization and impairment:  |  |                                      |           |          |          |        |                              |                   |          |                                      |
| Balance at beginning of the year          | -                                      | 722                                  | 217       | 62       | 669      | 1,084  | 2,754                        | 2,754             | 699      | 3,453                                |
| Amortization during the year              | -                                      | 515                                  | 186       | 225      | 81       | 13     | 1,020                        | 1,020             | -        | 1,020                                |
| Translation and other adjustments         | -                                      | -                                    | -         | -        | -        | 22     | 22                           | 22                | -        | 22                                   |
| Balance at end of the year                | -                                      | 1,237                                | 403       | 287      | 750      | 1,119  | 3,796                        | 3,796             | 699      | 4,495                                |
| Net balance at end of the year            | 4,505                                  | 3,489                                | 2,613     | 649      | 455      | 80     | 7,286                        | 11,791            | 62,127   | 73,918                               |
| Estimated useful lives (in years)         | -                                      | 1 – 9                                | 16        | 1 – 18   | 15       | 1 – 10 | -                            | -                 | -        | -                                    |
| Remaining useful lives (in years)         | -                                      | 7                                    | 14        | 1 – 9    | 6        | 1 – 6  | -                            | -                 | -        | -                                    |

The goodwill and intangible assets of our reportable segments as at June 30, 2014 and December 31, 2013 are as follows:

|  | June 30, 2014 (Unaudited) |              |               |
|--|---------------------------|--------------|---------------|
|  | Wireless                  | Fixed Line   | Total         |
|  | (in million pesos)        |              |               |
| Trademark  | 4,505                     | –            | 4,505         |
| Customer list  | 3,234                     | –            | 3,234         |
| Franchise  | 2,520                     | –            | 2,520         |
| Licenses   | 506                       | –            | 506           |
| Spectrum   | 415                       | –            | 415           |
| Others   | 73                        | –            | 73            |
| Total intangible assets                              | 11,253                    | –            | 11,253        |
| Goodwill   | 57,322                    | 4,915        | 62,237        |
| <b>Total goodwill and intangible assets (Note 3)</b> | <b>68,575</b>             | <b>4,915</b> | <b>73,490</b> |

  

|  | December 31, 2013 (Audited) |            |        |
|--|-----------------------------|------------|--------|
|  | Wireless                    | Fixed Line | Total  |
|  | (in million pesos)          |            |        |
| Trademark  | 4,505                       | –          | 4,505  |
| Customer list                                    | 3,489                       | –          | 3,489  |
| Franchise  | 2,613                       | –          | 2,613  |
| Licenses   | 649                         | –          | 649    |
| Spectrum   | 455                         | –          | 455    |
| Others   | 80                          | –          | 80     |
| Total intangible assets                          | 11,791                      | –          | 11,791 |
| Goodwill   | 57,322                      | 4,805      | 62,127 |
| Total goodwill and intangible assets<br>(Note 3) | 69,113                      | 4,805      | 73,918 |

### *Intangible Assets*

In April 2013, Smart entered into a three-year licensing agreement with MCA Music, Inc., an affiliate of the Universal Music Group, the world's largest music company with wholly-owned record operations in 77 countries. Smart recognized intangible assets of Php600 million for the license contents and marketing partnership in the Philippines, while amortization amounted to Php100 million for the six months ended June 30, 2014.

In July 2013, Smart entered into an 18-month licensing agreement with Ivory Music and Video, Inc., a domestic corporation and one of the major labels in the Philippine music industry. Smart recognized intangible assets of Php201 million for the license contents and marketing partnership, while amortization amounted to Php67 million for the six months ended June 30, 2014.

In February 2014, Smart entered into a two-year licensing agreement with Universal Records and PolyEast Records. The agreement granted Smart an exclusive right to sell digital products of Universal Records and PolyEast Records such as downloading and streaming of digital audio and video. Smart recognized intangible assets of Php36 million for the license contents, while amortization amounted to Php8 million for the six months ended June 30, 2014.

The consolidated future amortization of intangible assets with definite life as at June 30, 2014 is as follows:

| Year                | (in million pesos) |
|---------------------|--------------------|
| 2014 <sup>(1)</sup> | 577                |
| 2015                | 1,016              |
| 2016                | 848                |
| 2017                | 798                |
| 2018 and onwards    | 3,509              |
| (Note 3)            | 6,748              |

<sup>(1)</sup> July 1, 2014 through December 31, 2014.

#### *Impairment Testing of Goodwill and Intangible Assets with Indefinite Life*

The organizational structure of PLDT and its subsidiaries is designed to monitor financial operations based on fixed line and wireless segmentation. Management provides guidelines and decisions on resource allocation, such as continuing or disposing of asset and operations by evaluating the performance of each segment through review and analysis of available financial information on the fixed line and wireless segments. As at June 30, 2014, the PLDT Group's goodwill comprised of goodwill resulting from IPCDSI's acquisition of Rack IT and PLDT's acquisition of PG1 in 2014, ePLDT's acquisition of IPCDSI in 2012, PLDT's acquisition of Digitel in 2011, ePLDT's acquisition of ePDS in 2011, Smart's acquisition of PDSI and Chikka in 2009, CURE in 2008, and Smart's acquisition of SBI in 2004. The test for recoverability of the PLDT's and Smart's goodwill was applied to the fixed line and wireless asset group, respectively, which represent the lowest level within our business at which we monitor goodwill.

Although revenue streams may be segregated among the companies within the PLDT Group, the cost items and cash flows are difficult to carve out due largely to the significant portion of shared and common used network/platform. In the case of CURE, it provided cellular services to its subscribers using Smart's 2G network. SBI, on the other hand, provides broadband wireless access to its subscribers using Smart's cellular base stations and fiber optic and IP backbone, as well as the Worldwide Interoperability for Microwave Access technology of PDSI. The same is true for Sun, wherein Smart 2G/3G network, cellular base stations and fiber optic backbone are shared for areas where Sun has limited connectivity and facilities. On the other hand, PLDT has the largest fixed line network in the Philippines. PLDT's transport facilities are installed nationwide to cover both domestic and international IP backbone to route and transmit IP traffic generated by the customers. In the same manner, PLDT has the most Internet Gateway facilities which are composed of high capacity IP routers and switches that serve as the main gateway of the Philippines to the Internet connecting to the World Wide Web. With PLDT's network coverage, other fixed line subsidiaries share the same facilities to leverage on a Group perspective.

Given the significant common use of network facilities among fixed line and wireless companies within the PLDT Group, Management views that the wireless and fixed line operating segments are the lowest CGU to which goodwill is to be allocated and which are expected to benefit from the synergies.

The recoverable amount of the wireless and fixed line segments had been determined using the value in use approach calculated using cash flow projections based on the financial budgets approved by the Board of Directors, covering a three-year period from 2014 to 2016. The pre-tax discount rate applied to cash flow projections is 11% and 10% for the wireless and fixed line segments, respectively. Cash flows beyond the three-year period are determined using a 2.5% growth rate for the wireless and fixed line segments, which is the same as the long-term average growth rate for the telecommunications industry.

Based on the assessment of the value-in-use of the wireless and fixed line segments, the recoverable amount of goodwill exceeded the carrying amount of the CGUs, which as a result, no impairment was recognized as at December 31, 2013 in relation to goodwill resulting from the acquisition of Rack IT, PG1, IPCDSI, Digitel, ePDS, PDSI, Chikka, CURE and SBI. Annual impairment testing will be performed at year-end.

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## 15. Cash and Cash Equivalents

As at June 30, 2014 and December 31, 2013, this account consists of:

|                                      | June 30,<br>2014   | December 31,<br>2013 |
|--------------------------------------|--------------------|----------------------|
|                                      | (Unaudited)        | (Audited)            |
|                                      | (in million pesos) |                      |
| Cash on hand and in banks (Note 27)  | 4,558              | 5,938                |
| Temporary cash investments (Note 27) | 38,309             | 25,967               |
|                                      | 42,867             | 31,905               |

Cash in banks earn interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing temporary cash investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 27 – Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php244 million and Php459 million for the six months ended June 30, 2014 and 2013, respectively.

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## 16. Trade and Other Receivables

As at June 30, 2014 and December 31, 2013, this account consists of receivables from:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Retail subscribers (Note 27)                             | 13,977             | 12,563               |
| Corporate subscribers (Notes 24 and 27)                  | 8,127              | 7,904                |
| Foreign administrations (Note 27)                        | 6,583              | 5,840                |
| Domestic carriers (Notes 24 and 27)                      | 1,194              | 1,461                |
| Dealers, agents and others (Notes 24 and 27)             | 4,501              | 4,320                |
|  | 34,382             | 32,088               |
| Less allowance for doubtful accounts (Notes 3, 5 and 27) | 15,342             | 14,524               |
|  | 19,040             | 17,564               |

Receivables from foreign administrations and domestic carriers represent receivables based on interconnection agreements with other telecommunications carriers. The aforementioned amounts of receivables are shown net of related payable to the same telecommunications carriers where a legal right of offset exists and settlement is facilitated on a net basis.

Receivables from dealers, agents and others consist mainly of receivables from credit card companies, dealers and distributors having collection arrangements with the PLDT Group.

Trade receivables are non-interest-bearing and are generally on terms of 30 to 180 days.

For terms and conditions relating to related party receivables, see *Note 24 – Related Party Transactions*.

See *Note 24 – Related Party Transactions* for the summary of transactions with related parties and *Note 27 – Financial Assets and Liabilities – Credit Risk* on credit risk of trade receivables to understand how we manage and measure credit quality of trade receivables that are neither past due nor impaired.

Changes in the allowance for doubtful accounts for the six months ended June 30, 2014 and for the year ended December 31, 2013 are as follows:

|   | Total         | Retail<br>Subscribers | Corporate<br>Subscribers | Foreign<br>Administrations | Domestic<br>Carriers | Dealers,<br>Agents and<br>Others |
|---|---------------|-----------------------|--------------------------|----------------------------|----------------------|----------------------------------|
| (in million pesos)  |               |                       |                          |                            |                      |                                  |
| <b>June 30, 2014 (Unaudited)</b>  |               |                       |                          |                            |                      |                                  |
| Balance at beginning of the period  | 14,524        | 7,149                 | 5,849                    | 119                        | 80                   | 1,327                            |
| Provisions (Notes 2, 3, 4 and 5)  | 1,014         | 866                   | 59                       | 18                         | 31                   | 40                               |
| Write-offs  | (190)         | (100)                 | (89)                     | (1)                        | –                    | –                                |
| Translation and other adjustments   | (6)           | 68                    | (86)                     | –                          | (4)                  | 16                               |
| <b>Balance at end of the period</b>   | <b>15,342</b> | <b>7,983</b>          | <b>5,733</b>             | <b>136</b>                 | <b>107</b>           | <b>1,383</b>                     |
| Individual impairment   | 9,208         | 1,975                 | 5,733                    | 136                        | 107                  | 1,257                            |
| Collective impairment   | 6,134         | 6,008                 | –                        | –                          | –                    | 126                              |
|   | 15,342        | 7,983                 | 5,733                    | 136                        | 107                  | 1,383                            |
| Gross amount of receivables<br>individually impaired, before<br>deducting any impairment<br>allowance | 9,208         | 1,975                 | 5,733                    | 136                        | 107                  | 1,257                            |
| <b>December 31, 2013 (Audited)</b>  |               |                       |                          |                            |                      |                                  |
| Balance at beginning of the year  | 13,290        | 6,489                 | 6,137                    | 99                         | 106                  | 459                              |
| Provisions  | 3,171         | 1,983                 | 1,072                    | 10                         | 19                   | 87                               |
| Write-offs  | (2,085)       | (1,394)               | (666)                    | –                          | (24)                 | (1)                              |
| Translation and other adjustments   | 148           | 71                    | (694)                    | 10                         | (21)                 | 782                              |
| <b>Balance at end of the year</b>   | <b>14,524</b> | <b>7,149</b>          | <b>5,849</b>             | <b>119</b>                 | <b>80</b>            | <b>1,327</b>                     |
| Individual impairment   | 8,717         | 2,134                 | 5,183                    | 119                        | 80                   | 1,201                            |
| Collective impairment   | 5,807         | 5,015                 | 666                      | –                          | –                    | 126                              |
|   | 14,524        | 7,149                 | 5,849                    | 119                        | 80                   | 1,327                            |
| Gross amount of receivables<br>individually impaired, before<br>deducting any impairment<br>allowance | 8,717         | 2,134                 | 5,183                    | 119                        | 80                   | 1,201                            |

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## 17. Inventories and Supplies

As at June 30, 2014 and December 31, 2013, this account consists of:

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|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Terminal and cellular phone units:   |                    |                      |
| At net realizable value  | 2,803              | 2,550                |
| At cost  | 3,214              | 3,004                |
| Spare parts and supplies:  |                    |                      |
| At net realizable value  | 202                | 99                   |
| At cost  | 659                | 558                  |
| Others:  |                    |                      |
| At net realizable value  | 525                | 515                  |
| At cost  | 575                | 560                  |
| Total inventories and supplies at the lower of cost or net realizable value<br>(Notes 4 and 5) | <u>3,530</u>       | <u>3,164</u>         |

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The cost of inventories and supplies recognized as expense for the six months ended June 30, 2014 and 2013 are as follows:

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|  | June 30,           |              |
|--|--------------------|--------------|
|  | 2014               | 2013         |
|  | (Unaudited)        |              |
|  | (in million pesos) |              |
| Cost of sales  | 6,686              | 5,110        |
| Repairs and maintenance                                | 263                | 215          |
| Write-down of inventories and supplies (Notes 4 and 5) | 109                | 95           |
|  | <u>7,058</u>       | <u>5,420</u> |

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## 18. Prepayments

As at June 30, 2014 and December 31, 2013, this account consists of:

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|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Prepaid taxes (Note 5)                 | 5,984              | 6,456                |
| Prepaid selling and promotions         | 1,175              | 1,370                |
| Prepaid rent – net (Note 3)            | 450                | 292                  |
| Prepaid fees and licenses              | 355                | 435                  |
| Prepaid benefit costs (Notes 3 and 25) | 212                | 199                  |
| Prepaid insurance (Note 24)            | 135                | 103                  |
| Other prepayments                      | 444                | 230                  |
|  | 8,755              | 9,085                |
| Less current portion of prepayments    | 5,633              | 6,054                |
| Noncurrent portion of prepayments      | 3,122              | 3,031                |

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Prepaid taxes include creditable withholding taxes, input VAT and real property taxes.

Prepaid benefit costs represent excess of fair value of plan assets over present value of defined benefit obligations recognized in our consolidated statements of financial position. See *Note 25 – Employee Benefits*.

*Agreement of PLDT and Smart with Associated Broadcasting Company Development Corporation, or TV5*

In 2010, PLDT and Smart entered into advertising placement agreements with TV5, a subsidiary of MediaQuest, which is a wholly-owned investee company of PLDT Beneficial Trust Fund, or PLDT-BTF, for the airing and telecast of advertisements and commercials of PLDT and Smart on TV5's television network for a period of five years. The costs of telecast of each advertisement shall be applied and deducted from the placement amount only after the relevant advertisement or commercial is actually aired on TV5's television network. Total prepayment under the advertising placement agreements amounted to Php868 million each as at June 30, 2014 and December 31, 2013. See *Note 24 – Related Party Transactions*.

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## 19. Equity

PLDT's number of shares of issued and outstanding capital stock as at June 30, 2014 and December 31, 2013 are as follows:

|                                   | June 30,<br>2014 | December 31,<br>2013 |
|-----------------------------------|------------------|----------------------|
|                                   | (Unaudited)      | (Audited)            |
|                                   | (in millions)    |                      |
| <b>Authorized</b>                 |                  |                      |
| Non-Voting Serial Preferred Stock | 388              | 388                  |
| Voting Preferred Stock            | 150              | 150                  |
| Common Stock                      | 234              | 234                  |
| <b>Issued</b>                     |                  |                      |
| Non-Voting Serial Preferred Stock | 36               | 36                   |
| Voting Preferred Stock            | 150              | 150                  |
| Common Stock                      | 219              | 219                  |
| <b>Outstanding</b>                |                  |                      |
| Non-Voting Serial Preferred Stock | 36               | 36                   |
| Voting Preferred Stock            | 150              | 150                  |
| Common Stock                      | 216              | 216                  |
| <b>Treasury Stock</b>             |                  |                      |
| Common Stock                      | 3                | 3                    |

Changes in PLDT's issued capital account for the six months ended June 30, 2014 for the year ended December 31, 2013 are as follows:

|   | Non-Voting Preferred Stock –<br>Php10 par value per share |    | Voting Preferred Stock – Php1 par value per share |        | Total Preferred Stock | Common Stock –<br>Php5 par value per share |          |
|---|---|----|---|--------|-----------------------|--|----------|
|   | Series A to II  | IV | Voting  | Amount |                       | Number of Shares                           | Amount   |
|   | Number of Shares  |    |   |        |                       | Amount                                     |          |
|   | (in millions)   |    |   |        |                       |  |          |
| Balances as at January 1, 2014                        | –   | 36 | 150   | 186    | Php510                | 219  | Php1,093 |
| Issuance  | –   | –  | –   | –      | –                     | –  | –        |
| Conversion  | –   | –  | –   | –      | –                     | –  | –        |
| Redemption  | –   | –  | –   | –      | –                     | –  | –        |
| <b>Balances as at June 30, 2014<br/>(Unaudited)</b>   | –   | 36 | 150   | 186    | Php510                | 219  | Php1,093 |
| Balances as at January 1, 2013                        | –   | 36 | 150   | 186    | Php510                | 219  | Php1,093 |
| Issuance  | –   | –  | –   | –      | –                     | –  | –        |
| Conversion  | –   | –  | –   | –      | –                     | –  | –        |
| Redemption  | –   | –  | –   | –      | –                     | –  | –        |
| <b>Balances as at December 31,<br/>2013 (Audited)</b> | –   | 36 | 150   | 186    | Php510                | 219  | Php1,093 |

### *Preferred Stock*

#### *Non-Voting Serial Preferred Stocks*

On January 26, 2010, the Board of Directors designated 100,000 shares of preferred stock as

Series II 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2010 to December 31, 2012, pursuant to the PLDT Subscriber Investment Plan, or SIP.

The Series HH and II 10% Cumulative Convertible Preferred Stock, or SIP shares, earns cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular Series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the ask prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each such case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the price set by the Board of Directors which, as at June 30, 2014 was Php5.00 each per share. The number of shares of Common Stock issuable at any time upon conversion of 10% Cumulative Convertible Preferred Stock is determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Stock outstanding are at anytime subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Stock will be proportionately decreased or increased, as the case may be, and in the case of a stock dividend, such price will be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Stock. In the event the relevant effective date for any such subdivision or consolidation of shares of stock dividend occurs during the period of 30 trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment will be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Stock, or in case of any consolidation or merger of PLDT with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sale price utilized in calculating the conversion price as the Board of Directors, in its sole discretion, shall deem appropriate.

At PLDT's option, the Series II 10% Cumulative Convertible Preferred Stock are redeemable at par value plus accrued dividends five years after the year of issuance.

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock earns cumulative

dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends.

The Non-Voting Serial Preferred Stocks are non-voting, except as specifically provided by law, and are preferred as to liquidation.

All preferred stocks limit the ability of PLDT to pay cash dividends unless all dividends on such preferred stock for all past dividend payment periods have been paid and or declared and set apart and provision has been made for the currently payable dividends.

#### *Voting Preferred Stock*

On June 5, 2012, the Philippine SEC approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized Preferred Capital Stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of Non-Voting Serial Preferred Stock with a par value of Php10.00 each, and other conforming amendments, or the Amendments. The shares of Voting Preferred Stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least 60% of the board of directors of such corporation are citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines, or Qualified Owners. The holders of Voting Preferred Stock will have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of Voting Preferred Stock. The Amendments were approved by the Board of Directors and stockholders of PLDT on July 5, 2011 and March 22, 2012, respectively.

On October 12, 2012, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, determined the following specific rights, terms and features of the Voting Preferred Stock: (a) entitled to receive cash dividends at the rate of 6.5% per annum, payable before any dividends are paid to the holders of Common Stock; (b) in the event of dissolution or liquidation or winding up of PLDT, holders will be entitled to be paid in full, or pro-rata insofar as the assets of PLDT will permit, the par value of such shares of Voting Preferred Stock and any accrued or unpaid dividends thereon before any distribution shall be made to the holders of shares of Common Stock; (c)

redeemable at the option of PLDT; (d) not convertible to Common Stock or to any shares of stock of PLDT of any class; (e) voting rights at any meeting of the stockholders of PLDT for the election of directors and all other matters to be voted upon by the stockholders in any such meetings, with one vote in respect of each Voting Preferred Share; and (f) holders will have no pre-emptive right to subscribe for or purchase any shares of stock of any class, securities or warrants issued, sold or disposed by PLDT.

On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at June 30, 2014. See *Note 1 – Corporate Information* and *Note 26 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition*.

#### *Redemption of Preferred Stock*

On September 23, 2011, the Board of Directors approved the redemption, or the Redemption, of all outstanding shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock, or the SIP Preferred Shares, and all such shares were redeemed and retired effective on January 19, 2012, or the Redemption Date. The record date for the determination of the holders of outstanding SIP Preferred Shares subject to Redemption, or Holders of SIP Preferred Shares, was fixed on October 10, 2011, or the Record Date. In accordance with the terms and conditions of the SIP Preferred Shares, the Holders of SIP Preferred Shares as of the Record Date are entitled to payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to the Redemption Date, or the Redemption Price.

PLDT has set aside Php5.9 billion (the amount required to fund the redemption price for the SIP Preferred Shares) in addition to Php2.3 billion for unclaimed dividends on SIP Preferred Shares, or a total amount of Php8.2 billion, to fund the redemption of the SIP Preferred Shares, or the Redemption Trust Fund, in a trust account, or the Trust Account, in the name of RCBC, as Trustee. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund or any balance thereof, in trust, for the benefit of Holders of SIP Preferred Shares, for a period of ten years from the Redemption Date, or until January 19, 2022. After the said date, any and all remaining balance in the Trust Account shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund shall accrue for the benefit of, and be paid from time to time, to PLDT.

On May 8, 2012, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series GG 10% Cumulative Convertible Preferred Stock and all such shares were redeemed and retired effective on August 30, 2012. The record date for purposes of determining the holders of the outstanding Series GG Shares subject to redemption, or Holders of Series GG Shares, was fixed on May 22, 2012. In accordance with the terms and conditions of the Series GG Shares, the Holders of the Series GG Shares as at May 22, 2012 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to August 30, 2012, or the Redemption Price of Series GG Shares.

PLDT has set aside Php247 thousand (the amount required to fund the redemption price for the Series GG Shares) in addition to Php63 thousand for unclaimed dividends on Series GG Shares, or a total amount of Php310 thousand, to fund the redemption price for the Series GG Shares, or the Redemption Trust Fund for Series GG Shares, which forms an integral part of the Redemption Trust Fund previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of PLDT Series A to FF 10% Cumulative Convertible Preferred Stock.

As at January 19, 2012 and August 30, 2012, notwithstanding that any stock certificate representing the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock, respectively, were not surrendered for cancellation, the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock were no longer deemed outstanding and the right of the holders of such shares to receive dividends thereon ceased to accrue and all rights with respect to such shares ceased and terminated, except only the right to receive the Redemption Price of such shares, but without interest thereon.

A total amount of Php358 million was withdrawn from the Trust Account, representing total payments on redemption as at June 30, 2014. The balance of the Trust Account of Php7,937 million was presented as part of the current portion of advances and other noncurrent assets and the related redemption liability of the same amount was presented as part of accrued expenses and other current liabilities in our consolidated statement of financial position as at June 30, 2014. See *Note 23 – Accrued Expenses and Other Current Liabilities* and *Note 27 – Financial Assets and Liabilities*.

On January 29, 2013, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2007 effective on May 16, 2013. The record date for purpose of determining the holders of the outstanding Series HH shares issued in 2007 subject to redemption, or Holders of Series HH Shares issued in 2007, was fixed on February 14, 2013. In accordance with the terms and conditions of Series HH Shares issued in 2007, the Holders of Series HH Shares issued in 2007 as at February 14, 2013 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 16, 2012, or the Redemption Price of Series HH Shares issued in 2007.

On January 28, 2014, the Board of Directors authorized/approved the redemption of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which was issued in 2008, effective on May 16, 2014. The record date for the purpose of determining the holders of the outstanding Series HH Shares issued in 2008 subject to redemption was fixed on February 14, 2014.

PLDT expects to similarly redeem the outstanding shares of Series II 10% Cumulative Convertible Preferred Stock as and when they become eligible for redemption.

#### *Common Stock*

The Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's then total outstanding shares of common stock in 2008. The share buyback program reflects PLDT's commitment to capital management as an important element in enhancing shareholders value. This also reinforces initiatives that PLDT has already undertaken, such as the declaration of special dividends on common stock in addition to the regular dividend payout equivalent to 75% of our core EPS, after having determined that PLDT has the capacity to pay additional returns to shareholders. Under the share buyback program, PLDT reacquired shares on an opportunistic basis, directly from the open market through the trading facilities of the PSE and NYSE.

We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at June 30, 2014 and December 31, 2013.

On November 9, 2011, the PSE approved the listing of an additional 27.7 million common shares of PLDT, which were issued on October 26, 2011 at the issue price of Php2,500 per share, as consideration for the acquisition by PLDT of the Enterprise Assets of Digitel.

On January 27, 2012, a total of 1.61 million PLDT common shares were issued for settlement of the purchase price of 2,518 million common shares of Digitel tendered by the noncontrolling Digitel stockholders under the mandatory tender offer conducted by PLDT, and which opted to receive payment of the purchase price in the form of PLDT common shares.

#### *Decrease in Authorized Capital Stock*

On April 23, 2013 and June 14, 2013, the Board of Directors and stockholders, respectively, approved the following actions: (1) decrease in PLDT's authorized capital stock from Php9,395 million divided into two classes consisting of: (a) Preferred Capital Stock subclassified into 150 million shares of Voting Preferred Stock of the par value of Php1.00 each and 807.5 million shares of Non-Voting Serial Preferred Stock of the par value of Php10.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each, to Php5,195 million, divided into two classes consisting of: (a) Preferred Capital Stock subclassified into: 150 million shares of Voting Preferred Stock of the par value of Php1.00 each and 387.5 million shares of Non-Voting Serial Preferred Stock of the par value of Php10.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each; and (2) corresponding amendments to the Seventh Article of the Articles of Incorporation of PLDT. On October 3, 2013, the Philippine SEC approved the decrease in authorized capital stock and amendments to the Articles of Incorporation of PLDT.

#### *Dividends Declared*

Our dividends declared for the six months ended June 30, 2014 and 2013 are detailed as follows:

June 30, 2014 (Unaudited)



| Class  | Date             |                   |                | Amount     |               |
|--|------------------|-------------------|----------------|------------|---------------|
|  | Approved         | Record            | Payable        | Per Share  | Total         |
| (in million pesos, except per share amounts)                 |                  |                   |                |            |               |
| <b>10% Cumulative Convertible Preferred Stock</b>            |                  |                   |                |            |               |
| Series HH (Final Dividends)                                  | April 1, 2014    | February 14, 2014 | May 16, 2014   | 0.0027/day | –             |
| Series II  | April 1, 2014    | April 30, 2014    | May 30, 2014   | 1.00       | –             |
|  |                  |                   |                |            | –             |
| <b>Cumulative Non-Convertible Redeemable Preferred Stock</b> |                  |                   |                |            |               |
| Series IV*   | January 28, 2014 | February 27, 2014 | March 15, 2014 | –          | 12            |
|  | May 6, 2014      | May 27, 2014      | June 15, 2014  | –          | 12            |
|  |                  |                   |                |            | 24            |
| Voting Preferred Stock                                       | March 4, 2014    | March 20, 2014    | April 15, 2014 | –          | 3             |
|  | June 10, 2014    | June 27, 2014     | July 15, 2014  | –          | 3             |
|  |                  |                   |                |            | 6             |
| <b>Common Stock</b>  |                  |                   |                |            |               |
| Regular Dividend   | March 4, 2014    | March 18, 2014    | April 16, 2014 | 62.00      | 13,395        |
| Special Dividend   | March 4, 2014    | March 18, 2014    | April 16, 2014 | 54.00      | 11,667        |
|  |                  |                   |                |            | 25,062        |
| <b>Charged to retained earnings</b>                          |                  |                   |                |            | <b>25,092</b> |

\* Dividends were declared based on total amount paid up.

### June 30, 2013 (Unaudited)

| Class  | Date             |                   |                | Amount     |               |
|--|------------------|-------------------|----------------|------------|---------------|
|  | Approved         | Record            | Payable        | Per Share  | Total         |
| (in million pesos, except per share amounts)                 |                  |                   |                |            |               |
| <b>10% Cumulative Convertible Preferred Stock</b>            |                  |                   |                |            |               |
| Series HH (issued 2008)                                      | April 23, 2013   | May 9, 2013       | May 31, 2013   | 1.00       | –             |
| Series HH (final, issued 2007)                               | April 23, 2013   | February 14, 2013 | May 16, 2013   | 0.0027/day | –             |
| Series II  | April 23, 2013   | May 9, 2013       | May 31, 2013   | 1.00       | –             |
|  |                  |                   |                |            | –             |
| <b>Cumulative Non-Convertible Redeemable Preferred Stock</b> |                  |                   |                |            |               |
| Series IV*   | January 29, 2013 | February 28, 2013 | March 15, 2013 | –          | 12            |
|  | May 7, 2013      | May 27, 2013      | June 15, 2013  | –          | 13            |
|  |                  |                   |                |            | 25            |
| Voting Preferred Stock                                       | March 5, 2013    | March 20, 2013    | April 15, 2013 | –          | 3             |
|  | June 14, 2013    | June 28, 2013     | July 15, 2013  | –          | 3             |
|  |                  |                   |                |            | 6             |
| <b>Common Stock</b>  |                  |                   |                |            |               |
| Regular Dividend   | March 5, 2013    | March 19, 2013    | April 18, 2013 | 60.00      | 12,963        |
| Special Dividend   | March 5, 2013    | March 19, 2013    | April 18, 2013 | 52.00      | 11,235        |
|  |                  |                   |                |            | 24,198        |
| <b>Charged to retained earnings</b>                          |                  |                   |                |            | <b>24,229</b> |

\* Dividends were declared based on total amount paid up.

Our dividends declared after June 30, 2014 are detailed as follows:

| Class   | Date           |                 |                    | Amount    |        |
|---|----------------|-----------------|--------------------|-----------|--------|
|   | Approved       | Record          | Payable            | Per Share | Total  |
| (in million pesos, except per share amounts)          |                |                 |                    |           |        |
| Cumulative Non-Convertible Redeemable Preferred Stock |                |                 |                    |           |        |
| Series IV*  | August 5, 2014 | August 20, 2014 | September 15, 2014 | –         | 12     |
| Common Stock  |                |                 |                    |           |        |
| Regular Dividend                                      | August 5, 2014 | August 28, 2014 | September 26, 2014 | 69.00     | 14,908 |
| Charged to retained earnings                          |                |                 |                    |           | 14,920 |

\* Dividends were declared based on total amount paid up.

### *Retained Earnings Available for Dividend Declaration*

The following table shows the reconciliation of our retained earnings available for dividend declaration for as at June 30, 2014:

|   | (in million pesos) |
|---|--------------------|
| Consolidated unappropriated retained earnings as at December 31, 2013 (Audited)                                       | 22,967             |
| Effect of PAS 27 Adjustments  | 6,276              |
| Parent Company's unappropriated retained earnings at beginning of the period  | 29,243             |
| Less: Cumulative unrealized income – net of tax:  |                    |
| Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)                      | (664)              |
| Fair value adjustments (mark-to-market gains)   | (1,502)            |
| Fair value adjustments of investment property resulting to gain   | (818)              |
| Unappropriated retained earnings as adjusted at December 31, 2013 (Audited)   | 26,259             |
| Parent Company's net income attributable to equity holders of PLDT for the six months ended June 30, 2014 (Unaudited) | 15,151             |
| Less: Unrealized income – net of tax during the period  |                    |
| Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)                      | (242)              |
|   | 14,909             |
| Add: Realized income during the period  |                    |
| Realized foreign exchange gains   | 72                 |
| Cash dividends declared during the period   |                    |
| Common stocks   | (25,062)           |
| Preferred stocks  | (30)               |
|   | (25,092)           |
| Parent Company's unappropriated retained earnings available for dividends as at June 30, 2014 (Unaudited)             | 16,148             |

As at June 30, 2014, the consolidated unappropriated retained earnings amounted to Php17,899 million while the Parent Company's unappropriated retained earnings amounted to Php19,303 million. The difference of Php1,404 million pertains to the effect of PAS 27 in our investments in subsidiaries, associates and joint ventures accounted for under the equity method.

## 20. Interest-bearing Financial Liabilities

As at June 30, 2014 and December 31, 2013, this account consists of the following:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Long-term portion of interest-bearing financial liabilities:                         |                    |                      |
| Long-term debt (Notes 4, 5, 9, 23 and 27)  | 108,967            | 88,924               |
| Obligations under finance leases (Notes 3, 4, 5, 23 and 27)                          | 3                  | 6                    |
|  | <u>108,970</u>     | <u>88,930</u>        |
| Current portion of interest-bearing financial liabilities:                           |                    |                      |
| Long-term debt maturing within one year (Notes 4, 5, 9, 23 and 27)                   | 14,026             | 15,166               |
| Obligations under finance leases maturing within one year (Notes 3, 4, 5, 23 and 27) | 5                  | 5                    |
|  | <u>14,031</u>      | <u>15,171</u>        |

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in the financial liabilities as at June 30, 2014 and December 31, 2013 are as follows:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Long-term debt (Note 27)                       | 550                | 382                  |
| Obligation under finance lease                 | 1                  | 1                    |
| Unamortized debt discount at end of the period | <u>551</u>         | <u>383</u>           |

The following table describes all changes to unamortized debt discount for the six months ended June 30, 2014 and for the year ended December 31, 2013.

|   | June 30,<br>2014   | December 31,<br>2013 |
|---|--------------------|----------------------|
|   | (Unaudited)        | (Audited)            |
|   | (in million pesos) |                      |
| Unamortized debt discount at beginning of the period                  | 383                | 1,326                |
| Additions during the period   | 252                | 213                  |
| Accretion during the period included as part of Financing costs – net | (84)               | (1,541)              |
| Revaluations during the period  | –                  | 385                  |
| Unamortized debt discount at end of the period                        | 551                | 383                  |

## Long-term Debt

As at June 30, 2014 and December 31, 2013, long-term debt consists of:

| Description  | Interest Rates   | June 30, 2014 |          | December 31, 2013 |          |
|--|--|---------------|----------|-------------------|----------|
|  |  | (Unaudited)   |          | (Audited)         |          |
| (in millions)  |  |               |          |                   |          |
| <i>U.S. Dollar Debts:</i>                                  |  |               |          |                   |          |
| Export Credit Agencies-Supported Loans:                    |  |               |          |                   |          |
| China Export and Credit Insurance Corporation, or Sinosure | US\$ LIBOR + 0.55% to 1.80% in 2014 and 2013   | US\$99        | Php4,323 | US\$117           | Php5,174 |
| Exportkreditnamnden, or EKN                                | 1.41% to 1.90% and US\$ LIBOR + 0.30% to 0.35% in 2014 and 1.41% to 3.79% and US\$ LIBOR + 0.30% to 0.35% in 2013  | 91            | 3,974    | 101               | 4,506    |
| EKN and AB Svensk Exportkredit, or SEK                     | 3.9550% in 2014 and 2013   | 50            | 2,180    | 56                | 2,476    |
| Finnvera, Plc, or Finnvera                                 | 2.99% and US\$ LIBOR + 1.35% in 2014 and 2013  | 15            | 650      | 25                | 1,098    |
| Others   | US\$ LIBOR + 0.35% in 2014 and US\$ LIBOR + 0.35% to 0.40% in 2013   | -             | -        | -                 | 17       |
|  |  | 255           | 11,127   | 299               | 13,271   |
| Fixed Rate Notes   | 8.35% in 2014 and 2013   | 233           | 10,168   | 233               | 10,334   |
| Term Loans:  |  |               |          |                   |          |
| GSM Network Expansion Facilities                           | US\$ LIBOR + 0.85% to 1.85% in 2014 and US\$ LIBOR + 0.42% to 1.85% in 2013  | 94            | 4,109    | 118               | 5,251    |
| Others   | US\$ LIBOR + 0.95% to 1.90% in 2014 and US\$ LIBOR + 0.42% to 1.90% in 2013  | 656           | 28,612   | 682               | 30,276   |
|  |  | US\$1,238     | 54,016   | US\$1,332         | 59,132   |
| <i>Philippine Peso Debts:</i>                              |  |               |          |                   |          |
| Corporate Notes  | 5.3300% to 6.3981% in 2014 and 5.3300% to 7.7946% in 2013  |               | 21,696   |                   | 22,499   |
| Fixed Rate Retail Bonds                                    | 5.2250% to 5.2813% in 2014   |               | 14,857   |                   | -        |
| Term Loans:  |  |               |          |                   |          |
| Unsecured Term Loans                                       | 3.9250% to 6.3462%, PDST-F + 0.3000%; BSP overnight rate - 0.3500% to BSP overnight rate in 2014 and 3.9250% to 7.4292%, PDST-F + 0.3000% to 0.8000%; BSP overnight rate + 0.3000% to 0.5000% and BSP overnight rate - 0.3500% in 2013 |               | 32,424   |                   | 22,459   |
|  |  |               | 68,977   |                   | 44,958   |
| Total long-term debt                                       |  |               | 122,993  |                   | 104,090  |
| Less portion maturing within one year (Note 27)            |  |               | 14,026   |                   | 15,166   |

| Description                               | Interest Rates | June 30, 2014 | December 31, 2013 |
|---|----------------|---------------|-------------------|
|   |                | (Unaudited)   | (Audited)         |
| (in millions)                             |                |               |                   |
| Noncurrent portion of long-term (Note 27) |                | Php108,967    | Php88,924         |

Note: Amounts presented are net of unamortized debt discount and debt issuance costs.

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at June 30, 2014 are as follows:

| Year                | U.S. Dollar Debt |        | Php Debt | Total   |
|---------------------|------------------|--------|----------|---------|
|                     | In U.S. Dollar   | In Php | In Php   | In Php  |
| (in millions)       |                  |        |          |         |
| 2014 <sup>(1)</sup> | 150              | 6,540  | 1,000    | 7,540   |
| 2015                | 287              | 12,539 | 755      | 13,294  |
| 2016                | 271              | 11,844 | 755      | 12,599  |
| 2017                | 444              | 19,387 | 8,290    | 27,677  |
| 2018 and onwards    | 93               | 4,042  | 58,391   | 62,433  |
|                     | 1,245            | 54,352 | 69,191   | 123,543 |

<sup>(1)</sup> July 1, 2014 through December 31, 2014.

#### *U.S. Dollar Debts:*

#### *Export Credit Agencies-Supported Loans*

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies.

#### *Sinosure*

On December 1, 2005, DMPI signed a US\$23.6 million Export Credit Agreement with Societe Generale and Credit Agricole Corporate and Investment Bank (formerly Calyon) as the lenders, to finance the supply of the equipment, software, and offshore services for the GSM 1800 in the National Capital Region, or NCR. The loan is covered by a guarantee from China Export and Credit Insurance Corporation, or Sinosure, the export-credit agency of China. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on December 1, 2013. The loan was fully drawn on various dates in 2005, 2006 and 2007. The loan was paid in full on December 2, 2013.

On May 4, 2006, DMPI signed a US\$12.7 million Export Credit Agreement with the Societe Generale and Calyon as the lenders, to finance the supply of the equipment and software for

the expansion of its GSM services in NCR. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on October 6, 2014. The loan was drawn on various dates in 2007 and 2008 in the total amount of US\$12.2 million. The undrawn amount of US\$0.5 million was cancelled. The amounts of US\$1 million, or Php38 million, and US\$2 million, or Php77 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On June 1, 2006, DMPI signed a US\$12 million Buyer's Credit Agreement with ING Bank N.V., or ING Bank, as the lender, to finance the equipment and service contracts for the upgrading of GSM Phase 5 Core Intelligent Network Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on June 1, 2014. The loan was drawn in 2006 and 2007 in the amounts of US\$8 million and US\$2 million, respectively. The undrawn amount of US\$2 million was cancelled. The amount of US\$1 million, or Php31 million, remained outstanding as at December 31, 2013. The loan was paid in full on June 2, 2014.

On May 24, 2007, DMPI signed a US\$21 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment for the Phase 6 South Luzon Change Out and Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 24, 2015. The loan was drawn on various dates in 2008 in the total amount of US\$20.8 million. The undrawn amount of US\$0.2 million was cancelled. The amounts of US\$3 million, or Php130 million, and US\$5 million, or Php198 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On May 24, 2007, DMPI signed a US\$12.1 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment for the Phase 6 NCR Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 24, 2015. The loan was fully drawn on various dates in 2008. The amounts of US\$2 million, or Php75 million, and US\$3 million, or Php115 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On November 10, 2008, DMPI signed a US\$23.8 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 7 Core Expansion Project. The loan is covered by a guarantee from Sinasure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$8 million, or Php371 million, and US\$10 million, or Php452 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On November 10, 2008, DMPI signed a US\$5.5 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the supply of 3G network in NCR. The loan is covered by a guarantee from Sinasure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$2 million, or Php86 million, and US\$2 million, or Php105 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On November 10, 2008, DMPI signed a US\$4.9 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 7 Intelligent Network Expansion Project. The loan is covered by a guarantee from Sinasure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$2 million, or Php77 million, and US\$2 million, or Php94 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On August 14, 2009, DMPI signed a US\$24.7 million loan agreement with Credit Suisse as the lead arranger, to finance the supply of telephone equipment for the Phase 7 NCR Base Station Expansion. The loan is covered by a guarantee from Sinasure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on August 14, 2017. The loan was fully drawn on various dates in 2009 and 2010. The facility was prepaid in full on February 14, 2013.



On August 14, 2009, DMPI signed a US\$15.9 million loan agreement with The Hong Kong and Shanghai Banking Corporation Limited, or HSBC, as the lender, to finance the supply of telephone equipment for the Phase 7 South Luzon Base Station Expansion. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on August 14, 2017. The loan was drawn in 2009 and 2010 in the amounts of US\$14.1 million and US\$1.4 million, respectively. The undrawn amount of US\$0.4 million was cancelled. The facility was prepaid in full on February 14, 2013.

On December 16, 2009, DMPI signed a US\$50 million Buyer's Credit Agreement with China Citic Bank Corporation Ltd., or China CITIC Bank, as the original lender, to finance the equipment, software and related materials for the Phase 2 3G Expansion, transmission for the Phase 2 3G Expansion and Phase 8A NCR and South Luzon BSS Expansion Projects. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on December 17, 2017. The loan was drawn on various dates in 2010 in the total amount of US\$48 million. The undrawn amount of US\$2 million was cancelled. On December 9, 2011, China CITIC Bank and ING Bank signed a Transfer Certificate and Assignment of Guarantee whereby ING Bank took over the debt under the Buyers Credit Agreement. The assignment of debt was completed on December 16, 2011. The amounts of US\$24 million, or Php1,035 million, and US\$27 million, or Php1,203 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On September 15, 2010, DMPI signed a US\$117.3 million loan agreement with China Development Bank and HSBC as the lenders, to finance the purchase of equipment and related materials for the expansion of: (1) Phase 8A and 8B Core and IN Network Expansion; (2) Phase 8B NCR and SLZ BSS Network Expansion Project; and (3) Phase 3 3G Network Roll-out Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven and a half years in 15 equal semi-annual installments, with final installment on April 10, 2019. The loan was drawn on various dates in 2011 in the total amount of US\$116.3 million. The undrawn amount of US\$1 million was cancelled. The amount of US\$20 million was partially prepaid on April 10, 2013 and the remaining balance is now payable over five years in 10 semi-annual installments, with final installment on April 10, 2018. The amounts of US\$57 million, or Php2,511 million, and US\$65 million, or Php2,899 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

## *EKN*

On April 4, 2006, DMPI signed a US\$18.7 million loan agreement with Nordea Bank AB (publ), or Nordea Bank, as the lender, to finance the supply of GSM mobile telephone equipment and related services. The loan is covered by a guarantee from EKN, the export-credit agency of Sweden. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on April 30, 2015. The loan was fully drawn on various dates in 2006 and 2007. The amounts of US\$2 million, or Php94 million, and US\$3 million, or Php143 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On December 20, 2006, DMPI signed a US\$43.2 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the GSM Expansion in Visayas and Mindanao. The loan is covered by a guarantee from EKN. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 30, 2014. The loan was drawn on various dates in 2007 and 2008 in the total amount of US\$42.9 million. The undrawn amount of US\$0.3 million was cancelled. The amount of US\$3 million, or Php142 million, remained outstanding as at December 31, 2013. The loan was paid in full on May 30, 2014.

On December 17, 2007, DMPI signed a US\$59.2 million Buyer's Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the equipment and service contracts for the Phase 7 North Luzon Expansion and Change-out Project. The loan is covered by a guarantee from EKN. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on March 30, 2017. The loan was drawn on various dates in 2008 and 2009 in the total amount of US\$59.1 million. The undrawn amount of US\$0.1 million was cancelled. The amounts of US\$20 million, or Php884 million, and US\$24 million, or Php1,049 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

On December 17, 2007, DMPI signed a US\$51.2 million Buyer's Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the equipment and service contracts for the Phase 7 Expansion Project in Visayas and Mindanao. The loan is covered by a guarantee from EKN. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on June 30, 2017. The loan was drawn on various dates in 2008 and 2009 in the total amount of US\$51.1 million. The undrawn amount of US\$0.1 million was cancelled. The amounts of US\$18 million, or Php768 million, and US\$20 million, or Php911 million, remained outstanding as at June 30, 2014 and December 31, 2013,

respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

On November 25, 2008, Smart signed a US\$22 million term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent and subsequently assigned its rights and obligations to the AB Svensk Exportkredit (Swedish Export Credit Corporation), or SEK, supported by EKN on December 10, 2008, to finance the supply, installation, commissioning and testing of Wireless-Code Division Multiple Access, or W-CDMA/High Speed Packet Access project. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 10, 2013. The loan was fully drawn on various dates in 2008 and 2009. The loan was paid in full on December 10, 2013.

On June 10, 2011, Smart signed a US\$49 million term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent, to finance the supply and services contracts for the modernization and expansion project. On July 5, 2011, Nordea Bank assigned its rights and obligations to the SEK guaranteed by EKN. The loan is comprised of Tranche A1, Tranche A2 and Tranche B in the amounts of US\$24 million, US\$24 million and US\$1 million, respectively. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 29, 2016 for Tranche A1 and B and October 30, 2017 for Tranche A2. The loan was drawn on various dates in 2012 in the total amount of US\$33 million (US\$24 million for Tranche A1, US\$8 million for Tranche A2 and US\$1 million for Tranche B) and the remaining balance of US\$16 million for Tranche A2 was drawn on February 21, 2013. The aggregate amounts of US\$28 million, or Php1,245 million, and US\$33 million, or Php1,474 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On February 22, 2013, Smart signed a US\$46 million five-year term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent, to finance the supply and services contracts for the modernization and expansion project. In July 3, 2013, Nordea Bank assigned its rights and obligations to the SEK guaranteed by EKN. The loan is comprised of Tranches A1 and A2 in the amounts of US\$25 million and US\$19 million, respectively, and Tranches B1 and B2 in the amounts of US\$0.9 million and US\$0.7 million, respectively. The facility is payable semi-annually in ten equal installments commencing six months after the applicable mean delivery date. The loan was partially drawn on December 19, 2013 for Tranches A1 and B1 in the amounts of US\$18 million and US\$0.9 million, respectively. Subsequently, the Tranche A1 loan was partially drawn on March 20, 2014 and June 19, 2014 in the amounts of US\$3 million and US\$4 million, respectively. The aggregate amounts of US\$23 million, or Php983 million, and US\$18 million, or Php787 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*EKN and SEK*

On April 28, 2009, DMPI signed a US\$96.6 million loan agreement with Nordea Bank and ING Bank as the lenders, to finance the supply of GSM mobile telephone equipment and related services. The loan is comprised of Tranche 1 and Tranche 2 in the amounts of US\$43 million and US\$53.6 million, respectively. The loan is covered by a guarantee from EKN and SEK, the export-credit agency of Sweden. Both tranches are payable over eight and a half years in 17 equal semi-annual installments, with final installment on February 28, 2018 for Tranche 1 and November 30, 2018 for Tranche 2. Tranches 1 and 2 were fully drawn on various dates in 2009, 2010 and 2011. The aggregate amounts of US\$50 million, or Php2,180 million, and US\$56 million, or Php2,476 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Finnvera, Plc, or Finnvera*

On May 14, 2009, Smart signed a US\$50 million term loan facility agreement with Finnish Export Credit, Plc, or FEC, guaranteed by Finnvera, the Finnish Export Credit Agency, and awarded to Calyon as the arranger, to finance the Phase 10 (Extension) GSM equipment and services contract. The loan is payable over five years in ten equal semi-annual installments, with final installment on July 15, 2014. The loan was fully drawn on July 15, 2009. The amounts of US\$5 million, or Php218 million, and US\$10 million, or Php442 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On October 9, 2009, Smart signed a US\$50 million term loan facility agreement with FEC guaranteed by Finnvera for 100% political and commercial risk cover to finance GSM equipment and services contracts. The loan was awarded to Citicorp as the arranger which was subsequently transferred to ANZ on January 4, 2011. The loan is payable over five years in ten equal semi-annual installments, with final installment on April 7, 2015. The loan was fully drawn on April 7, 2010. The amounts of US\$10 million, or Php432 million, and US\$15 million, or Php656 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Others – Export Credit Agencies*

*Compagnie Francaise d' Assurance pour le Commerce Exterieur, or COFACE*

On August 18, 2005, DMPI signed a US\$19 million Export Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the supply of telecommunications materials, software, and services for the GSM Cellular Mobile Short Term Core Expansion Project. The loan is covered by a guarantee from COFACE, the export-credit agency of France. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on February 8, 2013. The loan was drawn on various dates in 2005 and 2006 in the total amount of US\$18.2 million. The undrawn amount of US\$0.8 million was cancelled. The loan was paid in full on February 8, 2013.

*Atradius N.V., or Atradius*

On July 3, 2006, DMPI signed a US\$6 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 5 Mobile Messaging Core Network. The loan is covered by a guarantee from Atradius, the export-credit agency of Amsterdam, the Netherlands. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on June 27, 2014. The loan was drawn in 2006 and 2007 in the total amount of US\$5.4 million. The undrawn amount of US\$0.6 million was cancelled. The amount of US\$0.4 million, or Php17 million, remained outstanding as at December 31, 2013. The loan was paid in full on June 27, 2014.

### Fixed Rate Notes

On March 6, 1997, PLDT issued a US\$300 million 20-year non-amortizing fixed rate note with a coupon rate of 8.350% under the Indenture dated April 19, 1996 between PLDT and Deutsche Bank Trust Company Americas (formerly Bankers Trust Company) as trustee ("2017 Notes"). Proceeds from the issuance of these notes were used to finance service improvements and expansion programs. The 2017 Notes will mature on March 6, 2017. On various dates in 2008 to 2010, PLDT repurchased the 2017 Notes from the secondary market in the aggregate amount of US\$65.7 million. The amounts of US\$233 million, or Php10,168 million, and US\$233 million, or Php10,334 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

### Term Loans

#### *GSM Network Expansion Facilities*

On October 10, 2007, Smart signed a US\$50 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch, or Nord LB, as the lender with Standard Chartered Bank (Hong Kong) Ltd., or Standard Chartered, as the facility agent, to finance the related Phase 10 GSM equipment and service contracts. The loan is payable over five years in ten equal semi-annual payments, with final installment on March 11, 2013. The loan was fully drawn on March 10, 2008. The loan was paid in full on March 11, 2013.

On November 27, 2008, Smart signed a US\$50 million term loan facility agreement with FEC to finance the Phase 10 GSM equipment and service contracts. The loan was awarded to ABN AMRO Bank N.V., Australia and New Zealand Banking Group Limited, Standard Chartered, Mizuho Corporate Bank Ltd. as the lead arrangers. The loan is payable over five years in ten equal semi-annual installments, with final installment on January 23, 2014. The loan was fully drawn on various dates in 2009. The amount of US\$5 million, or Php222 million, net of unamortized debt discount, remained outstanding as at December 31, 2013. The loan was paid in full on January 23, 2014.

On June 6, 2011, Smart signed a US\$60 million term loan facility agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender, to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in eight equal semi-annual installments commencing on the 18th month from signing date, with final installment on June 6, 2016. The loan was fully drawn on various dates in 2012. The amounts of US\$30 million, or Php1,310 million, and US\$38 million, or Php1,665 million,

remained outstanding as at June 30, 2014 and December 31, 2013, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

On August 19, 2011, Smart signed a US\$50 million term loan facility agreement with FEC as the lender, to finance the supply contracts for the modernization and expansion project. The loan was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., HSBC and Mizuho Corporate Bank, Ltd. The loan is payable over five years in ten equal semi-annual installments commencing six months after August 19, 2012, with final installment on August 19, 2016. The loan was fully drawn on various dates in 2012. The amounts of US\$31 million, or Php1,358 million, and US\$37 million, or Php1,657 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

On May 29, 2012, Smart signed a US\$50 million term loan facility agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender, to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in nine equal semi-annual installments commencing on May 29, 2013, with final installment on May 29, 2017. The loan was fully drawn on various dates in 2012. The amounts of US\$33 million, or Php1,441 million, and US\$38 million, or Php1,707 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

#### *US\$283 Million Term Loan Facility, or Debt Exchange Facility*

On July 2, 2004, Smart acquired from PCEV's creditors approximately US\$289 million, or 69.4%, of the aggregate of PCEV's outstanding restructured debt at that time, in exchange for debt and a cash payment by Smart. In particular, Smart paid cash amounting to US\$1.5 million, or Php84 million and issued new debt of US\$283 million, or Php15,854 million, with fair value of Php8,390 million, net of unamortized debt discount amounting to Php7,464 million. The loan is payable in full upon maturity on June 30, 2014. In September 2013, the loan was prepaid in full and the remaining debt discount of US\$13 million, or Php731 million, was amortized and charged to profit and loss for the period.

### *Other Term Loans*

On January 15, 2008, PLDT signed a US\$100 million term loan facility agreement with Nord LB to be used for its capital expenditure requirements. The loan is payable over five years in ten equal semi-annual installments. Two separate drawdowns of US\$50 million each were drawn from the facility on March 27, 2008 and April 10, 2008. The loan was paid in full on March 27, 2013.

On July 15, 2008, PLDT signed a US\$50 million term loan facility agreement with the Bank of the Philippine Islands, or BPI, to refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date, with final installment on July 22, 2013. The loan was fully drawn on various dates in 2008. The loan was paid in full on July 22, 2013.

On March 7, 2012, PLDT signed a US\$150 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd., as the facility agent, to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan agreement, with final installment on March 7, 2017. Two separate drawdowns of US\$100 million and US\$50 million were drawn on May 10, 2012 and September 4, 2012, respectively. The amounts of US\$100 million, or Php4,365 million, and US\$117 million, or Php5,180 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On March 16, 2012, PLDT signed a US\$25 million term loan facility agreement with Citibank, N.A. Manila to refinance loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing 12 months from initial drawdown date, with final installment on May 30, 2017. The loan was fully drawn on May 29, 2012. The amounts of US\$18 million, or Php770 million, and US\$21 million, or Php914 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On March 23, 2012, SPi signed a US\$15 million term loan facility agreement with Security Bank to finance working capital requirements. The loan is payable over five years in 19 quarterly installments commencing on September 24, 2012, with final installment on March 27, 2017. The loan was fully drawn on March 26, 2012. The loan was prepaid in full on April 24, 2013. See *Note 2 – Summary of Significant Accounting Policies – Discontinued*



### *Operations.*

On January 16, 2013, PLDT signed a US\$300 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd., as the facility agent, to finance capital expenditures and/or to refinance existing obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan agreement, with final installment on January 16, 2018. The amounts of US\$40 million, US\$160 million and US\$100 million were drawn on March 6, 2013, April 19, 2013 and July 3, 2013, respectively. The amounts of US\$267 million, or Php11,639 million, and US\$300 million, or Php13,319 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.*

On January 28, 2013, Smart signed a US\$35 million term loan facility agreement with China Banking Corporation to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in ten equal semi-annual installments. The loan was fully drawn on May 7, 2013. The amounts of US\$28 million, or Php1,222 million, and US\$31 million, or Php1,398 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On March 25, 2013, Smart signed a US\$50 million term loan facility agreement with FEC as the original lender, to finance the supply and services contracts for the modernization and expansion project. The loan was arranged by the Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Corporate Bank, Ltd. The loan is payable over five years in nine equal semi-annual installments commencing six months after drawdown date. The loan was partially drawn in the amounts of US\$18 million, US\$6 million and US\$8 million on September 16, 2013, November 19, 2013 and March 24, 2014, respectively. The undrawn balance of the facility in the amount of US\$18 million was cancelled. The amounts of US\$28 million, or Php1,225 million, and US\$23 million, or Php1,030 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On May 31, 2013, Smart signed a US\$80 million term loan facility agreement with China Banking Corporation to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in ten equal semi-annual installments commencing six months after drawdown date, with final installment on May 31, 2018. The loan was fully drawn on September 25, 2013. The amounts of US\$64 million, or Php2,793 million, and US\$72 million, or Php3,197 million, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

On June 20, 2013, Smart signed a US\$120 million term loan facility agreement with Mizuho Corporate Bank, Ltd. and Sumitomo Mitsui Banking Corporation, as the lead arrangers and creditors with Sumitomo Mitsui Banking Corporation, as the facility agent. Proceeds of the facility are intended to be used to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in eight equal semi-annual installments commencing six months after drawdown date, with final installment on June 20, 2018. The loan was fully drawn on September 25, 2013. The amounts of US\$118 million, or Php5,165 million, and US\$118 million, or Php5,238 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

On March 7, 2014, Smart signed a US\$100 million term loan facility agreement with the Bank of Tokyo-Mitsubishi UFJ, Ltd. to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in nine equal semi-annual installments commencing twelve months after drawdown date, with final installment on March 7, 2019. The loan was partially drawn in the amounts of US\$35 million and US\$30 million on March 24, 2014 and August 1, 2014, respectively. The amount of US\$33 million, or Php1,457 million, net of unamortized debt discount, remained outstanding as at June 30, 2014.

On May 14, 2014, Smart signed a US\$50 million term loan facility agreement with Mizuho Bank Ltd., Singapore Branch to finance the capital expenditures for its network upgrade and expansion program. The loan is payable over five years in nine equal semi-annual installments commencing twelve months after drawdown date, with final installment on May 14, 2019. The loan was fully drawn on July 1, 2014.

*Philippine Peso Debts:*

*Corporate Notes*

*Php5,000 Million Fixed Rate Corporate Notes*

On February 15, 2007, Smart issued Php5,000 million fixed rate corporate notes, comprised of Series A five-year notes amounting to Php3,800 million and Series B ten-year notes amounting to Php1,200 million. Proceeds from the issuance of these notes were used to finance the capital expenditures for network improvement and expansion program of Smart. The Series A note and Series B note were prepaid in full on February 16, 2012 and November 15, 2013, respectively.

*Php2,500 Million Fixed Rate Corporate Notes*

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. Proceeds from the issuance of these notes were used to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement. The notes are non-amortizing and will mature on July 13, 2015. The notes were prepaid in full on July 15, 2013.

*Php2,500 Million Fixed Rate Corporate Notes*

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. Proceeds from the issuance of these notes were used primarily to finance capital expenditures for network improvement and expansion program of Smart. The notes are non-amortizing and will mature on July 13, 2015. The notes were prepaid in full on July 15, 2013.

*Php2,000 Million Fixed Rate Corporate Notes*

On March 9, 2011, Smart signed a Php2,000 million Notes Facility Agreement with BDO Private Bank, Inc. comprised of Tranche A amounting to Php1,000 million which was issued on March 16, 2011 and Tranche B amounting to Php1,000 million which was fully drawn and issued in multiple drawdowns of Php250 million each on various dates in 2011. Proceeds from the issuance of these notes were used to finance capital expenditures for network improvement and expansion program of Smart. The notes are payable in full, five years from their respective issue dates. The notes were partially prepaid in the amounts of Php1,000 million and Php250 million on December 16, 2013 and December 23, 2013, respectively. The remaining balance was prepaid in full on January 2014.

*Php5,000 Million Fixed Rate Corporate Notes*

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A five-year notes amounting to Php3,435 million, Series B seven-year notes amounting to Php700 million and Series C ten-year notes amounting to Php865 million. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on March 25, 2016. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on March 26, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on March 24, 2021. The notes were prepaid in full on March 25, 2013.

*Php5,000 Million Fixed Rate Corporate Notes*

On November 8, 2011, PLDT issued Php5,000 million fixed rate notes under a Notes Facility Agreement dated November 4, 2011, comprised of Series A five-year notes amounting to Php2,795 million, Series B seven-year notes amounting to Php230 million and Series C ten-year notes amounting to Php1,975 million. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on November 9, 2016. The Series B notes are

payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 8, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 8, 2021. The notes were prepaid in full on November 8, 2013.

*Php5,500 Million Fixed Rate Corporate Notes*

On March 19, 2012, Smart issued Php5,500 million fixed rate corporate notes under a Notes Facility Agreement dated March 15, 2012, comprised of Series A five-year notes amounting to Php1,910 million and Series B ten-year notes amounting to Php3,590 million. Proceeds from the issuance of these notes were used primarily for debt refinancing and capital expenditures of Smart. The Series A note facility has annual amortization equivalent to 1% of the principal amount starting March 19, 2013 with the balance of 96% payable on March 20, 2017. The Series B note facility has annual amortization equivalent to 1% of the principal amount starting March 19, 2013 with the balance of 91% payable on March 21, 2022. The notes were partially prepaid in the amount of Php1,376 million on July 19, 2013. The aggregate amounts of Php3,999 million and Php4,038 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Php1,500 Million Fixed Rate Corporate Notes*

On July 27, 2012, PLDT issued Php1,500 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement dated July 25, 2012. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement. The notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on July 27, 2019. The notes were partially prepaid in the amount of Php1,188 million on July 29, 2013. The amount of Php297 million remained outstanding as at June 30, 2014 and December 31, 2013.

#### *Php8,800 Million Fixed Rate Corporate Notes*

On September 21, 2012, PLDT issued Php8,800 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated September 19, 2012, comprised of Series A seven-year notes amounting to Php4,610 million and Series B ten-year notes amounting to Php4,190 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on September 21, 2019. The Series B notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on September 21, 2022. The notes were partially prepaid in the amount of Php2,055 million on June 21, 2013. The amount of Php6,678 million remained outstanding as at June 30, 2014 and December 31, 2013.

#### *Php6,200 Million Fixed Rate Corporate Notes*

On November 22, 2012, PLDT issued Php6,200 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated November 20, 2012, comprised of Series A seven-year notes amounting to Php3,775 million and Series B ten-year notes amounting to Php2,425 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over seven years with an annual amortization rate of 1% of the issued price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 22, 2019. The Series B notes are payable over ten-years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 22, 2022. The amount of Php6,138 million remained outstanding as at June 30, 2014 and December 31, 2013.

#### *Php1,376 Million Fixed Rate Corporate Notes*

On June 19, 2013, Smart issued Php1,376 million fixed rate corporate notes under a Notes Agreement dated June 14, 2013, comprised of Series A five-year notes amounting to Php742 million and Series B ten-year notes amounting to Php634 million. Proceeds from the issuance of these notes were used primarily for debt refinancing of Smart. The Series A note facility has annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 97% payable on March 20, 2017. The Series B note facility has annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the

balance of 92% payable on March 19, 2022. The aggregate amounts of Php1,362 million and Php1,376 million remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Php2,055 Million Fixed Rate Corporate Notes*

On June 21, 2013, PLDT issued Php2,055 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated June 14, 2013, comprised of Series A notes amounting to Php1,735 million and Series B notes amounting to Php320 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over six years with an annual amortization rate of 1% of the issue price up to the fifth year and the balance payable upon maturity on September 21, 2019. The Series B notes are payable over nine years with an annual amortization rate of 1% of the issue price up to the eighth year and the balance payable upon maturity on September 21, 2022. The amount of Php2,034 million remained outstanding as at June 30, 2014 and December 31, 2013.

*Php1,188 Million Fixed Rate Corporate Notes*

On July 29, 2013, PLDT issued Php1,188 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated July 19, 2013. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement. The notes are payable over six years with an annual amortization rate of 1% of the issue price on the first year up to the fifth year from the issue date and the balance upon maturity on July 27, 2019. The amount of Php1,188 million remained outstanding as at June 30, 2014 and December 31, 2013.

### Fixed Rate Retail Bonds

#### *Php15,000 Million Fixed Rate Retail Bonds*

On February 6, 2014, PLDT issued Php15,000 million Philippine SEC-registered fixed rate peso retail bonds under the Indenture dated January 22, 2014. Proceeds from the issuance of these bonds are intended to be used to finance capital expenditures and/or refinance existing obligations which were used for capital expenditures for network and expansion improvement. The amount comprises of Php12.4 billion and Php2.6 billion bonds due in 2021 and 2024, with a coupon rate of 5.2250% and 5.2813%, respectively. The amount of Php14,857 million, net of unamortized debt discount, remained outstanding as at June 30, 2014.

### Term Loans

#### *Unsecured Term Loans*

##### *Php2,500 Million Term Loan Facility*

On October 21, 2008, Smart signed a Php2,500 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown, with final installment on November 13, 2013. The loan was fully drawn on November 13, 2008. The loan was paid in full on November 13, 2013.

##### *Php2,400 Million Term Loan Facility*

On November 21, 2008, PLDT signed a Php2,400 million term loan facility agreement with Land Bank of the Philippines, or LBP, to finance capital expenditures and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan was drawn on various dates in 2008 and 2009 in the total amount of Php2,400 million. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 12, 2013. The loan was fully drawn on various dates in 2008 and 2009. The loan was paid in full on December 12, 2013.



*Php3,000 Million Term Loan Facility*

On November 26, 2008, PLDT signed a Php3,000 million term loan facility agreement with Union Bank of the Philippines, or Union Bank, to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The loan was drawn on various dates in 2008 and 2009 in the total amount of Php3,000 million. The loan is payable over five years in nine equal semi-annual installments commencing on the second semester from initial drawdown date, with final installment on December 23, 2013. The loan was fully drawn on various dates in 2008 and 2009. The loan was paid in full on December 23, 2013.

*Php2,000 Million Term Loan Facility*

On November 28, 2008, PLDT signed a Php2,000 million term loan facility agreement with PNB to be used for its capital expenditure requirements in connection with PLDT's service improvement and expansion programs. The loan was drawn on various dates in 2008 and 2009 in the total amount of Php2,000 million. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date, with final installment on December 19, 2013. The loan was fully drawn on various dates in 2008 and 2009. The loan was paid in full on December 19, 2013.

*Php1,500 Million Term Loan Facility*

On June 16, 2009, PLDT signed a Php1,500 million term loan facility agreement with Allied Banking Corporation to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on September 15, 2010, with final installment on September 15, 2014. The loan was fully drawn on September 15, 2009. The loan was prepaid in full on June 17, 2013.

*Php1,000 Million Term Loan Facility*

On July 16, 2009, Smart signed a Php1,000 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown, with final installment on August 1, 2014. The loan was fully drawn on August 3, 2009. The amounts of Php62 million and Php188 million remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Php2,000 Million Term Loan Facility*

On September 18, 2009, PLDT signed a Php2,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments, with final installment on October 27, 2014. The initial drawdown under this loan was made on October 26, 2009 in the amount of Php1,000 million and the balance of Php1,000 million was subsequently drawn on December 4, 2009. The amounts of Php235 million and Php471 million remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Php1,000 Million Term Loan Facility*

On November 23, 2009, PLDT signed a Php1,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance its obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments, with final installment on December 18, 2014. The amount of Php1,000 million was fully drawn on December 18, 2009. The amounts of Php118 million and Php235 million remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Php1,500 Million Term Loan Facility*

On March 15, 2011, Smart signed a Php1,500 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is a five-year loan, payable in full upon maturity on March 22, 2016. The amount of Php1,500 million was fully drawn on March 22, 2011. The loan was paid in full on December 23, 2013.

*Php2,000 Million Term Loan Facility*

On March 24, 2011, Smart signed a Php2,000 million term loan facility agreement with PNB to finance capital expenditures for network improvement and expansion program. The loan is a five-year loan, payable in full upon maturity on March 29, 2016. The loan was fully drawn on March 29, 2011. The loan was partially prepaid on December 28, 2012 in the amount of Php200 million. The outstanding principal balance of the loan amounting to Php1,800 million was prepaid in full on December 23, 2013.

*Php500 Million Term Loan Facility*

On April 4, 2011, PLDT signed a Php500 million term loan facility agreement with the Manufacturers Life Insurance Co. (Phils.), Inc., or Manulife, to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on June 17, 2016. The loan was prepaid in full on June 17, 2013.

*Php300 Million Term Loan Facility*

On April 4, 2011, PLDT signed a Php300 million term loan facility agreement with the Manulife to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 29, 2016. The loan was fully drawn on April 28, 2011 and was prepaid in full on July 29, 2013.

*Php1,000 Million Term Loan Facility*

On April 12, 2011, Digitel signed a Php1,000 million term loan facility agreement with Metrobank as the lender, to finance additional capital expenditure requirements. The loan is payable in full upon maturity on June 23, 2016. The loan was partially drawn on various dates in June 2011 in the aggregate amount of Php710 million and the remaining balance was subsequently drawn on June 21, 2012. The loan was prepaid in full on September 10, 2013.

*Php2,000 Million Term Loan Facility*

On April 14, 2011, Digitel signed a Php2,000 million five-year term loan facility agreement with BDO as the lender, to finance the capital expenditures and/or refinance existing loan obligations. The loan is payable in full upon maturity on May 26, 2016. The loan was drawn on various dates in 2011 in the total amount of Php1,948 million. The undrawn amount of Php52 million was cancelled and the loan was prepaid in full on August 27, 2013.

*Php2,000 Million Term Loan Facility*

On March 20, 2012, PLDT signed a Php2,000 million term loan facility agreement with RCBC to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over ten years with an annual amortization rate of 1% on the fifth year up to the ninth year from initial drawdown date and the balance payable upon maturity on April 12, 2022. The amount of Php2,000 million was fully drawn on April 12, 2012 and remained outstanding as at June 30, 2014 and December 31, 2013.

*Php3,000 Million Term Loan Facility*

On April 27, 2012, PLDT signed a Php3,000 million term loan facility agreement with LBP to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity on July 18, 2017. The amount of Php3,000 million was fully drawn on July 18, 2012. The amount of Php2,970 million remained outstanding as at June 30, 2014 and December 31, 2013.

*Php2,000 Million Term Loan Facility*

On May 29, 2012, PLDT signed a Php2,000 million term loan facility agreement with LBP to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from initial drawdown date and the balance payable upon maturity on June 27, 2017. The amount of Php2,000 million was fully drawn on June 27, 2012. The amounts of Php1,960 million and Php1,980 million remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Php1,000 Million Term Loan Facility*

On June 7, 2012, Smart signed a Php1,000 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over five years with an annual amortization rate of 1% of the principal amount commencing on the first anniversary of the initial drawdown up to the fourth year and the balance payable upon maturity on August 22, 2017. The amount of Php1,000 million was fully drawn on August 22, 2012. The amount of Php990 million remained outstanding as at June 30, 2014 and December 31, 2013.

*Php1,500 Million Term Loan Facility*

On June 27, 2012, DMPI signed a Php1,500 million term loan facility agreement with BPI, BPI Asset Management and Trust Group and ALFM Peso Bond Fund, Inc. to finance capital expenditures for network expansion and improvements. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount with the balance payable on June 2019. The amount of Php700 million was partially drawn on June 29, 2012 and the remaining balance of Php800 million was subsequently drawn on September 24, 2012. The amounts of Php1,470 million and Php1,485 million remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Php200 Million Term Loan Facility*

On August 31, 2012, PLDT signed a Php200 million term loan facility agreement with Manulife to refinance PLDT's existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on October 9, 2019. The amount of Php200 million was fully drawn on October 9, 2012. The amount of Php200 million remained outstanding as at June 30, 2014 and December 31, 2013.

*Php1,000 Million Term Loan Facility*

On September 3, 2012, PLDT signed a Php1,000 million term loan facility agreement with Union Bank to finance capital expenditures and/or refinance PLDT's existing loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on June 13, 2020. The facility was fully drawn on January 11, 2013. The amounts of Php990 million and Php1,000 million remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Php1,000 Million Term Loan Facility*

On October 11, 2012, PLDT signed a Php1,000 million term loan facility agreement with Philippine American Life and General Insurance, or Philam Life, to refinance existing loan obligations, the proceeds of which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on December 5, 2022. The amount of Php1,000 million was fully drawn on December 3, 2012. The amount of Php1,000 million remained outstanding as at June 30, 2014 and December 31, 2013.

*Php3,000 Million Term Loan Facility*

On December 17, 2012, Smart signed a Php3,000 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first anniversary of the initial drawdown and the balance payable upon maturity on December 20, 2019. The amount of Php1,000 million was partially drawn on December 20, 2012 and the remaining balance of Php2,000 million was subsequently drawn on March 15, 2013. The amount of Php2,970 million remained outstanding as at June 30, 2014 and December 31, 2013.

*Php2,000 Million Term Loan Facility*

On November 13, 2013, PLDT signed a Php2,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance existing loan obligations. The loan is payable over seven years with an annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on November 22, 2020. Two separate drawdowns of Php1,000 million each were drawn on November 22, 2013 and February 11, 2014. The amounts of Php2,000 million and Php1,000 million remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Php3,000 Million Term Loan Facility*

On November 25, 2013, Smart signed a Php3,000 million term loan facility agreement with Metrobank to refinance existing loan obligations of Smart. The loan is payable over seven years with an annual amortization rate of 10% of the total amount drawn for the first six years and the final installment is payable on November 27, 2020. The amount of Php3,000 million was fully drawn on November 29, 2013. The amounts of Php2,987 million and Php2,985 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Php3,000 Million Term Loan Facility*

On December 3, 2013, Smart signed a Php3,000 million term loan facility agreement with BPI to refinance existing loan obligations of Smart. The loan is payable over seven years with an annual amortization rate of 1% of the total amount drawn for the first six years and the final installment is payable on December 10, 2020. The amount of Php3,000 million was fully drawn on December 10, 2013. The amounts of Php2,986 million and Php2,985 million, net of unamortized debt discount, remained outstanding as at June 30, 2014 and December 31, 2013, respectively.

*Php3,000 Million Term Loan Facility*

On January 29, 2014, Smart signed a Php3,000 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021. The amount of Php3,000 million was fully drawn on February 5, 2014. The amount of Php2,986 million, net of unamortized debt discount, remained outstanding as at June 30, 2014.

*Php500 Million Term Loan Facility*

On February 3, 2014, Smart signed a Php500 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021. The amount of Php500 million was fully drawn on February 7, 2014 and remained outstanding as at June 30, 2014.

*Php2,000 Million Term Loan Facility*

On March 26, 2014, Smart signed a Php2,000 million term loan facility agreement with Union Bank to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first anniversary of the initial drawdown and the balance payable upon maturity on March 29, 2021. The amount of Php2,000 million was fully drawn on March 28, 2014 and remained outstanding as at June 30, 2014.

*Php1,500 Million Term Loan Facility*

On April 2, 2014, PLDT signed a Php1,500 million term loan facility agreement with Philam Life to finance capital expenditures and/or refinance existing loan obligations, the proceeds of which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 4, 2024. The amount of Php1,500 million loan was fully drawn on April 4, 2014 and remained outstanding as at June 30, 2014.

*Php500 Million Term Loan Facility*

On April 2, 2014, Smart signed a Php500 million term loan facility agreement with BDO Unibank, Inc. to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first anniversary of the initial drawdown and the balance payable upon maturity on April 2, 2021. The amount of Php500 million loan was fully drawn on April 4, 2014 and remained outstanding as at June 30, 2014.

*Php1,000 Million Term Loan Facility*



On May 23, 2014, PLDT signed a Php1,000 million term loan facility agreement with Philam Life to finance capital expenditures and/or refinance existing loan obligations, the proceeds of which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on May 28, 2024. The amount of Php1,000 million loan was fully drawn on May 28, 2014 and remained outstanding as at June 30, 2014.

*Php1,000 Million Term Loan Facility*

On June 9, 2014, PLDT signed a Php1,000 million term loan facility agreement with LBP to finance its capital expenditure requirements. The loan is payable over ten years with an annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on June 13, 2024. The amount of Php1,000 million was fully drawn on June 13, 2014 and remained outstanding as at June 30, 2014.

*Php1,500 Million Term Loan Facility*

On July 28, 2014, PLDT signed a Php1,500 million term loan facility with UBP to finance its capital expenditures and/or refinance its existing loan obligations, the proceeds of which were utilized for its service improvements and expansion programs. The loan is payable over ten years with an annual amortization rate of 1% on the first year up to the ninth year from the initial drawdown date and the balance payable upon maturity on July 31, 2024. The amount of Php1,500 million was fully drawn on July 31, 2014.

**Compliance with Debt Covenants**

Our debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with PFRS at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

The principal factors that can negatively affect our ability to comply with these financial ratios and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Since approximately 44% and 57% of PLDT's total consolidated debts as at June 30, 2014 and December 31, 2013, respectively, were denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the Philippine peso. See *Note 27 – Financial Assets and Liabilities – Foreign Currency Exchange Risk*.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) making or permitting any material change in the character of its business; (b) disposing of all or substantially all of its assets or any significant portion thereof other than in the ordinary course of business; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; and (e) merging or consolidating with any other company.

Furthermore, certain of DMPI's debt instruments contain provisions wherein DMPI may be declared in default in case of a change in control in DMPI.

PLDT's debt instruments and guarantees for DMPI loans also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (f) other typical events of default, including the commencement of bankruptcy, insolvency,

liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. Smart's loan agreements include compliance with financial tests such as consolidated debt to consolidated equity, consolidated debt to consolidated EBITDA and debt service coverage ratios. Previously, Smart was required to comply with certain consolidated debt to consolidated equity ratio under Variable Loan Agreement 2014 debt with Marubeni Corporation as original lender and under the 2014 (A) Debt under Metrobank as Facility Agent. On August 16, 2012 and September 3, 2012, the approvals to amend the covenant from "the ratio of Consolidated Debt to Consolidated Equity" to "the ratio of Consolidated Debt to Consolidated EBITDA" were obtained. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair the guarantors' ability to perform their obligations under its loan agreements.

DMPI's liabilities are guaranteed up to a certain extent by DTPI and PLDT. In addition, the loan agreements contain covenants which, among others, restrict the incurrence of loans or debts not in the ordinary course of business, merger or disposition of any substantial portion of DTPI and DMPI's assets, distribution of capital or profits, redemption of any of its issued shares, and reduction of DTPI and DMPI's registered and paid-up capital.

The loan agreements with suppliers, banks (foreign and local alike) and other financial institutions provide for certain restrictions and requirements with respect to, among others, maintenance of percentage of ownership of specific shareholders, incurrence of additional indebtedness or guarantees and creation of property encumbrances.

As at June 30, 2014 and December 31, 2013, we were in compliance with all of our debt covenants.

## Obligations Under Finance Leases

The consolidated future minimum payments for finance leases as at June 30, 2014 are as follows:

| Year  | (in million pesos) |
|---|--------------------|
| 2014 <sup>(1)</sup>   | 3                  |
| 2015  | 5                  |
| 2016 and onwards  | 1                  |
| Total minimum finance lease payments (Note 27)                                  | 9                  |
| Less amount representing unamortized interest                                   | 1                  |
| Present value of net minimum finance lease payments (Notes 2, 3 and 27)         | 8                  |
| Less obligations under finance leases maturing within one year (Notes 9 and 27) | 5                  |
| Long-term portion of obligations under finance leases (Notes 9 and 27)          | 3                  |

<sup>(1)</sup> July 1, 2014 through December 31, 2014.

### *Long-term Finance Lease Obligations*

The PLDT Group has various long-term lease contracts for a period of three years covering various office equipment and vehicles. In particular, PLDT, IPCDSI and PLDT Global have finance lease obligations in the aggregate amounts of Php9 million and Php12 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 9 – Property, Plant and Equipment*.

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume, permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

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## 21. Deferred Credits and Other Noncurrent Liabilities

As at June 30, 2014 and December 31, 2013, this account consists of:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Accrual of capital expenditures under long-term financing  | 16,780             | 19,515               |
| Provision for asset retirement obligations (Notes 3 and 9) | 2,205              | 2,144                |
| Unearned revenues (Note 23)                                | 179                | 173                  |
| Others   | 213                | 213                  |
|  | <b>19,377</b>      | <b>22,045</b>        |

Accrual of capital expenditures under long-term financing represent expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks.

The following table summarizes all changes to asset retirement obligations for the six months ended June 30, 2014 and for the year ended December 31, 2013:

|  | June 30,<br>2014   | December 31,<br>2013 |
|--|--------------------|----------------------|
|  | (Unaudited)        | (Audited)            |
|  | (in million pesos) |                      |
| Provision for asset retirement obligations at beginning of the period    | 2,144              | 2,543                |
| Additional liability recognized during the period (Note 28)              | 42                 | 32                   |
| Accretion expenses   | 19                 | 44                   |
| Settlement of obligations and others                                     | –                  | (475)                |
| Provision for asset retirement obligations at end of the period (Note 3) | <b>2,205</b>       | <b>2,144</b>         |

## 22. Accounts Payable

As at June 30, 2014 and December 31, 2013, this account consists of:

|                                     | June 30,<br>2014   | December 31,<br>2013 |
|-------------------------------------|--------------------|----------------------|
|                                     | (Unaudited)        | (Audited)            |
|                                     | (in million pesos) |                      |
| Suppliers and contractors (Note 27) | 26,651             | 29,799               |
| Carriers (Note 27)                  | 2,194              | 2,264                |
| Taxes (Note 26)                     | 1,245              | 1,734                |
| Related parties (Notes 24 and 27)   | 627                | 863                  |
| Others                              | 147                | 222                  |
|                                     | <b>30,864</b>      | <b>34,882</b>        |

Accounts payable are non-interest-bearing and are normally settled within 180 days.

For terms and conditions pertaining to related parties, see *Note 24 – Related Party Transactions*.

For explanation on the PLDT Group's liquidity risk management processes, see *Note 27 – Financial Assets and Liabilities – Liquidity Risk*.

### 23. Accrued Expenses and Other Current Liabilities

As at June 30, 2014 and December 31, 2013, this account consists of:

|   | June 30,<br>2014   | December 31,<br>2013 |
|---|--------------------|----------------------|
|   | (Unaudited)        | (Audited)            |
|   | (in million pesos) |                      |
| Accrued utilities and related expenses (Notes 24 and 27)            | 41,719             | 37,937               |
| Accrued taxes and related expenses (Note 26)                        | 8,844              | 8,878                |
| Unearned revenues (Note 21)   | 8,013              | 7,333                |
| Liability from redemption of preferred shares (Notes 19, 27 and 28) | 7,937              | 7,952                |
| Accrued employee benefits (Notes 2, 3, 24, 25 and 27)               | 5,012              | 5,364                |
| Accrued interests and other related costs (Notes 20 and 27)         | 1,047              | 878                  |
| Others  | 6,687              | 5,914                |
|   | <b>79,259</b>      | <b>74,256</b>        |

Accrued utilities and related expenses pertain to cost incurred for electricity and water consumption, repairs and maintenance, selling and promotions, professional and other contracted services, rent, insurance and security services, and other operational-related expenses pending receipt of billings and statement of accounts from suppliers.

Accrued taxes and related expenses pertain to licenses, permits and other related business taxes.

Unearned revenues represent advance payments for leased lines, installation fees, monthly service fees and unused and/or unexpired portion of prepaid loads.

Accrued expenses and other current liabilities are non-interest-bearing and are normally settled within a year.

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## 24. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and 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. Related parties may be individuals or corporate entities.

The PLDT Group has not recorded any impairment of receivables relating to amounts owed by related parties as at June 30, 2014 and December 31, 2013. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The following table provides the summary of outstanding balances as at June 30, 2014 and December 31, 2013 transactions that have been entered into with related parties:

|  |  |   |                    | June 30,<br>2014 | December 31,<br>2013 |
|--|--|---|--------------------|------------------|----------------------|
|  |  |   |                    | (Unaudited)      | (Audited)            |
| Classifications  | Terms  | Conditions  | (in million pesos) |                  |                      |
| <i>Indirect investment in joint ventures through PCEV:</i> |  |   |                    |                  |                      |
| Meralco  | Prepayments<br>(Note 18)                                 | –   | –                  | 108              | –                    |
|  | Accrued expenses and other current liabilities (Note 23) | Electricity charges – immediately upon receipt of invoice | Unsecured          | 279              | 317                  |
|  |  | Pole rental – 45  | Unsecured          | –                | 10                   |

|  |  |   |                    | June 30,    | December 31, |
|--|--|---|--------------------|-------------|--------------|
|  |  |   |                    | 2014        | 2013         |
|  |  |   |                    | (Unaudited) | (Audited)    |
| Classifications  | Terms  | Conditions  | (in million pesos) |             |              |
|  | days upon receipt of billing                             |   |                    |             |              |
| <i>Indirect investment in associate through ACeS Philippines:</i>    |  |   |                    |             |              |
| AIL  | Accrued expenses and other current liabilities (Note 23) | 30 days upon receipt of billing                             | Unsecured          | 41          | 44           |
| <i>Transactions with major stockholders, directors and officers:</i> |  |   |                    |             |              |
| Asia Link B.V., or ALBV  | Accounts payable (Note 22)                               | 15 days from end of quarter                                 | Unsecured          | 310         | 336          |
| NTT World Engineering Marine Corporation                             | Accrued expenses and other current liabilities (Note 23) | 1 <sup>st</sup> month of each quarter; non-interest-bearing | Unsecured          | 29          | 32           |
| NTT Communications   | Accrued expenses and other current liabilities (Note 23) | 30 days upon receipt of billing; non-interest-bearing       | Unsecured          | 22          | 13           |
| NTT Worldwide Telecommunications Corporation                         | Accrued expenses and other current liabilities (Note 23) | 30 days upon receipt of billing; non-interest-bearing       | Unsecured          | 15          | 1            |



|   | Classifications   | Terms                               | Conditions               | June 30,    | December 31, |
|---|---|-------------------------------------|--------------------------|-------------|--------------|
|   |   |                                     |                          | 2014        | 2013         |
|   |   |                                     |                          | (Unaudited) | (Audited)    |
| (in million pesos)                      |   |                                     |                          |             |              |
| JGSHI                                   | Accounts payable and accrued expenses and other current liabilities (Notes 22 and 23) | Immediately upon receipt of invoice | Unsecured                | 1           | 10           |
| NTT DOCOMO                              | Accrued expenses and other current liabilities (Note 23)                              | 30 days upon receipt of billing;    | Unsecured                | 9           | 23           |
| Malayan Insurance Co., Inc., or Malayan | Accrued expenses and other current liabilities (Note 23)                              | Immediately upon receipt of invoice | Unsecured                | 7           | 9            |
| <i>Others:</i>                          |   |                                     |                          |             |              |
| Various                                 | Trade and other receivables (Note 16)   | 30 days upon receipt of billing     | Unsecured; no impairment | 1,579       | 1,301        |

The following table provides the summary of transactions for the six months ended June 30, 2014 and 2013 in relation with the table above for the transactions that have been entered into with related parties.

|  | Classifications          | June 30,    |       |
|--|--------------------------|-------------|-------|
|  |                          | 2014        | 2013  |
|  |                          | (Unaudited) |       |
| (in million pesos)   |                          |             |       |
| <i>Indirect investment in joint ventures through</i>                 |                          |             |       |
| <i>PCEV:</i>   |                          |             |       |
| Meralco  | Repairs and maintenance  | 1,648       | 1,480 |
|  | Rent                     | 134         | 138   |
| MIESCOR  | Construction-in-progress | 41          | 15    |
|  | Repairs and maintenance  | 34          | 22    |
| <i>Indirect investment in associate through ACeS</i>                 |                          |             |       |
| <i>Philippines:</i>  |                          |             |       |
| AIL  | Cost of sales (Note 5)   | 14          | 27    |
| <i>Transactions with major stockholders, directors and officers:</i> |                          |             |       |
| JGSHI  | Rent                     | 61          | 51    |
|  | Repairs and maintenance  | 27          | 21    |

|  |  | June 30,           |      |
|--|--|--------------------|------|
|  |  | 2014               | 2013 |
| Classifications                              |  | (Unaudited)        |      |
|  |  | (in million pesos) |      |
|  | Communication, training and travel         | 3                  | 5    |
|  | Selling and promotions                     | –                  | 2    |
| ALBV   | Professional and other contracted services | 116                | 142  |
| Malayan                                      | Insurance and security services            | 91                 | 126  |
| NTT DOCOMO                                   | Professional and other contracted services | 38                 | 35   |
| NTT World Engineering Marine Corporation     | Repairs and maintenance                    | 7                  | 18   |
| NTT Worldwide Telecommunications Corporation | Selling and promotions                     | 8                  | 2    |
| NTT Communications                           | Professional and other contracted services | 37                 | 35   |
|  | Rent                                       | 5                  | 1    |
| <i>Others:</i>                               |  |                    |      |
| Various                                      | Revenues                                   | 494                | 236  |

*a. Agreements between PLDT and certain subsidiaries with Meralco*

In the ordinary course of business, Meralco provides electricity to PLDT and certain subsidiaries' offices within its franchise area. The rates charged by Meralco are the same as those with unrelated parties. Total electricity costs, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php1,648 million and Php1,480 million for the six months ended June 30, 2014 and 2013, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php279 million and Php317 million as at June 30, 2014 and December 31, 2013, respectively.

In 2009, PLDT and Smart renewed their respective Pole Attachment Contracts with Meralco, wherein Meralco leases its pole spaces to accommodate PLDT's and Smart's cable network facilities. Total fees under these contracts, which were presented as part of rent in our consolidated income statements, amounted to Php134 million and Php138 million for the six months ended June 30, 2014 and 2013, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to nil and Php10 million as at June 30, 2014 and December 31, 2013, respectively, while prepayment balance amounted to Php108 million as at June 30, 2014.

See also *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in Beacon – Beacon's Acquisition of Additional Meralco Shares* for additional transactions involving Meralco.

*b. Agreements between PLDT and MIESCOR*

PLDT has an existing Outside and Inside Plant Contracted Services Agreement with MIESCOR, a subsidiary of Meralco, covering the periods from November 25, 2011 until December 31, 2014, renewable upon mutual agreement by both parties. Under the agreement, MIESCOR assumes full and overall responsibility for the implementation and completion of any assigned project such as cable works, civil and electrical engineering works and subscriber line installation and maintenance that are required for the provisioning and restoration of lines and recovery of existing plant.

Total fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php10 million and Php9 million for the six months ended June 30, 2014 and 2013, respectively. Total amount capitalized to property, plant and equipment amounted to Php1 million each for the six months ended June 30, 2014 and 2013. Under this agreement, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php19 thousand and nil as at June 30, 2014 and December 31, 2013, respectively.

PLDT also has an existing agreement with MIESCOR for the provision of work for outside plant rehabilitation and related activities. Under the agreement, MIESCOR is responsible for the preventive and corrective maintenance of cables and cabinets in the areas awarded to them. The original contract covers the period from January 1, 2011 up to December 31, 2012, however, both parties mutually agreed to an extension until March 31, 2014.

Total fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php24 million and Php13 million for the six months ended June 30, 2014 and 2013, respectively. Total amount capitalized to property, plant and equipment amounted to Php40 million and Php14 million for the six months ended June 30, 2014 and 2013, respectively. There were no outstanding obligations under this agreement as at June 30, 2014 and December 31, 2013.

*c. Transactions with Republic Surety and Insurance Co., Inc. or RSIC*

In 2012, PLDT has insurance policies with RSIC, a wholly-owned subsidiary of Meralco, covering material damages for buildings, building improvements and equipment. Total fees under these contracts, which were presented as part of insurance and security services in our consolidated income statements, amounted to Php40 thousand and nil for the six months ended June 30, 2014 and 2013, respectively. There were no outstanding obligations for these contracts as at June 30, 2014 and December 31, 2013.

*d. Air Time Purchase Agreement between PLDT and AIL and Related Agreements*

Under the Founder NSP Air Time Purchase Agreement, or ATPA, entered into with AIL in March 1997, which was amended in December 1998, or Original ATPA, PLDT was granted the exclusive right to sell AIL services, through ACeS Philippines, as national service provider, or NSP, in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AIL a minimum of US\$5 million worth of air time, or Minimum Air Time Purchase Obligation, annually over ten years commencing on January 1, 2002, or Minimum Purchase Period, the expected date of commercial operations of the Garuda I Satellite. In the event that AIL's aggregate billed revenue was less than US\$45 million in any given year, the Original ATPA also required PLDT to make supplemental air time purchase payments not to exceed US\$15 million per year during the Minimum Purchase Period, or Supplemental Air Time Purchase Obligation.

On February 1, 2007, the parties to the Original ATPA entered into an amendment to the Original ATPA on substantially the terms attached to the term sheet negotiated with the relevant banks, or Amended ATPA. Under the Amended ATPA, the Minimum Air Time Purchase Obligation was amended and replaced in its entirety with an obligation of PLDT to purchase from AIL a minimum of US\$500 thousand worth of air time annually over a period ending upon the earlier of: (i) the expiration of the Minimum Purchase Period; and (ii) the date on which all indebtedness incurred by AIL to finance the AIL System is repaid. Furthermore, the Amended ATPA unconditionally released PLDT from any obligations arising out of or in connection with the Original ATPA prior to the date of the Amended ATPA, except for obligations to pay for billable units used prior to such date.

Total fees under the Amended ATPA, which were presented as part of cost of sales in our consolidated income statements, amounted to Php14 million and Php27 million for the six months ended June 30, 2014 and 2013, respectively. Under the Amended ATPA, the outstanding obligations of PLDT, which were presented as part of accounts payable in our consolidated statements of financial position, amounted to Php41 million and Php44 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 5 – Income and Expenses – Cost of Sales*.

*e. Transactions with Major Stockholders, Directors and Officers*

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more

than 10% of the outstanding common stock of PLDT had a direct or indirect material interest as at June 30, 2014 and December 31, 2013 and for the six months ended June 30, 2014 and 2013 are as follows:

1. *Agreement between Smart and ALBV*

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group and its Philippine affiliates. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business. The agreement, which expired on February 23, 2012 was renewed until February 23, 2016 and is subject to further renewal upon mutual agreement of the parties, provides for payment of technical service fees equivalent to a rate of 0.5% of the consolidated net revenues of Smart. Effective February 1, 2014, the parties agreed to reduce the technical service fee rate from 0.5% to 0.4% of the consolidated net revenues of Smart. Total service fees charged to operations under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php116 million and Php142 million for the six months ended June 30, 2014 and 2013, respectively. Under this agreement, the outstanding obligations, which were presented as part of accounts payable in our consolidated statements of financial position, amounted to Php310 million and Php336 million as at June 30, 2014 and December 31, 2013, respectively.

2. *Other Agreements with NTT Communications and/or its Affiliates*

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- *Service Agreement.* On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant. The fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php7 million and Php18 million for the six months ended June 30, 2014 and 2013, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php29 million and Php32 million as at June 30, 2014 and December 31, 2013, respectively;

- *Advisory Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000. The fees under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php37 million and Php35 million for the six months ended June 30, 2014 and 2013, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php13 million and Php12 million as at June 30, 2014 and December 31, 2013, respectively;
- *Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses. The fees under this agreement, which were presented as part of rent in our consolidated income statements, amounted to Php5 million and Php1 million for the six months ended June 30, 2014 and 2013, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php9 million and Php1 million as at June 30, 2014 and December 31, 2013, respectively; and

- *Arcstar Licensing Agreement and Arcstar Service Provider Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines. The fees under this agreement, which were presented as part of selling and promotions in our consolidated income statements, amounted to Php8 million and Php2 million for the six months ended June 30, 2014 and 2013, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php15 million and Php1 million as at June 30, 2014 and December 31, 2013, respectively.

### 3. *Transactions with JGSHI and Subsidiaries*

PLDT and certain of its subsidiaries have existing agreements with Universal Robina Corporation and Robinsons Land Corporation for office and business office rental. Total fees under these contracts, which were presented as part of rent in our consolidated income statements, amounted to Php61 million and Php51 million for the six months ended June 30, 2014 and 2013, respectively. Under these agreements, the outstanding obligations, which were presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php786 thousand and Php8 million as at June 30, 2014 and December 31, 2013, respectively.



There were also other transactions such as airfare, electricity, marketing expenses and bank fees, which were presented as part of communication, training and travel, selling and promotions, repairs and maintenance and professional and other contracted services, totaling to Php30 million and Php28 million for the six months ended June 30, 2014 and 2013, respectively. The outstanding obligations for these transactions, which were presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php565 thousand and Php2 million as at June 30, 2014 and December 31, 2013, respectively.

4. *Advisory Service Agreement between NTT DOCOMO and PLDT*

An Advisory Services Agreement was entered into by NTT DOCOMO and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DOCOMO will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php38 million and Php35 million for the six months ended June 30, 2014 and 2013, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php9 million and Php23 million as at June 30, 2014 and December 31, 2013, respectively.

5. *Transactions with Malayan*

PLDT and certain of its subsidiaries have insurance policies with Malayan covering directors, officers, employees liability and material damages for buildings, building improvements, equipment and motor vehicles. The premiums are directly paid to Malayan. Total fees under these contracts, which were presented as part of insurance and security services in our consolidated income statements, amounted to Php91 million and Php126 million for the six months ended June 30, 2014 and 2013, respectively. Under this agreement, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php7 million and Php9 million as at June 30, 2014 and December 31, 2013, respectively. One director of PLDT has direct/indirect interests in or serves as a director/officer of Malayan as at June 30, 2014 and December 31, 2013.

6. *Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO*

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DOCOMO pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and NTT DOCOMO, the FP Parties, NTT Communications and NTT DOCOMO entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DOCOMO, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- *Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DOCOMO.* Each of NTT Communications and NTT DOCOMO has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.
- *Limitation on Competition.* NTT Communications, NTT DOCOMO and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DOCOMO with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.
- *Business Cooperation.* PLDT and NTT DOCOMO agreed in principle to collaborate with each other on the business development, roll-out and use of a wireless-code division multiple access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DOCOMO.
- *Additional Rights of NTT DOCOMO.* Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then

outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:

1. NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the Board of Directors of each PLDT and Smart;
2. PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DOCOMO, or which NTT DOCOMO has announced publicly an intention to carry on;
3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and
4. PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock as at June 30, 2014 and December 31, 2013.

- *Change in Control.* Each of NTT Communications, NTT DOCOMO and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A "*Hostile Transferee*" is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DOCOMO, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who

announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed; or (e) whose intention is otherwise not *bona fide*, provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DOCOMO in good faith whether such person should be considered a Hostile Transferee.

- *Termination.* If NTT Communications, NTT DOCOMO or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

*f. Others*

1. Telecommunications services provided by PLDT and certain of its subsidiaries to various related parties

PLDT and certain of its subsidiaries provide telephone, data communication and other services to various related parties at arm's length similar to transactions with other customers. The revenues under these services amounted to Php494 million and Php236 million for the six months ended June 30, 2014 and 2013, respectively. The outstanding receivables of PLDT and certain of its subsidiaries, which were presented as part of trade and other receivables in our consolidated statements of financial position, from these services amounted to Php1,579 million and Php1,301 million as at June 30, 2014 and December 31, 2013, respectively.

See *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in MediaQuest* and *Note 18 – Prepayments – Agreement between PLDT and Smart with TV5* for other related party transactions.

***Compensation of Key Officers of the PLDT Group***

The compensation of key officers of the PLDT Group by benefit type for the six months ended June 30, 2014 and 2013 are as follows:

|   | June 30,           |      |
|---|--------------------|------|
|   | 2014               | 2013 |
|   | (Unaudited)        |      |
|   | (in million pesos) |      |
| Short-term employee benefits                              | 436                | 435  |
| Post-employment benefits (Note 25)                        | 23                 | 16   |
| Other long-term employee benefits (Note 25)               | 142                | 246  |
| Total compensation paid to key officers of the PLDT Group | 601                | 697  |

Each of the directors, including the members of the advisory board of PLDT, is entitled to a director's fee in the amount of Php200 thousand for each board meeting attended. Each of the members or advisors of the audit, executive compensation, governance and nomination and technology strategy committees is entitled to a fee in the amount of Php75 thousand for each committee meeting attended.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

The amounts disclosed in the table are the amounts recognized as expenses during the reporting period related to key management personnel.

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## 25. Employee Benefits

### *Pension*

#### *Defined Benefit Pension Plans*

PLDT has defined benefit pension plans, operating under the legal name "The Board of Trustees for the account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT Company" and covering substantially all of our permanent and regular employees. Certain subsidiaries of PLDT have not yet drawn up a specific retirement plan for its permanent or regular employees. For the purpose of complying with Revised *PAS 19*, pension benefit expense has been actuarially computed based on defined benefit plan.

Our actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the changes in the present value defined benefit obligations and the fair value of plan assets for the six months ended June 30, 2014 and for the year ended December 31, 2013 and net periodic benefit costs for the six months ended June 30, 2014 and 2013 are as follows:

|   | June 30,<br>2014 | December 31,<br>2013 |
|---|------------------|----------------------|
|   | (Unaudited)      | (Audited)            |
| (in million pesos)  |                  |                      |
| Changes in present value of defined benefit obligations:                    |                  |                      |
| Present value of defined benefit obligations at beginning of the period     | 19,497           | 17,456               |
| Service costs   | 505              | 970                  |
| Interest costs on benefit obligation  | 470              | 958                  |
| Actual benefits paid/settlements  | (82)             | (1,348)              |
| Actuarial losses – economic assumptions                                     | –                | 1,180                |
| Actuarial losses – experience   | –                | 552                  |
| Curtailments and others (Notes 2 and 13)                                    | (17)             | (271)                |
| Present value of defined benefit obligations at end of the period           | 20,373           | 19,497               |
| Changes in fair value of plan assets:                                       |                  |                      |
| Fair value of plan assets at beginning of the period                        | 9,187            | 18,435               |
| Actual contributions  | 2,510            | 2,073                |
| Interest income on plan assets  | 230              | 1,023                |
| Actual benefits paid/settlements  | (63)             | (1,348)              |
| Actuarial losses on plan assets (excluding amount included in net interest) | (2,702)          | (10,996)             |
| Fair value of plan assets at end of the period                              | 9,162            | 9,187                |
| Unfunded status – net   | (11,211)         | (10,310)             |
| Accrued benefit costs (Note 3)  | 11,214           | 10,310               |
| Prepaid benefit costs (Notes 3 and 18)                                      | 3                | –                    |
|   |                  |                      |
|   | June 30,         |                      |
|   | 2014             | 2013                 |
|   | (Unaudited)      |                      |
| (in million pesos)  |                  |                      |
| Components of net periodic benefit costs:                                   |                  |                      |
| Service costs   | 505              | 463                  |
| Interest costs – net  | 240              | 20                   |
| Net periodic benefit costs (Notes 3 and 5)                                  | 745              | 483                  |

Actual net losses on plan assets amounted to Php2,473 million and Php9,973 million for the six months ended June 30, 2014 and for the year ended December 31, 2013, respectively.



The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at June 30, 2014:

|                     | (in million pesos) |
|---------------------|--------------------|
| 2014 <sup>(1)</sup> | 151                |
| 2015                | 247                |
| 2016                | 284                |
| 2017                | 338                |
| 2018                | 396                |
| 2019 to 2057        | 93,515             |

<sup>(1)</sup> July 1, 2014 through December 31, 2014.

The average duration of the defined benefit obligation at the end of the reporting period is 16 to 28 years.

The weighted average assumptions used to determine pension benefits for the six months ended June 30, 2014 are as follows:

|                                  |    |
|----------------------------------|----|
| Rate of increase in compensation | 6% |
| Discount rate                    | 5% |

We have adopted mortality rates in accordance with the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries, which provides separate rates for males and females.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at June 30, 2014, assuming if all other assumptions were held constant:

|                         | Increase (Decrease) |                    |
|-------------------------|---------------------|--------------------|
|                         |                     | (in million pesos) |
| Discount rate           | 1%                  | (2,427)            |
|                         | (1%)                | 2,879              |
| Future salary increases | 1%                  | 2,877              |
|                         | (1%)                | (2,425)            |

### *PLDT's Retirement Plan*

The Board of Trustees performed an asset-liability matching study of our retirement plan. The Board of Trustees, which manages the beneficial trust fund, is composed of: (i) a member of the Board of Directors of PLDT, who is not a beneficiary of the Plan; (ii) a member of the Board of Directors or a senior officer of PLDT, who is a beneficiary of the Plan; (iii) a senior member of the executive staff of PLDT; and (iv) two persons who are not executives or employees of PLDT.

Benefits are payable in the event of termination of employment due to: (i) compulsory, optional, or deferred retirement; (ii) death while in active service; (iii) physical disability; (iv) voluntary resignation; or (v) involuntary separation from service. For a plan member with less than 15 years of credited services, retirement benefit is equal to 100% of final compensation for every year of service. For those with at least 15 years of service, retirement benefit is equal to 125% of final compensation for every year of service, with such percentage to be increased by an additional 5% for each completed year of service in excess of 15 years, but not to exceed a maximum of 200%. In case of voluntary resignation after attainment of age 40 and completion of at least 15 years of credited service, benefit is equal to a percentage of his vested retirement benefit, in accordance with percentages prescribed in the retirement plan.

The Board of Trustees of the beneficial trust fund uses an investment approach with the objective of maximizing the long-term expected return of plan assets. The majority of investment portfolio consists of listed and unlisted equity securities while the remaining portion consists of passive investments like temporary cash investments and fixed income investments.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk.

Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the Board of Trustees invests at least the equivalent amount of actuarially computed expected compulsory retirement benefit payments for the period to liquid/semi-liquid assets such as treasury notes, treasury bills, savings and time deposits with commercial banks.

Price risk pertains mainly to fluctuations in market prices of equity securities listed in the PSE. In order to effectively manage price risk, the Board of Trustees continuously assesses these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

For the six months ended June 30, 2014, PLDT contributed a total of Php2,510 million to the beneficial trust fund.

The following table sets forth the fair values, which are equal to the carrying values, of PLDT's plan assets recognized as at June 30, 2014 and December 31, 2013:

|   | June 30,<br>2014   | December 31,<br>2013 |
|---|--------------------|----------------------|
|   | (Unaudited)        | (Audited)            |
|   | (in million pesos) |                      |
| <b>Noncurrent Financial Assets</b>                        |                    |                      |
| <i>Investments in:</i>                                    |                    |                      |
| Unlisted equity investments                               | 5,896              | 5,877                |
| Shares of stock   | 2,702              | 2,435                |
| Mutual funds  | 68                 | 64                   |
| Government securities                                     | 42                 | 43                   |
| Investment properties                                     | 11                 | 11                   |
| <b>Total noncurrent financial assets</b>                  | <b>8,719</b>       | <b>8,430</b>         |
| <b>Current Financial Assets</b>                           |                    |                      |
| Cash and cash equivalents                                 | 369                | 340                  |
| Receivables   | 3                  | 336                  |
| <b>Total current financial assets</b>                     | <b>372</b>         | <b>676</b>           |
| <b>Total PLDT's Plan Assets</b>                           | <b>9,091</b>       | <b>9,106</b>         |
| <b>Subsidiaries Plan Assets</b>                           | <b>81</b>          | <b>81</b>            |
| <b>Total Plan Assets of Defined Benefit Pension Plans</b> | <b>9,172</b>       | <b>9,187</b>         |

Investment in shares of stocks is valued using the latest bid price at reporting date. Investments in mutual funds and government securities are valued using the market values at reporting date. Investment properties are valued using the latest available appraised values.

### *Unlisted Equity Investments*

As at June 30, 2014 and December 31, 2013, this account consists of:

|  | June 30,<br>2014 | December 31,<br>2013 | June 30,<br>2014   | December 31,<br>2013 |
|--|------------------|----------------------|--------------------|----------------------|
|  | (Unaudited)      | (Audited)            | (Unaudited)        | (Audited)            |
|  | % of Ownership   |                      | (in million pesos) |                      |
| MediaQuest   | 100%             | 100%                 | 5,373              | 5,373                |
| Tahanan Mutual Building and Loan Association, or<br>TMBLA (net of subscriptions payable of Php32<br>million) | 100%             | 100%                 | 316                | 302                  |
| BTF Holdings, Inc., or BTFHI   | 100%             | 100%                 | 167                | 162                  |
| Superior Multi Parañaque Homes, Inc.   | 100%             | 100%                 | 39                 | 39                   |
| Bancholders, Inc., or Bancholders  | 100%             | 100%                 | 1                  | 1                    |
| Superior Parañaque Homes, Inc.   | 100%             | 100%                 | –                  | –                    |
|  |                  |                      | 5,896              | 5,877                |

#### *Investment in MediaQuest*

MediaQuest was registered with the Philippine SEC on June 29, 1999 primarily to purchase, subscribe for or otherwise acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property or every kind and description, and to pay thereof in whole or in part, in cash or by exchanging, stocks, bonds and other evidences of indebtedness or securities of this any other corporation. Its investments include common shares of stocks of various communication, broadcasting and media entities.

The Board of Trustees of the Beneficial Trust Fund approved additional investments in MediaQuest amounting to Php750 million each on November 5, 2012 and January 25, 2013 to fund the latter's operational and capital expenditure requirements. Subsequently, on March 1, 2013, the Board of Directors of MediaQuest approved its application of the additional investment to additional paid in capital on the existing subscribed shares of stock.

On May 8, 2012, the Board of Trustees of the Beneficial Trust Fund approved the issuance by MediaQuest of PDRs amounting to Php6 billion. The underlying shares of these PDRs are the shares of stocks of Cignal TV held by MediaQuest (Cignal TV PDRs). On the same date, MediaQuest Board of Directors approved the investment in Cignal TV PDRs by ePLDT, which will give ePLDT a 40% economic interest in Cignal TV. In June 2012, MediaQuest received a deposit for future PDRs subscription of Php4 billion from ePLDT. Additional deposits of Php1 billion each were received on July 6, 2012 and August 9, 2012. The Cignal TV PDRs were subsequently issued on September 27, 2013.

On January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php3.6 billion. The underlying shares of these additional PDRs are the shares of stocks of Satventures held by MediaQuest (Satventures PDRs), the holder of which will have a 40% economic interest in Satventures. Satventures is a wholly-owned subsidiary of MediaQuest and the investment vehicle for Cignal TV. From March to August 2013, MediaQuest received from ePLDT an amount aggregating to Php3.6 billion representing deposits for future PDRs subscription. The Satventures PDRs were subsequently issued on September 27, 2013.

Also, on January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php1.95 billion. The underlying shares of these additional PDRs are the shares of stocks of Hastings held by MediaQuest (Hastings PDRs), the holder of which will have a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest, which holds all the print-related investments of MediaQuest, including equity interests in the three leading newspapers: The Philippine Star, the Philippine Daily Inquirer, and Business World. In 2013, MediaQuest received from ePLDT an amount aggregating to Php1.95 billion representing deposits for future PDRs subscription. See *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in MediaQuest*.

In November 2013, the Board of Trustees of the Beneficial Trust Fund and the Board of Directors of MediaQuest approved the additional investment of Hastings in Philippine Star Group and approved the issuance of PDRs by MediaQuest for its interest in Hastings. See *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in MediaQuest*.

As at the date of issuance of this report, the Hastings PDRs have not yet been issued.

The Board of Trustees of the Beneficial Trust Fund approved additional investments in MediaQuest amounting to Php6,300 million to fund the latter's investment requirements. Of

the Php6,300 million, a total of Php2,500 million has already been drawn by MediaQuest as at June 30, 2014.

The fair values of the investments in MediaQuest were measured using an income approach valuation technique using cash flows projections based on financial budgets and forecasts approved by MediaQuest's Board of Directors, covering a five-year period from 2014 to 2018.

The pre-tax discount rates applied to cash flow projections range from 11% to 12%. Cash flows beyond the five-year period are determined using 3% to 7% growth rates.

#### *Investment in TMBLA*

TMBLA was incorporated for the primary purpose of accumulating the savings of its stockholders and lending funds to them for housing programs. The beneficial trust fund has a direct subscription in shares of stocks of TMBLA in the amount of Php112 million. The related unpaid subscription of Php32 million is included in "unlisted equity investments, deposits on future stock subscriptions and advances" in the total financial assets table. The cumulative change in the fair market value of this investment amounted to Php236 million and Php222 million as at June 30, 2014 and December 31, 2013, respectively.

#### *Investment in BTFHI*

BTFHI was incorporated for the primary purpose of acquiring voting preferred shares in PLDT and while the owner, holder of possessor thereof, to exercise all the rights, powers, and privileges of ownership or any other interest therein.

On October 26, 2012, BTFHI subscribed to a total of 150 million shares of Voting Preferred Stock of PLDT at a subscription price of Php1.00 per share for a total subscription price of Php150 million. Total cash dividend income amounted to Php4.8 million and Php4.9 million for the six months ended June 30, 2014 and 2013, respectively. Dividend receivables amounted to Php2 million each as at June 30, 2014 and December 31, 2013.

#### *Investment in Shares of Stocks*

As at June 30, 2014 and December 31, 2013, this account consists of:

---

|  | June 30,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
|  | (Unaudited)      | (Audited)            |

|                  | (in million pesos) |       |
|------------------|--------------------|-------|
| Common shares    |                    |       |
| PSE              | 1,850              | 1,668 |
| PLDT             | 79                 | 71    |
| Others           | 413                | 336   |
| Preferred shares | 360                | 360   |
|                  | 2,702              | 2,435 |

Dividends earned on common shares amounted to Php3 million each for the six months ended June 30, 2014 and 2013.

Preferred shares represent 300 million unlisted preferred shares of PLDT at Php10 par value as at June 30, 2014 and December 31, 2013, net of subscription payable of Php2,640 million. These shares, which bear dividend of 13.5% per annum based on the paid-up subscription price, are cumulative, non-convertible and redeemable at par value at the option of PLDT. Dividends earned on this investment amounted to Php24 million each for the six months ended June 30, 2014 and 2013.

#### *Mutual Funds*

Investment in mutual funds include various U.S. dollar and Euro denominated equity funds, which aims to out-perform benchmarks in various international indices as part of its investment strategy. Total investment in mutual funds amounted to Php68 million and Php64 million as at June 30, 2014 and December 31, 2013, respectively.

#### *Government Securities*

Investment in government securities include retail treasury bonds bearing interest ranging from 5.88% to 7%. These securities are fully guaranteed by the government of the Republic of the Philippines. Total investment in government securities amounted to Php42 million and Php43 million as at June 30, 2014 and December 31, 2013, respectively.

#### *Investment Properties*

Investment properties include two condominium units (bare, separate 127 and 58 square meter units) located in Ayala-FGU Building along Alabang-Zapote Road in Muntinlupa City. Total investment properties amounted to Php11 million each as at June 30, 2014 and December 31, 2013.

The asset allocation of the Plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the Plan and risk

appetite of the Plan sponsor. This considers the expected benefit cashflows to be matched with asset durations.

The allocation of the fair value of the assets for the PLDT pension plan as at June 30, 2014 and December 31, 2013 are as follows:

|  | June 30,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
|  | (Unaudited)      | (Audited)            |
| Investments in listed and unlisted equity securities | 95%              | 95%                  |
| Temporary cash investments                           | 4%               | 4%                   |
| Investments in mutual funds                          | 1%               | 1%                   |
|  | 100%             | 100%                 |

#### *Defined Contribution Plans*

Smart and certain of its subsidiaries contributions to the plan are made based on the employees' years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and certain of its subsidiaries regularly monitor compliance with R.A. 7641. As at June 30, 2014 and December 31, 2013, Smart and certain of its subsidiaries were in compliance with the requirements of R.A. 7641.

Smart and certain of its subsidiaries actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the changes in the present value defined benefit obligations and the fair value of plan assets for the six months ended June 30, 2014 and for the year ended December 31, 2013 and net periodic benefit costs for the six months ended June 30, 2014 and 2013 are as follows:

|   | June 30,<br>2014   | December 31,<br>2013 |
|---|--------------------|----------------------|
|   | (Unaudited)        | (Audited)            |
|   | (in million pesos) |                      |
| Changes in present value of defined benefit obligations:                |                    |                      |
| Present value of defined benefit obligations at beginning of the period | 1,685              | 1,606                |
| Service costs   | 127                | 226                  |
| Interest costs on benefit obligation                                    | 46                 | 95                   |
| Actual benefits paid/settlements  | (18)               | (177)                |



|   | June 30,<br>2014   | December 31,<br>2013 |
|---|--------------------|----------------------|
|   | (Unaudited)        | (Audited)            |
|   | (in million pesos) |                      |
| Actuarial losses – economic assumptions   | –                  | (6)                  |
| Actuarial gains – experience  | –                  | (59)                 |
| Present value of defined benefit obligations at end of the period                   | 1,840              | 1,685                |
| Changes in fair value of plan assets:   |                    |                      |
| Fair value of plan assets at beginning of the period                                | 1,884              | 1,760                |
| Actual contributions  | 127                | 208                  |
| Interest income on plan assets  | 46                 | 95                   |
| Actuarial gains (losses) on plan assets (excluding amount included in net interest) | 10                 | (2)                  |
| Actual benefits paid/settlements  | (18)               | (177)                |
| Fair value of plan assets at end of the period                                      | 2,049              | 1,884                |
| Surplus status – net  | 209                | 199                  |

|  | June 30,           |      |
|--|--------------------|------|
|  | 2014               | 2013 |
|  | (Unaudited)        |      |
|  | (in million pesos) |      |
| Components of net periodic benefit costs:  |                    |      |
| Service costs                              | 127                | 100  |
| Interest costs                             | –                  | –    |
| Net periodic benefit costs (Notes 3 and 5) | 127                | 100  |

Actual net gains on plan assets amounted to Php56 million and Php93 million for the six months ended June 30, 2014 and for the year ended December 31, 2013, respectively.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at June 30, 2014:

|                     | (in million pesos) |
|---------------------|--------------------|
| 2014 <sup>(1)</sup> | 101                |
| 2015                | 53                 |
| 2016                | 67                 |
| 2017                | 73                 |
| 2018                | 97                 |
| 2019 to 2054        | 21,025             |

<sup>(1)</sup> July 1, 2014 through December 31, 2014.

The average duration of the defined benefit obligation at the end of the reporting period is 21 to 34 years.

The weighted average assumptions used to determine pension benefits for the six months ended June 30, 2014 are as follows:

|                                  |    |
|----------------------------------|----|
| Rate of increase in compensation | 6% |
| Discount rate                    | 5% |

The overall expected rate on return on assets is determined based on the market expectations prevailing, applicable to the period over which the obligation is to be settled.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at June 30, 2014, assuming if all other assumptions were held constant:

|                         | Increase (Decrease) |                    |
|-------------------------|---------------------|--------------------|
|                         |                     | (in million pesos) |
| Discount rate           | 1%                  | –                  |
|                         | (1%)                | –                  |
| Future salary increases | 1%                  | 7                  |
|                         | (1%)                | (2)                |

#### *Smart's Retirement Plan*

The fund is being managed and invested by BPI Asset Management and Trust Group, as Trustee, pursuant to an amended trust agreement dated February 21, 2012.

The plan's investment portfolio seeks to achieve regular income, long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the Trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. The portfolio mix is kept at 60% to 90% for debt and fixed income securities while 10% to 40% is allotted to equity securities.

The following table sets forth the fair values, which are equal to the carrying values, of Smart's plan assets recognized as at June 30, 2014 and December 31, 2013:

|  | June 30,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
|  | (Unaudited)      | (Audited)            |
| (in million pesos)                                     |                  |                      |
| <b>Noncurrent Financial Assets</b>                     |                  |                      |
| <i>Investments in<sup>(1)</sup>:</i>                   |                  |                      |
| Domestic fixed income                                  | 1,085            | 989                  |
| International equities                                 | 533              | 635                  |
| Domestic equities                                      | 382              | 342                  |
| Philippine foreign currency bonds                      | 183              | –                    |
| International fixed income                             | 131              | 188                  |
| <b>Total noncurrent financial assets</b>               | <b>2,314</b>     | <b>2,154</b>         |
| <b>Current Financial Assets</b>                        |                  |                      |
| Cash and cash equivalents                              | 361              | 294                  |
| Receivables  | –                | 1                    |
| <b>Total current financial assets</b>                  | <b>361</b>       | <b>295</b>           |
| <b>Total plan assets</b>                               | <b>2,675</b>     | <b>2,449</b>         |
| <b>Employee's share</b>                                | <b>626</b>       | <b>565</b>           |
| <b>Smart's plan assets</b>                             | <b>1,952</b>     | <b>1,789</b>         |
| <b>Subsidiaries' plan assets</b>                       | <b>97</b>        | <b>95</b>            |
| <b>Total Plan Assets of Defined Contribution Plans</b> | <b>2,049</b>     | <b>1,884</b>         |

<sup>(1)</sup> Carrying value includes accumulated equity on investees.

#### *Investment in Domestic Fixed Income*

Investments in domestic fixed income include Philippine peso denominated bonds, such as government securities, corporate bonds and notes, debt securities and a fixed income managed by BPI Asset Management and Trust Group invested in a diversified portfolio of Philippine peso-denominated fixed income instruments. The investments under this category, exclusive of the mutual fund, earned between 7.20% and 9.12% interest for the six months ended June 30, 2014. Total investment in domestic fixed income amounted to Php1,085 million and Php989 million as at June 30, 2014 and December 31, 2013, respectively.

#### *Investment in International Equities*

This category consists of international mutual funds being managed by ING International. Total investment in international equities amounted to Php533 million and Php635 million as at June 30, 2014 and December 31, 2013, respectively.

### *Investment in Domestic Equities*

Investments in domestic equities include direct equity investments in common shares and convertible preferred shares listed in the PSE and an equity fund managed by BPI Asset Management and Trust Group invested in a diversified portfolio of stocks listed in the PSE. These investments earn on stock price appreciation and dividend payments. Total investment in domestic equities amounted to Php382 million and Php342 million as at June 30, 2014 and December 31, 2013, respectively. This includes investment in PLDT shares with fair value of Php24 million and Php22 million as at June 30, 2014 and December 31, 2013, respectively.

### *Investment in Philippine Foreign Currency Bonds*

Investments in Philippine foreign currency bonds include investments in U.S. dollar denominated fixed income instruments issued by the Philippine government, corporations and financial institutions. The investments under this category earned between 4.25% and 7.38% interest for the six months ended June 30, 2014. Total investment in Philippine foreign currency bonds amounted to Php183 million as at June 30, 2014.

### *Investment in International Fixed Income*

Investments in international fixed income include investment in an international fund managed by ING International and invested in a diversified portfolio of high-yield foreign currency denominated bonds. Total investment in international fixed income amounted to Php131 million and Php188 million as at June 30, 2014 and December 31, 2013, respectively.

### *Cash and Cash Equivalents*

This pertains to the fund's excess liquidity in Philippine peso and U.S. dollars including time deposits and mutual funds and other deposit products of banks with tenor of less than one year.

The asset allocation of the Plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor. This considers the expected benefit cashflows to be matched with asset durations.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk.

Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the Plan Trustees invests a portion of the fund in readily tradeable and liquid investments which can be sold at any given time to fund liquidity requirements.

Price risk pertains mainly to fluctuations in market prices of equity securities listed in the PSE. In order to effectively manage price risk, the Plan Trustees continuously assesses these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

The allocation of the fair value of Smart and certain of its subsidiaries pension plan assets as at June 30, 2014 and December 31, 2013 is as follows:

|  | June 30,<br>2014<br>(Unaudited) | December 31,<br>2013<br>(Audited) |
|--|---------------------------------|-----------------------------------|
| Investments in debt and fixed income securities and others | 66%                             | 60%                               |
| Investments in listed and unlisted equity securities       | 34%                             | 40%                               |
|  | 100%                            | 100%                              |

#### *Other Long-term Employee Benefits*

To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, the 2012 to 2014 LTIP, covering the period from January 1, 2012 to December 31, 2014, was approved by the Board of Directors with the endorsement of the ECC on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, intended to align the execution of the business strategies of the expanded Group, including Digitel, over the three year period from 2012 to 2014. In addition, the new LTIP allows for the participation of a number of senior executives and certain newly hired executives and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs recognized for the six months ended June 30, 2014 and 2013 amounted to Php839 million and Php740 million, respectively. Total outstanding liability and fair value of 2012 to 2014 LTIP cost amounted to Php3,968 million and Php3,129 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Pension Benefit Costs and Other Employee Benefits* and *Note 5 – Income and Expenses – Compensation and Employee Benefits*.

Net periodic benefit costs computed for the six months ended June 30, 2014 and 2013 are as follows:

|   | June 30,           |           |
|---|--------------------|-----------|
|   | 2014               | 2013      |
|   | (Unaudited)        | (Audited) |
|   | (in million pesos) |           |
| Components of net periodic benefit costs: |                    |           |
| Current service costs                     | 827                | 710       |
| Interest costs                            | 33                 | 21        |
| Net actuarial losses (gains)              | (21)               | 9         |
| Net periodic benefit costs (Note 3)       | 839                | 740       |

## 26. Provisions and Contingencies

### *Supervision and Regulatory Fees, or SRF, due to the NTC*

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, pursuant to Section 40 of Commonwealth Act No. 146, otherwise known as the Public Service Act, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's position, which was upheld by the Court of Appeals, but, as set forth below, was rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated July 28, 1999, ordered the NTC to make a recomputation of the SRF based on the actual amount paid (inclusive of premiums) for the "capital stock subscribed or paid" and not on par or market value. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees, the NTC used as basis not only capital stock subscribed or paid, but also the stock dividends. PLDT questioned the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing its assessment until the resolution of the issue. Prior to the resolution of the issue mentioned above, PLDT paid the SRF due in 2000 together with the balance due from the recalculation of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion based on stock dividends.

In a resolution promulgated on December 4, 2007, the Supreme Court upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT on February 29, 2008, or the Assessment Letter, the NTC assessed the total amount of SRF on stock dividends due from PLDT to be Php2,870 million, which assessment included penalties and interest. On April 3, 2008, PLDT complied with the Supreme Court resolution by paying to the NTC the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million, but not including penalties and interest. PLDT believes that it is not liable for penalties and interest, and therefore protested and disputed NTC's assessments in the total amount of Php2,870 million, which included penalties. In letters dated April 14, 2008 and June 18, 2008, or the Demand Letters, the NTC demanded payment of the balance of its assessment. On July 9, 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals, or the PLDT Petition, praying that the NTC be restrained from enforcing or implementing its Assessment Letter and Demand Letters, all demanding payment of SRF including penalties and interests. The PLDT Petition further prayed that after notice and hearing, the NTC be ordered to forever cease and desist from implementing and/or enforcing, and annulling and reversing and setting aside, the Assessment Letter and Demand Letters. The Court of Appeals, in its Decision dated May 25, 2010, granted PLDT's Petition and set aside/annulled the NTC's Assessment Letter and Demand Letters. The NTC did not file a Motion for Reconsideration of the decision of the Court of Appeals but instead filed a Petition for Review, or the NTC Petition, directly with the Supreme Court. PLDT received a copy of the NTC Petition on July 29, 2010, and after receiving the order of the Supreme Court, filed its comment on the NTC Petition on December 7, 2010. The NTC filed a Reply dated August 26, 2011 and PLDT filed a Rejoinder on October 12, 2011.

On January 30, 2013, the Supreme Court's Third Division issued a resolution denying the NTC Petition for failure to show any reversible error in the challenged judgment as to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction. The Supreme Court resolution affirms the decision of the Court of Appeals, which declared that the NTC erred in imposing/assessing penalties and interest on the SRF payment of PLDT for the period 1987-2007, and annulled and set aside the Assessment Letter and Demand Letters. On April 10, 2013, the NTC filed a Motion for Reconsideration of the decision of the Supreme Court. PLDT received the Motion for Reconsideration on April 15, 2013 and filed its Comment/Opposition on May 15, 2013.

On June 26, 2013, the Supreme Court issued a resolution denying with finality the Motion for Reconsideration of the NTC. PLDT received the Supreme Court's resolution on August 6, 2013, which serves as the termination of the case.

*PLDT's Local Business and Franchise Tax Assessments*

Pursuant to a decision of the Supreme Court on March 25, 2003 in the case of *PLDT vs. City of Davao* declaring PLDT not exempt from the local franchise tax, PLDT started paying local franchise tax to various local government units. PLDT has paid a total amount of Php1,219 million as at June 30, 2014 for local franchise tax covering prior periods up to June 30, 2014.

As at June 30, 2014, PLDT has no contested Local Government Unit, or LGU, assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT contested the imposition of local business taxes in addition to local franchise tax by the City of Tuguegarao in the amount of Php1.9 million for the years 1998 to 2003. The Regional Trial Court, or RTC, rendered a decision stating that the City of Tuguegarao cannot impose local business tax on PLDT, there being no ordinance enacted for that purpose. Its Motion for Reconsideration having been denied by the court in its Order dated March 2, 2009, the City of Tuguegarao has filed a Notice of Appeal before the Court of Appeals. PLDT filed a motion to dismiss on the said appeal on the ground of lack of jurisdiction as the appeal should have been filed before the Court of Tax Appeals, or CTA. In a resolution dated February 9, 2012, the Court of Appeals dismissed the case for failure of the City of Tuguegarao and its Treasurer to file their Appellants' Brief. PLDT also contested the imposition of local business tax in addition to local franchise tax also by the City of Tuguegarao in the amount of Php2.3 million for the years 2006 to 2011. PLDT filed a Petition with the RTC of the City of Makati on July 8, 2011. The City of Tuguegarao filed its Answer with Motion to Dismiss claiming that the RTC of the City of Makati does not have jurisdiction over the case. Both parties have filed their respective Memorandum on the issue of Jurisdiction. A judicial dispute resolution, or JDR, conference was set by the court after the parties failed to settle the case in the mediation proceedings. Due to the failure of the City of Tuguegarao to appear on the JDR conference last May 15, 2012, the court transmitted the case to the Office of the Clerk of Court of the City of Makati for re-raffling in accordance with the JDR guidelines. The case was raffled to Branch 132 of Makati City and a Pre-Trial Conference, which was scheduled on October 19, 2012, was postponed by the court due to the Motion for Resolution on the previously filed Motion to Dismiss by Tuguegarao City on the ground of lack of jurisdiction. In an order dated October 12, 2012, the court granted the Motion to Dismiss for lack of jurisdiction. PLDT filed a Motion for



Reconsideration while the City of Tuguegarao has filed its corresponding Comment. In a Resolution dated January 18, 2013, the court denied the Motion for Reconsideration filed by PLDT. On March 8, 2013, PLDT filed a Petition for Review on the said dismissal of the case before the CTA. Acting on the Petition for Review filed by PLDT, the Second Division of the CTA issued a Resolution dated March 13, 2013 ordering the Respondents City of Tuguegarao and City Treasurer to file their Comment on the Petition for Review filed by PLDT. In a Resolution dated July 2, 2013 and received on July 12, 2013, the CTA ordered both parties to submit its respective Memorandum. PLDT has already submitted its Memorandum together with its Motion to Admit Memorandum and submit case for Resolution after Respondent City of Tuguegarao and City Treasurer failed to file their Comment on the Petition for Review filed by PLDT. On January 3, 2014, PLDT received an Entry of Appearance with Motion for Extension of Time to File Memorandum filed by the new counsel of the City of Tuguegarao asking the CTA to allow the City of Tuguegarao to file its Memorandum on or before January 14, 2014. Said Motion for Extension of Time to File Memorandum was denied by the CTA in a Resolution dated January 14, 2014.

*Smart's Local Business and Franchise Tax Assessments*

The Province of Cagayan issued a tax assessment against Smart for alleged local franchise tax. On January 24, 2011, Smart filed a Petition before the RTC of the City of Makati, appealing the assessment on the ground that Smart cannot be held liable for local franchise tax mainly because it has no sales office within the Province of Cagayan pursuant to Section 137 of the Local Government Code (Republic Act No. 7160, or R.A. No. 7160). The RTC of the City of Makati issued a temporary restraining order on October 21, 2011, and the writ of preliminary injunction on November 14, 2011. On April 30, 2012, the RTC rendered a decision giving the petition due course and the assailed tax assessment nullified and set aside. The Province of Cagayan was directed to cease and desist from imposing local franchise taxes on Smart's gross receipts. The Province of Cagayan then filed a Petition for Review before the Court of Tax Appeals in the City of Quezon on June 19, 2012, appealing the RTC Decision dated April 30, 2012. In a Decision promulgated on July 25, 2013, the Court of Tax Appeals ruled that the franchise tax assessment made by the Province of Cagayan against Smart covering the periods from 2004 to 2009 based on "presumptive tax" is null and void for lack of legal and factual justifications. The Province of Cagayan filed a Motion for Reconsideration of the Decision which the Court of Tax Appeals denied in a Resolution promulgated on February 4, 2014. The Province of Cagayan files its Petition for Review before the Court of Tax Appeals en banc. Smart filed its Comment in June 2014.

On October 2, 2013, the City of Bacoor issued local franchise tax assessments against Smart based on the gross sales of handsets and gross receipts derived from franchise operations (prepaid and postpaid receipts), even after Smart had already paid for the local business tax based on the same gross receipts within the same taxable period. On November 29, 2013, Smart filed its written protest with the Office of the City Treasurer of Bacoor. On February 27, 2014, Smart filed a Petition before the RTC of the City of Makati, appealing the assessment on the ground that Smart cannot be held liable for local franchise tax mainly because Smart is exempt from paying the local franchise tax as such is covered under the "in lieu of all taxes" clause in Section 9 of its legislative franchise, Republic Act No. 7924 (Series 1992). Smart also argues that even assuming that it is liable for local franchise tax, the City of Bacoor cannot collect local business tax on the same gross receipts derived from franchise operations realized within the same taxing jurisdiction by the same taxing authority and within the same period. For the local franchise tax assessments on gross sales of handsets, Smart's argues that this should not be subject to the local franchise tax because the sale of handsets and accessories is not considered as a sale derived from franchise operations. The RTC of the City of Makati issued an Order dated June 9, 2014, requiring the parties to be present on July 31, 2014 for mediation. The mediation was rescheduled on August 19, 2014.

### *Digitel's Franchise Tax Assessment and Real Property Tax Assessment*

In the case of *Digitel vs. Province of Pangasinan* (G.R. No. 152534, February 23, 2007), the Supreme Court held that Digitel is liable to the Province of Pangasinan for franchise tax from November 13, 1992 and real property tax only on real properties not actually, directly and exclusively used in the franchise operations from February 17, 1994. Digitel has fully settled its obligation with the Province of Pangasinan with respect to franchise tax and is currently in talks with the Province for the settlement of the real property tax.

### *DMPI's Local Business and Real Property Taxes Assessments*

In *DMPI vs. City of Cotabato* (Civil Case No. 2010-345, February 2010), DMPI filed a Petition for Prohibition and Mandamus against the City of Cotabato due to their threats to close its cell sites due to real property tax delinquencies. DMPI is awaiting confirmation from external counsel and there are still ongoing negotiations for the reassessment of the valuation of DMPI sites.

In the *DMPI vs. City of Davao* (Special Civil Case No. 33,823-11, March 2011), DMPI's Petition for Prohibition and Mandamus sought the Court's intervention due to the threats issued by the City of Davao to stop the operations of DMPI business centers in the locality due to lack of business permits. DMPI contended that the City of Davao's act of refusing to process its applications due to failure to pay real property taxes and business taxes is unwarranted, being that it is exempt under its BOI registration and prevailing laws. The case is in pre-trial stage. DMPI paid local business taxes and real property tax on tower and improvements. The City of Davao's Legal Officer issued a letter-opinion declaring DMPI's machinery as exempt from real property tax. The Office of the City Assessor has already confirmed this ruling, and issued a Tax Declaration declaring all machineries of DMPI located in the City of Davao as "Tax-Exempt". DMPI has filed a Motion seeking the dismissal of the case considering these developments and its pending resolution.

In the *DMPI vs. City Government of Malabon* (Special Civil Action 11-011-MN, November 2011), DMPI filed a Petition for Prohibition and Mandamus against the City of Malabon to prevent the auction sale of DMPI sites in its jurisdiction for alleged real property tax liabilities. DMPI was able to secure a Temporary Restraining Order to defer the sale. There is an ongoing mediation and the parties are exploring the possibility of settling amicably.

### *DMPI's Local Tower Fee Assessments*

In *DMPI vs. Municipality of San Mateo* (Special Civil Action Case No. Br. 20-542, September 2011), DMPI filed a petition for Prohibition and Mandamus with Preliminary Injunction and Temporary Restraining Order against the Tower Fee Ordinance of the Municipality of San Mateo. The parties have already submitted their respective memorandum and the case is already submitted for resolution. The RTC denied DMPI's petition. In June 2013, DMPI filed a motion for reconsideration and sought the inhibition of the presiding judge. The inhibition was granted, and the Motion for Reconsideration is now pending resolution by the newly assigned Judge.

Meanwhile, in *DMPI vs. the City Government of Santiago City and the City Permits and License Inspection Office of Santiago City, Isabela* (CA-G.R. SP No. 127253) (Special Civil Action Case No. 36-0360, February 2011), the City Government of Santiago City filed an appeal with the Court of Appeals after the lower court granted DMPI's petition and ruled as unconstitutional the provision of the ordinance imposing the Php200,000 per cell site per annum. DMPI has already filed its comment to the petition and the matter is now awaiting resolution.

*DMPI vs. City of Trece Martires* (Civil Case No. TMSCA-004-10, February 2010) – DMPI petitioned to declare void the Trece Martires ordinance of imposing tower fee of Php150,000 for each cell site annually. Application for the issuance of a preliminary injunction by DMPI is pending resolution.

*Globe Telecoms, et al. vs. City of Lipa* (Civil Case No. 2006-0568, 2006) – Globe filed a Protest of Assessment questioning the act of the LGU in assessing tower fees for its sites amounting to Php105,000 per year. A joint Memoranda for Smart, DTPI and DMPI was submitted in June 2013 pertaining to the issue of whether the Ordinance is a regulatory or tax imposition.

### *Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI*

Since 1990, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into Compromise Agreements in the past (one in February 1990, and another one in March 1999), these agreements have not put to rest their issues against each other. Accordingly, to avoid further protracted litigation and improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other) ETPI, on one

hand, initially submitted its claims of about Php2.9 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Pursuant to an agreement between PLDT and ETPI, the arbitration proceedings have been suspended.

*In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition*

On June 29, 2011, the Supreme Court of the Philippines promulgated a Decision in the case of Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al. (G.R. No. 176579) (the "Gamboa Case"), where the Court held that "the term 'capital' in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors" and thus only to voting common shares, "and not to the total outstanding capital stock (common and non-voting preferred shares)". The Decision of the Supreme Court reversed earlier opinions issued by the Philippine SEC that non-voting preferred shares are included in the computation of the 60%-40% Filipino-alien equity requirement of certain economic activities, such as telecommunications which is a public utility under Section 11, Article XII of the 1987 Constitution.

While PLDT is not a party to the Gamboa Case, the Supreme Court directed the Philippine SEC in the Gamboa Case "to apply this definition of the term 'capital' in determining the extent of allowable foreign ownership in PLDT, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law."

The parties to the case filed Motions for Reconsideration of the decision and the Supreme Court allowed them to argue before the Court their respective positions on April 17, 2012 and June 26, 2012. Thereafter, the parties filed their respective memoranda on their positions. On October 9, 2012, the Court issued a Resolution denying with finality all Motions for Reconsideration of the respondents.

Meantime, on July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of Amended Articles of Incorporation of PLDT consisting of the sub-classification of its authorized preferred capital into preferred shares with full voting rights, or Voting Preferred Shares, and serial preferred shares without voting rights, and other conforming amendments, or Amendments to the Articles. The Amendments to the Articles of Incorporation require the approval by the stockholders of PLDT and the approval of the Philippine SEC. In a special meeting held on March 22, 2012, the Amendments to the Articles of Incorporation were approved by the stockholders of PLDT. On June 5, 2012, the Philippine SEC approved the Amendments to the Articles of Incorporation of PLDT. On October 15, 2012, PLDT and BTF Holdings, Inc., a wholly-owned company of The Board of Trustees for the Account of the Beneficial Trust Fund Created Pursuant to the Benefit Plan of PLDT Company, entered into a Subscription Agreement whereby PLDT issued 150 million Voting Preferred Shares to BTFHI at Php1.00 per share. With the issuance of the Voting Preferred Shares to BTFHI, a Filipino corporation, the percentage of the voting stock of PLDT (common and preferred shares) held by foreigners was reduced from 56.62% to 18.37% as at April 15, 2013.

On May 20, 2013, SEC Memorandum Circular No. 8, Series of 2013 was issued providing for the Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly-Nationalized Activities. Section 2 of the said Circular states that "All covered corporations shall, at all times, observe the constitutional or statutory ownership requirement. For purposes of determining compliance therewith, the required percentage of Filipino ownership shall be applied to BOTH: (a) the total number of outstanding shares of stock entitled to vote in the election of directors; AND (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors." PLDT is consistently compliant with the guidelines prescribed by SEC Memorandum Circular No. 8, Series of 2013 (In fact, as at November 14, 2013, PLDT's foreign ownership was 31.95% of its outstanding shares entitled to vote (Common and Voting Preferred Shares) and 17.56% of its total outstanding capital stock).

On June 10, 2013, Jose M. Roy III filed before the Supreme Court a Petition for Certiorari under Rule 65 of the Rules of Court against the Philippine SEC, Philippine SEC Chairperson Teresita Herbosa and PLDT, claiming (1) that Philippine SEC Memorandum Circular No. 8 which imposes the 60-40 Filipino-foreign ownership limit on the total outstanding stock and on shares entitled to vote in the election of directors, violates the decision of the Supreme Court in *Gamboa vs. Teves, et al.*, which according to the Petitioner required that: (a) the 60-40 ownership requirement be imposed on "each of shares"; and (b) Filipinos must have full beneficial ownership of 60% of the outstanding capital stock of those corporations subject to that 60-40 Filipino-foreign ownership requirement; and (2) that the PLDT-BTF is not a Filipino-owned entity and consequently, the corporations owned by PLDT-BTF, including BTFHI, which owns 150 million Voting Preferred Shares in PLDT, cannot be considered a Filipino-owned corporation (the "Jose Roy III Petition").

Wilson C. Gamboa, Jr., Daniel V. Cartagena, John Warren P. Gabinete, Antonio V. Pesina, Jr., Modesto Martin Y. Mamon and Gerardo C. Erebaren, or the Intervenors, filed a Motion for Leave to file a Petition-In-Intervention dated July 16, 2013 which the Supreme Court granted in a Resolution dated August 6, 2013 (the "Petition-In-Intervention"). The Petition-In-Intervention raised identical arguments and issues as that of the Petition.

PLDT, through counsels, filed its Comment on the Jose Roy III Petition on September 5, 2013. In its Comment, PLDT raised the following defenses: (a) Petitioner's direct recourse to the Supreme Court in filing the petition violates the fundamental doctrine of the hierarchy of courts. There are no compelling reasons to invoke the Supreme Court's original jurisdiction; (b) The Petition was prematurely brought before the Supreme Court. Petitioner failed to exhaust administrative remedies before the Philippine SEC, and there are facts yet to be established (in the lower courts) that are necessary for a proper and complete ruling; (c) The Petition is in the nature of a petition for mandamus and/or declaratory relief which, under Rules 65 and 63 of the Rules of Court, are not within the exclusive and/or original jurisdiction of the Supreme Court, as provided under Article VIII, Sections 5(1), 5(5), 6 and 11 of the Constitution and Rule 56 of the Rules of Court; (d) The Petition must be dismissed in as much as it is challenging the validity and constitutionality of a Memorandum Circular, which was issued in the exercise of the Philippine SEC's quasi-legislative power, for which a petition for certiorari is an inappropriate remedy; (e) Assuming *arguendo* that the issuance of Philippine SEC Memorandum Circular No. 8 involved the exercise by the Philippine SEC of its quasi-judicial power, the Petition still cannot prosper since the issue of the validity and constitutionality of Philippine SEC Memorandum Circular No. 8 does not pertain to errors of jurisdiction on the part of the Philippine SEC; (f) Petitioner is not the proper party to question the constitutionality of the Philippine SEC Guidelines and PLDT's compliance with the Gamboa decision and the Petition is likewise not a valid taxpayer's suit and should not be entertained by the Supreme Court; (g) The Petition seeks relief that effectively deprives the necessary and indispensable parties affected thereby (such as, BTFHI, MediaQuest, PLDT-BTF, and all corporations in which PLDT-BTF made an investment and their subsidiaries) of their constitutional right to due process, all of whom were not impleaded as parties; and (h) Philippine SEC Memorandum Circular No. 8 merely implemented the dispositive portion of the Gamboa Case Decision.



Particularly, for the defense under (h) above, PLDT argued that: (a) the only binding and enforceable part of the Gamboa Case Decision is the dispositive portion, which defined the term "capital" under Article XII, Section 11 of the 1987 Constitution as "shares of stock entitled to vote in the election of directors", and such dispositive portion of the Gamboa Case Decision is properly reflected and enforced in Philippine SEC Memorandum Circular No. 8. The Other Gamboa Statements were just "obiter dicta" or expressions of opinion which have no precedential value and binding effect; and (b) with respect to the nationality of PLDT-BTF and BTFHI, the fundamental requirements which needs to be satisfied in order for PLDT-BTF and BTFHI to be considered Filipino is for PLDT-BTF's Trustees to be Filipinos and 60% of the Fund will accrue to the benefit of Philippine nationals. This is reflected in Section 3(a) of Republic Act No. 7042, as amended, or the Foreign Investment Act, which provides that the term "Philippine national" includes "a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of "Philippine nationals". Both requirements are present with respect to the PLDT-BTF. Consequently, there is no question that PLDT-BTF and BTFHI are Filipino shareholders for purposes of classifying their 150 million shares of Voting Preferred Stock in PLDT and as a result, more than 60% of PLDT's total voting stock is Filipino-owned. PLDT is thus compliant with the Philippine nationality requirement under Article XII, Section 11 of the 1987 Constitution.

PLDT, through its counsels, filed its Comment on the Petition-In-Intervention on October 22, 2013. PLDT raised identical defenses and arguments in its Comment on the Petition-In-Intervention as that of its Comment on the Petition.

In May 2014, Petitioner and Petitioners-In-Intervention filed their Consolidated Reply with a Motion for the issuance of a Temporary Restraining Order, or TRO, to stop the holding by PLDT of its 2014 Annual Stockholders Meeting scheduled on June 10, 2014. On May 22, 2014, PLDT filed its Consolidated Rejoinder and Opposition to the TRO application of petitioners.

For the main case, PLDT raised the following arguments: (a) *Res Adjudicata* by conclusiveness of judgment finds no application in this case inasmuch as the requisites thereof, i.e., identity of parties and issues, are absolutely wanting; (b) Petitioners remain unfit to challenge the validity of Philippine SEC Memorandum Circular No. 8 as they lack *Locus Standi*; (c) Petitioners direct recourse to the Supreme Court through a petition for certiorari to assail a quasi-legislative issuance of the Philippine SEC is fatally defective; (d) The absence of a conflict between the body of the decision and resolution in the *Gamboa Case* and its dispositive portion does not make the Honorable Supreme Court's opinion on matters, which

were not raised as issues there, relevant or binding; such irrelevant statements remain non-binding *Obiter Dicta*; and (e) To compel the Philippine SEC to investigate BTFHI without impleading it as an indispensable party is a clear violation of BTFHI's constitutional right to due process.

For the TRO application, PLDT argued against the issuance of the TRO as follows: (a) Petitioners have no clear and unmistakable right founded on, or granted by law, or one that is enforceable as a matter of law, as to be entitled to the injunctive relief prayed for; (b) There is no grave and irreparable injury because petitioners are not placed in any better or worse position whether or not the 2014 PLDT Annual Stockholders' Meeting is enjoined; (c) Granting injunctive relief in favor of Petitioners will be a prejudgment of the main case; and (d) PLDT and its stockholders have a clear duty and right in respect of PLDT's 2014 Annual Stockholders' Meeting, and enjoining that meeting will cause greater injury to PLDT's stockholders who will be denied their basic and fundamental right to vote, and to PLDT, which will be prevented from fulfilling its legal duty to conduct its Annual Stockholders' Meeting. The TRO was not issued thus, PLDT was able to hold its 2014 Annual Stockholders' Meeting on June 10, 2014, as scheduled.

The resolution of the Petition for Certiorari and TRO application remains pending with the Supreme Court.

Other disclosures required by *PAS 37, Provisions, Contingent Liabilities and Contingent Assets*, were not provided as it may prejudice our position in on-going claims, litigations and assessments. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Provision for Legal Contingencies and Tax Assessments*.

## 27. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables and cash and short-term deposits, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies – Financial Instruments*.

The following table sets forth our financial assets and financial liabilities as at June 30, 2014 and December 31, 2013:

|   | Loans<br>and<br>receivables | HTM<br>investments | Financial<br>instruments<br>at FVPL | Derivatives<br>used for<br>hedging | Available-for-<br>sale financial<br>investments | Financial<br>liabilities<br>carried at<br>amortized<br>cost | Total<br>financial<br>assets and<br>liabilities |
|---|-----------------------------|--------------------|-------------------------------------|------------------------------------|---|---|---|
| (in million pesos)  |                             |                    |                                     |                                    |   |   |   |
| Assets as at June 30, 2014<br>(Unaudited)   |                             |                    |                                     |                                    |   |   |   |
| <i>Noncurrent:</i>  |                             |                    |                                     |                                    |   |   |   |
| Available-for-sale financial<br>investments   | –                           | –                  | –                                   | –                                  | 222   | –   | 222   |
| Investment in debt securities and<br>other long-term investments                        | 2,125                       | 451                | –                                   | –                                  | –   | –   | 2,576   |
| Derivative financial assets   | –                           | –                  | –                                   | 26                                 | –   | –   | 26  |
| Advances and other noncurrent<br>assets – net of current portion                        | 4,408                       | –                  | –                                   | –                                  | –   | –   | 4,408   |
| <i>Current:</i>   |                             |                    |                                     |                                    |   |   |   |
| Cash and cash equivalents   | 42,867                      | –                  | –                                   | –                                  | –   | –   | 42,867  |
| Short-term investments  | 459                         | –                  | 600                                 | –                                  | –   | –   | 1,059   |
| Trade and other receivables   | 19,040                      | –                  | –                                   | –                                  | –   | –   | 19,040  |
| Current portion of investment in<br>debt securities and other long-<br>term investments | –                           | 1,043              | –                                   | –                                  | –   | –   | 1,043   |
| Current portion of advances and<br>other noncurrent assets                              | 7,961                       | –                  | –                                   | –                                  | –   | –   | 7,961   |
| <b>Total assets</b>   | <b>76,860</b>               | <b>1,494</b>       | <b>600</b>                          | <b>26</b>                          | <b>222</b>                                      | <b>–</b>  | <b>79,202</b>                                   |
| Liabilities as at June 30, 2014<br>(Unaudited)  |                             |                    |                                     |                                    |   |   |   |
| <i>Noncurrent:</i>  |                             |                    |                                     |                                    |   |   |   |
| Interest-bearing financial liabilities  | –                           | –                  | –                                   | –                                  | –   | –   | –   |
| net of current portion  | –                           | –                  | –                                   | –                                  | –   | 108,970   | 108,970   |
| Derivative financial liabilities  | –                           | –                  | 1,808                               | 12                                 | –   | –   | 1,820   |
| Customers' deposits   | –                           | –                  | –                                   | –                                  | –   | 2,475   | 2,475   |

|  | Loans<br>and<br>receivables | HTM<br>investments | Financial<br>instruments<br>at FVPL | Derivatives<br>used for<br>hedging | Available-for-<br>sale financial<br>investments | Financial<br>liabilities<br>carried at<br>amortized<br>cost | Total<br>financial<br>assets and<br>liabilities |
|--|-----------------------------|--------------------|-------------------------------------|------------------------------------|---|---|---|
| (in million pesos)   |                             |                    |                                     |                                    |   |   |   |
| Deferred credits and other<br>noncurrent liabilities         | -                           | -                  | -                                   | -                                  | -   | 16,982  | 16,982  |
| <i>Current:</i>  |                             |                    |                                     |                                    |   |   |   |
| Accounts payable   | -                           | -                  | -                                   | -                                  | -   | 29,615  | 29,615  |
| Accrued expenses and other<br>current liabilities            | -                           | -                  | -                                   | -                                  | -   | 61,954  | 61,954  |
| Current portion of interest-bearing<br>financial liabilities | -                           | -                  | -                                   | -                                  | -   | 14,031  | 14,031  |
| Dividends payable  | -                           | -                  | -                                   | -                                  | -   | 1,015   | 1,015   |
| Derivative financial liabilities                             | -                           | -                  | 55                                  | 50                                 | -   | -   | 105   |
| <b>Total liabilities</b>                                     | <b>-</b>                    | <b>-</b>           | <b>1,863</b>                        | <b>62</b>                          | <b>-</b>  | <b>235,042</b>  | <b>236,967</b>                                  |
| <b>Net assets (liabilities)</b>                              | <b>76,860</b>               | <b>1,494</b>       | <b>(1,263)</b>                      | <b>(36)</b>                        | <b>222</b>                                      | <b>(235,042)</b>  | <b>(157,765)</b>                                |

Assets as at December 31, 2013  
(Audited)

*Noncurrent:*

|  |               |            |            |           |            |          |               |
|--|---------------|------------|------------|-----------|------------|----------|---------------|
| Available-for-sale financial<br>investments  | -             | -          | -          | -         | 220        | -        | 220           |
| Investment in debt securities and<br>other long-term investments –<br>net of current portion | 2,172         | 471        | -          | -         | -          | -        | 2,643         |
| Derivative financial assets  | -             | -          | -          | 24        | -          | -        | 24            |
| Advances and other noncurrent<br>assets – net of current portion                             | 2,285         | -          | -          | -         | -          | -        | 2,285         |
| <i>Current:</i>  |               |            |            |           |            |          |               |
| Cash and cash equivalents  | 31,905        | -          | -          | -         | -          | -        | 31,905        |
| Short-term investments   | 127           | -          | 591        | -         | -          | -        | 718           |
| Trade and other receivables  | 17,564        | -          | -          | -         | -          | -        | 17,564        |
| Derivative financial assets  | -             | -          | 10         | -         | -          | -        | 10            |
| Current portion of advances and<br>other noncurrent assets                                   | 7,987         | -          | -          | -         | -          | -        | 7,987         |
| <b>Total assets</b>  | <b>62,040</b> | <b>471</b> | <b>601</b> | <b>24</b> | <b>220</b> | <b>-</b> | <b>63,356</b> |

Liabilities as at December 31, 2013  
(Audited)

*Noncurrent:*

|  |   |   |       |    |   |        |        |
|--|---|---|-------|----|---|--------|--------|
| Interest-bearing financial liabilities                       | - | - | -     | -  | - | 88,930 | 88,930 |
| net of current portion                                       | - | - | -     | -  | - | 88,930 | 88,930 |
| Derivative financial liabilities                             | - | - | 1,853 | 16 | - | -      | 1,869  |
| Customers' deposits  | - | - | -     | -  | - | 2,545  | 2,545  |
| Deferred credits and other<br>noncurrent liabilities         | - | - | -     | -  | - | 19,716 | 19,716 |
| <i>Current:</i>  |   |   |       |    |   |        |        |
| Accounts payable   | - | - | -     | -  | - | 33,144 | 33,144 |
| Accrued expenses and other<br>current liabilities            | - | - | -     | -  | - | 57,611 | 57,611 |
| Current portion of interest-bearing<br>financial liabilities | - | - | -     | -  | - | 15,171 | 15,171 |
| Dividends payable  | - | - | -     | -  | - | 932    | 932    |

|                                  | Loans and receivables | HTM investments | Financial instruments at FVPL | Derivatives used for hedging | Available-for-sale financial investments | Financial liabilities carried at amortized cost | Total financial assets and liabilities |
|----------------------------------|-----------------------|-----------------|-------------------------------|------------------------------|--|---|--|
| (in million pesos)               |                       |                 |                               |                              |  |   |  |
| Derivative financial liabilities | -                     | -               | 65                            | 40                           | -  | -   | 105                                    |
| Total liabilities                | -                     | -               | 1,918                         | 56                           | -  | 218,049   | 220,023                                |
| Net assets (liabilities)         | 62,040                | 471             | (1,317)                       | (32)                         | 220                                      | (218,049)                                       | (156,667)                              |

The following table sets forth the consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at June 30, 2014 and December 31, 2013 other than those whose carrying amounts are reasonable approximations of fair values:

|   | Carrying Value |                   | Fair Value    |                   |
|---|----------------|-------------------|---------------|-------------------|
|   | June 30, 2014  | December 31, 2013 | June 30, 2014 | December 31, 2013 |
|   | (Unaudited)    | (Audited)         | (Unaudited)   | (Audited)         |
| (in million pesos)  |                |                   |               |                   |
| <b>Noncurrent Financial Assets</b>  |                |                   |               |                   |
| <i>Available-for-sale financial investments:</i>  |                |                   |               |                   |
| Listed equity securities  | 96             | 97                | 96            | 97                |
| Unlisted equity securities  | 126            | 123               | 126           | 123               |
| <i>Investment in debt securities and other long-term investments – net of current portion</i> | 2,576          | 2,643             | 2,589         | 2,668             |
| <i>Derivative financial assets:</i>   |                |                   |               |                   |
| Interest rate swap  | 26             | 24                | 26            | 24                |
| <i>Advances and other noncurrent assets – net of current portion</i>                          | 4,408          | 2,285             | 3,970         | 2,043             |
| Total noncurrent financial assets   | 7,232          | 5,172             | 6,807         | 4,955             |
| <b>Current Financial Assets</b>   |                |                   |               |                   |
| <i>Derivative financial assets:</i>   |                |                   |               |                   |
| Short-term currency swap  | -              | 10                | -             | 10                |
| Total current financial assets  | -              | 10                | -             | 10                |
| <b>Total Financial Assets</b>   | <b>7,232</b>   | <b>5,182</b>      | <b>6,807</b>  | <b>4,965</b>      |
| <b>Noncurrent Financial Liabilities</b>   |                |                   |               |                   |
| <i>Interest-bearing financial liabilities:</i>  |                |                   |               |                   |
| Long-term debt – net of current portion   | 108,967        | 88,924            | 110,980       | 93,165            |
| Obligations under finance leases  | 3              | 6                 | 3             | 6                 |
| <i>Derivative financial liabilities:</i>  |                |                   |               |                   |
| Long-term currency swap   | 1,765          | 1,788             | 1,765         | 1,788             |
| Interest rate swap – net of current portion   | 55             | 81                | 55            | 81                |
| <i>Customers' deposits</i>  | 2,475          | 2,545             | 1,979         | 2,044             |
| <i>Deferred credits and other noncurrent liabilities</i>                                      | 16,982         | 19,716            | 16,111        | 18,696            |
| Total noncurrent financial liabilities  | 130,247        | 113,060           | 130,893       | 115,780           |
| <b>Current Financial Liabilities</b>  |                |                   |               |                   |
| <i>Derivative financial liabilities:</i>  |                |                   |               |                   |

|                                       | Carrying Value     |              | Fair Value  |              |
|---------------------------------------|--------------------|--------------|-------------|--------------|
|                                       | June 30,           | December 31, | June 30,    | December 31, |
|                                       | 2014               | 2013         | 2014        | 2013         |
|                                       | (Unaudited)        | (Audited)    | (Unaudited) | (Audited)    |
|                                       | (in million pesos) |              |             |              |
| Current portion of interest rate swap | 105                | 105          | 105         | 105          |
| Total current financial liabilities   | 105                | 105          | 105         | 105          |
| Total Financial Liabilities           | 130,352            | 113,165      | 130,998     | 115,885      |

The following table sets forth the consolidated offsetting of financial assets and liabilities recognized as at June 30, 2014 and December 31, 2013:

|  | Gross amounts of<br>recognized financial<br>assets and liabilities | Gross amounts of<br>recognized financial<br>assets and liabilities<br>set-off in the statement<br>of financial position | Net amount<br>presented in the<br>statement of<br>financial position |
|--|--|---|--|
|  | (in million pesos)   |   |  |
| June 30, 2014 (Unaudited)                      |  |   |  |
| Noncurrent Financial Assets                    |  |   |  |
| <i>Derivative financial instruments</i>        |  |   |  |
| Interest rate swap                             | 138  | 112   | 26   |
| Current Financial Assets                       |  |   |  |
| <i>Trade and other receivables</i>             |  |   |  |
| Foreign administrations                        | 9,083  | 2,636   | 6,447  |
| Corporate subscribers                          | 2,404  | 10  | 2,394  |
| Domestic carriers                              | 9,444  | 8,357   | 1,087  |
| <i>Derivative financial instruments</i>        |  |   |  |
| Interest rate swap                             | 56   | 56  | –  |
| Total  | 21,125   | 11,171  | 9,954  |
| Noncurrent Financial Liabilities               |  |   |  |
| <i>Derivative financial instruments</i>        |  |   |  |
| Interest rate swap – net of current<br>portion | 168  | 113   | 55   |
| Current Financial Liabilities                  |  |   |  |
| <i>Accounts payable</i>                        |  |   |  |
| Suppliers and contractors                      | 26,663   | 12  | 26,651   |
| Carriers                                       | 3,992  | 1,798   | 2,194  |
| <i>Derivative financial instruments</i>        |  |   |  |
| Current portion of interest rate swap          | 154  | 49  | 105  |
| Total  | 30,977   | 1,972   | 29,005   |

|  | Gross amounts of<br>recognized financial<br>assets and liabilities | Gross amounts of<br>recognized financial<br>assets and liabilities<br>set-off in the statement<br>of financial position | Net amount<br>presented in the<br>statement of<br>financial position |
|--|--|---|--|
| (in million pesos)                             |  |   |  |
| December 31, 2013 (Audited)                    |  |   |  |
| Noncurrent Financial Assets                    |  |   |  |
| <i>Derivative financial instruments</i>        |  |   |  |
| Interest rate swap                             | 180  | 156   | 24   |
| Current Financial Assets                       |  |   |  |
| <i>Trade and other receivables</i>             |  |   |  |
| Foreign administrations                        | 7,554  | 1,833   | 5,721  |
| Corporate subscribers                          | 2,162  | 107   | 2,055  |
| Domestic carriers                              | 6,348  | 4,967   | 1,381  |
| <i>Derivative financial instruments</i>        |  |   |  |
| Interest rate swap                             | 73   | 73  | –  |
| <b>Total</b>                                   | <b>16,317</b>  | <b>7,136</b>  | <b>9,181</b>   |
| Noncurrent Financial Liabilities               |  |   |  |
| <i>Derivative financial instruments</i>        |  |   |  |
| Interest rate swap – net of current<br>portion | 246  | 165   | 81   |
| Current Financial Liabilities                  |  |   |  |
| <i>Accounts payable</i>                        |  |   |  |
| Suppliers and contractors                      | 29,911   | 112   | 29,799   |
| Carriers                                       | 4,846  | 2,582   | 2,264  |
| <i>Derivative financial instruments</i>        |  |   |  |
| Current portion of interest rate swap          | 173  | 68  | 105  |
| <b>Total</b>                                   | <b>35,176</b>  | <b>2,927</b>  | <b>32,249</b>  |

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the consolidated statement of financial position.

Below are the list of financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as required for complete sets of financial statements as at June 30, 2014 and December 31, 2013. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

|   | June 30, 2014          |                        |              | December 31, 2013      |                        |              |
|---|------------------------|------------------------|--------------|------------------------|------------------------|--------------|
|   | (Unaudited)            |                        |              | (Audited)              |                        |              |
|   | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Total        | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Total        |
| (in million pesos)  |                        |                        |              |                        |                        |              |
| <b>Noncurrent Financial Assets</b>                                  |                        |                        |              |                        |                        |              |
| Available-for-sale financial investments – Listed equity securities | 96                     | –                      | 96           | 97                     | –                      | 97           |
| Derivative financial assets   | –                      | 26                     | 26           | –                      | 24                     | 24           |
| <b>Current Financial Assets</b>                                     |                        |                        |              |                        |                        |              |
| Short-term investments  | –                      | 600                    | 600          | –                      | 591                    | 591          |
| Derivative financial assets   | –                      | –                      | –            | –                      | 10                     | 10           |
| <b>Total</b>  | <b>96</b>              | <b>626</b>             | <b>722</b>   | <b>97</b>              | <b>625</b>             | <b>722</b>   |
| <b>Noncurrent Financial Liabilities</b>                             |                        |                        |              |                        |                        |              |
| Derivative financial liabilities                                    | –                      | 1,820                  | 1,820        | –                      | 1,869                  | 1,869        |
| <b>Current Financial Liabilities</b>                                |                        |                        |              |                        |                        |              |
| Derivative financial liabilities                                    | –                      | 105                    | 105          | –                      | 105                    | 105          |
| <b>Total</b>  | <b>–</b>               | <b>1,925</b>           | <b>1,925</b> | <b>–</b>               | <b>1,974</b>           | <b>1,974</b> |

<sup>(1)</sup> Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.

<sup>(2)</sup> Fair values determined using inputs other than quoted market prices that are either directly or indirectly observable for the assets or liabilities.

As at June 30, 2014 and December 31, 2013, we have no financial instruments measured at fair values using inputs that are not based on observable market data (Level 3). As at June 30, 2014 and December 31, 2013, there were no transfers into and out of Level 3 fair value measurements.

As at June 30, 2014 and December 31, 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

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

*Long-term financial assets and liabilities:*

Fair value is based on the following:

| Type | Fair Value Assumptions | Fair Value Hierarchy |
|------|------------------------|----------------------|
|      |                        | Level 3              |



| Type  | Fair Value Assumptions   | Fair Value Hierarchy   |
|---|--|------------------------|
| Noncurrent portion of advances and other noncurrent assets                | Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus counterparties' credit spread.   |                        |
| Fixed Rate Loans:<br>U.S. dollar notes                                    | Quoted market price.   | Level 1                |
| Investment in debt securities   | Fair values were determined using quoted prices.<br><br>For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.  | Level 1<br><br>Level 3 |
| Other loans in all other currencies                                       | Estimated fair value is based on the discounted value of future cash flows using the applicable Commercial Interest Reference Rate and Philippine Dealing System Treasury Fixing, or PDST-F, rates for similar types of loans plus PLDT's credit spread. | Level 3                |
| Variable Rate Loans   | The carrying value approximates fair value because of recent and regular repricing based on market conditions.   | Level 2                |
| Customers' deposits and deferred credits and other noncurrent liabilities | Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus PLDT's credit spread.  | Level 3                |

*Derivative Financial Instruments:*

*Forward foreign exchange contracts, foreign currency swaps and interest rate swaps:* The fair values were computed as the present value of estimated future cash flows using market U.S. dollar and Philippine peso interest rates as at valuation date.

*Equity forward sale contract:* The fair values were adjusted as the present value of estimated future cash flows using equity prices and Philippine peso interest rates as at valuation date.

The valuation techniques considered various inputs including the credit quality of counterparties.

*Available-for-sale financial investments:* Fair values of available-for-sale financial

investments, which consist of proprietary listed shares, were determined using quoted prices. For investment where there is no active market, investments are carried at cost less any accumulated impairment losses.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, trade and other receivables, accounts payable, accrued expenses and other current liabilities and dividends payable approximate their carrying values as at the end of the reporting period.

#### *Derivative Financial Instruments*

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period. Interest rate swap agreements were designated as cash flow hedges by PLDT and Smart as at June 30, 2014 and December 31, 2013.

The table below sets out the information about our derivative financial instruments as at June 30, 2014 and December 31, 2013:

|  | June 30, 2014 |          | December 31, 2013             |          |                               |
|--|---------------|----------|-------------------------------|----------|-------------------------------|
|  | (Unaudited)   |          | (Audited)                     |          |                               |
|  | Maturity      | Notional | Mark-to-market Gains (Losses) | Notional | Mark-to-market Gains (Losses) |
| (in millions)                          |               |          |                               |          |                               |
| Transactions not designated as hedges: |               |          |                               |          |                               |
| <i>PLDT</i>                            |               |          |                               |          |                               |
| Long-term currency swaps               | 2017          | US\$202  | (Php1,765)                    | US\$202  | (Php1,788)                    |
| Short-term currency swaps              | 2014          | –        | –                             | 6        | 4                             |
| <i>DMPI</i>                            |               |          |                               |          |                               |
| Interest rate swaps                    | 2017          | 38       | (98)                          | 44       | (130)                         |
| <i>PGIH</i>                            |               |          |                               |          |                               |
| Short-term currency swaps              | 2014          | –        | –                             | 10       | 6                             |
|  |               |          | (1,863)                       |          | (1,908)                       |

|                                    | June 30, 2014 |             |                               | December 31, 2013 |                               |
|------------------------------------|---------------|-------------|-------------------------------|-------------------|-------------------------------|
|                                    |               | (Unaudited) |                               | (Audited)         |                               |
|                                    | Maturity      | Notional    | Mark-to-market Gains (Losses) | Notional          | Mark-to-market Gains (Losses) |
| (in millions)                      |               |             |                               |                   |                               |
| Transactions designated as hedges: |               |             |                               |                   |                               |
| Cash flow hedges:                  |               |             |                               |                   |                               |
| <i>PLDT</i>                        |               |             |                               |                   |                               |
| Interest rate swaps                | 2018          | 120         | (2)                           | 120               | 11                            |
| <i>Smart</i>                       |               |             |                               |                   |                               |
| Interest rate swaps                | 2016          | 61          | (8)                           | 75                | (11)                          |
|                                    | 2017          | 34          | (4)                           | 39                | (6)                           |
|                                    | 2018          | 40          | (22)                          | 40                | (26)                          |
|                                    |               |             | (36)                          |                   | (32)                          |
| Net liabilities                    |               |             | (Php1,899)                    |                   | (Php1,940)                    |

|                        | June 30,    | December 31, |
|------------------------|-------------|--------------|
|                        | 2014        | 2013         |
|                        | (Unaudited) | (Audited)    |
| (in million pesos)     |             |              |
| Presented as:          |             |              |
| Noncurrent assets      | 26          | 24           |
| Current assets         | –           | 10           |
| Noncurrent liabilities | (1,820)     | (1,869)      |
| Current liabilities    | (105)       | (105)        |
| Net liabilities        | (1,899)     | (1,940)      |

Movements of mark-to-market losses for the six months ended June 30, 2014 and for the year ended December 31, 2013 are summarized as follows:

|   | June 30,<br>2014   | December 31,<br>2013 |
|---|--------------------|----------------------|
|   | (Unaudited)        | (Audited)            |
|   | (in million pesos) |                      |
| Net mark-to-market losses at beginning of the period                        | (1,940)            | (3,220)              |
| Settlements, accretions and conversions                                     | 80                 | 156                  |
| Net losses on cash flow hedges charged to other comprehensive income        | (1)                | (67)                 |
| Gains (losses) on derivative financial instruments                          | (10)               | 816                  |
| Effective portion recognized in the profit or loss for the cash flow hedges | (13)               | 387                  |
| Interest expense  | (15)               | (12)                 |
| Net mark-to-market losses at end of the period                              | (1,899)            | (1,940)              |

Analysis of gains (losses) on derivative financial instruments for the six months ended June 30, 2014 and 2013 are as follows:

|  | June 30,           |       |
|--|--------------------|-------|
|  | 2014               | 2013  |
|  | (Unaudited)        |       |
|  | (in million pesos) |       |
| Gains (losses) on derivative financial instruments     | (10)               | 594   |
| Hedge cost   | (154)              | (146) |
| Net gains (losses) on derivative financial instruments | (164)              | 448   |

## PLDT

Due to the amounts of PLDT's foreign currency hedging requirements and the large interest differential between the Philippine peso and the U.S. dollar, the costs to book long-term hedges can be significant. In order to manage such hedging costs, PLDT utilizes structures that include currency option contracts, and fixed-to-floating coupon-only swaps that may not qualify for hedge accounting.

### *Interest Rate Swaps*

On May 17, 2013, PLDT entered into a five-year interest rate swap agreement with a total notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on June 6, 2013) and in exchange, will pay a fixed rate of 1.945%.

On June 26, 2013, PLDT entered into a five-year interest rate swap agreement with a total notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on September 6, 2013) and in exchange, will pay a fixed rate of 2.385%.

On July 19, 2013, PLDT entered into a five-year interest rate swap agreement with a notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on September 6, 2013) and in exchange, will pay a fixed rate of 2.25%.

The interest rate swap agreements were designated as cash flow hedges, wherein effective portion of the movements in the fair value is recognized in other comprehensive income while any ineffective portion is recognized immediately in our consolidated income statement. The mark-to-market gains/losses of the interest swap with aggregate notional amount of US\$120 million amounted to a loss of Php2 million and a gain of Php11 million as at June 30, 2014 and December 31, 2013, respectively. The ineffective portion in the fair value of the instruments amounting to Php0.4 million was recognized in the consolidated income statement for the six months ended June 30, 2014. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

### *Long-term Currency Swaps*

PLDT has entered into long-term principal only-currency swap agreements with various foreign counterparties to hedge the currency risk on its fixed rate notes maturing in 2012 and 2017. Under the swaps, PLDT effectively exchanges the principal of its U.S. dollar-denominated fixed rate notes into Philippine peso-denominated loan exposures at agreed swap exchange rates. The agreed swap exchange rates are reset to the lowest U.S. dollar/Philippine peso spot exchange rate during the term of the swaps, subject to a minimum exchange rate. The outstanding swap contracts have an agreed average swap exchange rates of Php49.85 for the six months ended June 30, 2014 and 2013. The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged about 3.42% per annum for the six months ended June 30, 2014 and 2013.

The long-term currency swaps that we entered to hedge the 2012 fixed rate notes with notional amount of US\$100 million matured on May 15, 2012, with total cash settlement of Php941 million. On various dates from August to November 2012, the long-term principal only-currency swap agreements maturing in 2017 were partially terminated, with a total aggregate settlement of Php256 million. As a result of these unwinding transactions, the outstanding notional amount was reduced to US\$202 million as at June 30, 2014 and December 31, 2013. The mark-to-market losses of the 2017 swaps with a notional amount of US\$202 million amounted to Php1,765 million and Php1,788 million as at June 30, 2014 and December 31, 2013, respectively.

### *Short-term Currency Swaps*

PLDT also entered into short-term currency swap contracts to generate short-term peso liquidity while preserving U.S. dollar receipts for purposes of enhancing yields on our excess funds. The total outstanding swaps amounted to US\$6 million with U.S. dollar forward purchase leg booked at an average exchange rate of Php43.79 resulting to mark-to-market gains of Php4 million as at December 31, 2013. The spot leg of these swaps were sold at an average exchange rate of Php43.84. There were no outstanding short-term currency swap contracts as at June 30, 2014.

### **DMPI**

On October 7, 2008, DMPI entered into an eight-year interest rate swap agreement with a total notional amount of US\$54.1 million to hedge its interest rate exposures on the US\$59.2 million U.S. dollar Loan Facility maturing in March 2017 into fixed interest rate. Under this agreement, DMPI is entitled to receive a floating rate of equivalent to the US\$ LIBOR rate as

of the last Calculation Date and in exchange, will pay a fixed rate of 3.88%. The outstanding notional amounts under this agreement amounted to US\$20 million and US\$24 million as at June 30, 2014 and December 31, 2013, respectively. The mark-to-market losses amounted to Php53 million and Php70 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

On October 7, 2008, DMPI entered into an eight-year interest rate swap agreement with a total notional amount of US\$46.5 million to hedge its interest rate exposures on the US\$51.2 million U.S. dollar Loan Facility maturing in June 2017 into fixed interest rate. Under this agreement, DMPI is entitled to receive a floating rate of equivalent to the US\$ LIBOR rate as of the last Calculation Date and in exchange, will pay a fixed rate of 3.97%. The outstanding notional amount under this agreement amounted to US\$18 million and US\$20 million as at June 30, 2014 and December 31, 2013, respectively. The mark-to-market losses amounted to Php45 million and Php60 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

#### PGIH

In November 2013, PGIH entered into short-term currency swap contracts to generate short-term peso liquidity while preserving U.S. dollar cash for purposes of enhancing yields on the excess funds. The total outstanding swaps amounted to US\$10 million with U.S. dollar forward purchase leg booked at an average exchange rate of Php43.78 resulting to mark-to-market gains of Php6 million as at December 31, 2013. The spot leg of these swaps were sold at an average exchange rate of Php43.83. There were no outstanding short-term currency swap contracts as at June 30, 2014.

#### Smart

On May 8, 2013, Smart entered into a three-year interest rate swap agreement with a total notional amount of US\$45 million to hedge its interest rate exposure on the outstanding balance of the US\$60 million Loan Facility maturing in June 2016 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on December 6, 2013) and in exchange, will pay a fixed rate of 1.527%. The outstanding notional amount under this agreement amounted to US\$30 million and US\$37 million as at June 30, 2014 and December 31, 2013, respectively. The mark-to-market losses amounted to Php3 million and Php5 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

On May 9, 2013, Smart entered into a three-year interest rate swap agreement with a total notional amount of US\$38 million to hedge its interest rate exposure on the outstanding balance of the US\$50 million Loan Facility maturing in August 2016 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on February 19, 2014) and in exchange, will pay a fixed rate of 1.4275%. The outstanding notional amount under this agreement amounted to US\$31 million and US\$38 million as at June 30, 2014 and December 31, 2013, respectively. The mark-to-market losses amounted to Php5 million and Php6 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

On May 16, 2013, Smart entered into a four-year interest rate swap agreement with a total notional amount of US\$44 million to hedge its interest rate exposure on the outstanding balance of the US\$50 million Loan Facility maturing in May 2017 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on November 29, 2013) and in exchange, will pay a fixed rate of 1.77%. The outstanding notional amount under this agreement amounted to US\$34 million and US\$39 million as at June 30, 2014 and December 31, 2013, respectively. The mark-to-market losses amounted to Php4 million and Php6 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

On July 18, 2013, Smart entered into a five-year interest rate swap agreement with a notional amount of US\$40 million to hedge its interest rate exposure on a portion of the US\$120 million Loan Facility maturing in June 2018 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on March 25, 2014) and in exchange, will pay a fixed rate of 2.36%. The outstanding notional amount under this agreement amounted to US\$40 million as at June 30, 2014 and December 31, 2013. The mark-to-market losses amounted to Php22 million and Php26 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.



The interest rate swap agreements were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in other comprehensive income while any ineffective portion is recognized immediately in our consolidated income statement. The mark-to-market losses amounting to Php29 million and Php37 million was recognized in other comprehensive income with aggregate notional amounts of US\$135 million and US\$154 million as at June 30, 2014 and December 31, 2013, respectively. Interest accrual on the interest swap amounting to Php6 million was recorded as at June 30, 2014 and December 31, 2013. The ineffective portion in the fair value instruments amounting to Php18 thousand was recognized in the consolidated income statement for the six months ended June 30, 2014.

#### Financial Risk Management Objectives and Policies

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.

##### *Liquidity Risk*

Our exposure to liquidity risk refers to the risk that our financial requirements, working capital requirements and planned capital expenditures are not met.

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-term and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates, managed funds and other structured products linked to the Republic of the Philippines. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

Our cash position remains strong and more than sufficient to support our capital expenditure requirements and service our debt and financing obligations as a consequence of higher cash from operations following more rational competition for the wireless business and the expected growth in data revenues. Furthermore, we can easily tap bank credit facilities to settle obligations, as necessary. We have cash and cash equivalents, and short-term investments amounting to Php42,867 million and Php1,059 million, respectively, as at June 30, 2014, which we can use to meet our short-term liquidity needs. See *Note 15 – Cash and Cash Equivalents*.

The following table discloses a summary of maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at June 30, 2014 and December 31, 2013:

|   | Total         | Less than<br>1 year | 1-3 years          | 3-5 years    | More than<br>5 years |
|---|---------------|---------------------|--------------------|--------------|----------------------|
|   |               |                     | (in million pesos) |              |                      |
| June 30, 2014 (Unaudited)                                     |               |                     |                    |              |                      |
| <i>Loans and receivables:</i>                                 | 87,857        | 81,111              | 4,814              | 1,770        | 162                  |
| Advances and other noncurrent assets                          | 12,582        | 7,961               | 2,994              | 1,465        | 162                  |
| Cash equivalents  | 38,309        | 38,309              | –                  | –            | –                    |
| Short-term investments  | 459           | 459                 | –                  | –            | –                    |
| Investment in debt securities and other long-term investments | 2,125         | –                   | 1,820              | 305          | –                    |
| Retail subscribers  | 13,977        | 13,977              | –                  | –            | –                    |
| Corporate subscribers   | 8,127         | 8,127               | –                  | –            | –                    |
| Foreign administrations                                       | 6,583         | 6,583               | –                  | –            | –                    |
| Domestic carriers   | 1,194         | 1,194               | –                  | –            | –                    |
| Dealers, agents and others                                    | 4,501         | 4,501               | –                  | –            | –                    |
| <i>HTM investments:</i>                                       | 1,494         | 1,043               | 301                | –            | 150                  |
| Investment in debt securities and other long-term investments | 1,494         | 1,043               | 301                | –            | 150                  |
| <i>Financial instruments at FVPL:</i>                         | 600           | 600                 | –                  | –            | –                    |
| Short-term investments  | 600           | 600                 | –                  | –            | –                    |
| <i>Available-for-sale financial investments</i>               | 222           | –                   | –                  | –            | 222                  |
| <b>Total</b>  | <b>90,173</b> | <b>82,754</b>       | <b>5,115</b>       | <b>1,770</b> | <b>534</b>           |
| December 31, 2013 (Audited)                                   |               |                     |                    |              |                      |
| <i>Loans and receivables:</i>                                 | 70,738        | 66,169              | 2,819              | 1,608        | 142                  |
| Advances and other noncurrent assets                          | 10,384        | 7,987               | 958                | 1,297        | 142                  |
| Cash equivalents  | 25,967        | 25,967              | –                  | –            | –                    |
| Short-term investments  | 127           | 127                 | –                  | –            | –                    |
| Investment in debt securities and other long-term investments | 2,172         | –                   | 1,861              | 311          | –                    |
| Retail subscribers  | 12,563        | 12,563              | –                  | –            | –                    |
| Corporate subscribers   | 7,904         | 7,904               | –                  | –            | –                    |
| Foreign administrations                                       | 5,840         | 5,840               | –                  | –            | –                    |
| Domestic carriers   | 1,461         | 1,461               | –                  | –            | –                    |
| Dealers, agents and others                                    | 4,320         | 4,320               | –                  | –            | –                    |
| <i>HTM investments:</i>                                       | 471           | –                   | –                  | 321          | 150                  |
| Investment in debt securities and other long-term investments | 471           | –                   | –                  | 321          | 150                  |
| <i>Financial instruments at FVPL:</i>                         | 591           | 591                 | –                  | –            | –                    |
| Short-term investments  | 591           | 591                 | –                  | –            | –                    |
| <i>Available-for-sale financial investments</i>               | 220           | –                   | –                  | –            | 220                  |
| <b>Total</b>  | <b>72,020</b> | <b>66,760</b>       | <b>2,819</b>       | <b>1,929</b> | <b>512</b>           |

The following table discloses a summary of maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at June 30, 2014 and December 31, 2013:

|   | Payments Due by Period |                     |               |               |                      |
|---|------------------------|---------------------|---------------|---------------|----------------------|
|   | Total                  | Less than<br>1 year | 1-3 years     | 3-5 years     | More than<br>5 years |
|   | (in million pesos)     |                     |               |               |                      |
| June 30, 2014 (Unaudited)                               |                        |                     |               |               |                      |
| <i>Debt<sup>(1)</sup>:</i>                              | 151,349                | 1,605               | 65,374        | 20,471        | 63,899               |
| Principal   | 123,543                | 1,407               | 51,423        | 14,563        | 56,150               |
| Interest  | 27,806                 | 198                 | 13,951        | 5,908         | 7,749                |
| <i>Lease obligations:</i>                               | 16,971                 | 8,898               | 4,124         | 2,108         | 1,841                |
| Operating lease   | 16,963                 | 8,898               | 4,116         | 2,108         | 1,841                |
| Finance lease   | 8                      | –                   | 8             | –             | –                    |
| <i>Unconditional purchase obligations<sup>(2)</sup></i> | 212                    | 66                  | 44            | 44            | 58                   |
| <i>Other obligations:</i>                               | 107,824                | 86,172              | 14,563        | 5,301         | 1,788                |
| Derivative financial liabilities <sup>(3)</sup> :       | 2,219                  | 85                  | 2,133         | 1             | –                    |
| Long-term currency swap                                 | 2,070                  | –                   | 2,070         | –             | –                    |
| Interest rate swap                                      | 149                    | 85                  | 63            | 1             | –                    |
| Various trade and other obligations:                    | 105,605                | 86,087              | 12,430        | 5,300         | 1,788                |
| Suppliers and contractors                               | 43,431                 | 26,651              | 11,578        | 5,202         | –                    |
| Utilities and related expenses                          | 35,896                 | 35,834              | 38            | 5             | 19                   |
| Liability from redemption of preferred shares           | 7,937                  | 7,937               | –             | –             | –                    |
| Employee benefits                                       | 4,992                  | 4,992               | –             | –             | –                    |
| Customers' deposits                                     | 2,475                  | –                   | 613           | 93            | 1,769                |
| Carriers  | 2,194                  | 2,194               | –             | –             | –                    |
| Dividends   | 1,015                  | 1,015               | –             | –             | –                    |
| Others  | 7,665                  | 7,464               | 201           | –             | –                    |
| <b>Total contractual obligations</b>                    | <b>276,356</b>         | <b>96,741</b>       | <b>84,105</b> | <b>27,924</b> | <b>67,586</b>        |
| December 31, 2013 (Audited)                             |                        |                     |               |               |                      |
| <i>Debt<sup>(1)</sup>:</i>                              | 123,623                | 2,774               | 48,824        | 35,908        | 36,117               |
| Principal   | 104,472                | 2,576               | 37,822        | 31,549        | 32,525               |
| Interest  | 19,151                 | 198                 | 11,002        | 4,359         | 3,592                |
| <i>Lease obligations:</i>                               | 14,574                 | 7,711               | 3,198         | 2,016         | 1,649                |
| Operating lease   | 14,562                 | 7,710               | 3,187         | 2,016         | 1,649                |
| Finance lease   | 12                     | 1                   | 11            | –             | –                    |
| <i>Unconditional purchase obligations<sup>(2)</sup></i> | 231                    | 66                  | 44            | 44            | 77                   |
| <i>Other obligations:</i>                               | 109,405                | 84,869              | 14,841        | 7,627         | 2,068                |
| Derivative financial liabilities <sup>(3)</sup> :       | 2,274                  | 92                  | 923           | 1,259         | –                    |
| Long-term currency swap                                 | 2,086                  | –                   | 833           | 1,253         | –                    |
| Interest rate swap                                      | 188                    | 92                  | 90            | 6             | –                    |
| Various trade and other obligations:                    | 107,131                | 84,777              | 13,918        | 6,368         | 2,068                |
| Suppliers and contractors                               | 49,314                 | 29,799              | 13,183        | 6,332         | –                    |
| Utilities and related expenses                          | 31,576                 | 31,483              | 68            | 5             | 20                   |
| Liability from redemption of preferred                  | 7,952                  | 7,952               | –             | –             | –                    |

|                                      | Payments Due by Period |                     |               |               |                      |
|--------------------------------------|------------------------|---------------------|---------------|---------------|----------------------|
|                                      | Total                  | Less than<br>1 year | 1-3 years     | 3-5 years     | More than<br>5 years |
|                                      | (in million pesos)     |                     |               |               |                      |
| shares                               |                        |                     |               |               |                      |
| Employee benefits                    | 5,350                  | 5,350               | –             | –             | –                    |
| Customers' deposits                  | 2,545                  | –                   | 466           | 31            | 2,048                |
| Carriers                             | 2,264                  | 2,264               | –             | –             | –                    |
| Dividends                            | 932                    | 932                 | –             | –             | –                    |
| Others                               | 7,198                  | 6,997               | 201           | –             | –                    |
| <b>Total contractual obligations</b> | <b>247,833</b>         | <b>95,420</b>       | <b>66,907</b> | <b>45,595</b> | <b>39,911</b>        |

(1) Consists of long-term debt, including current portion, and notes payable; gross of unamortized debt discount and debt issuance costs.

(2) Based on the Amended ATPA with AIL. See Note 24 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AIL Related Party Agreements.

(3) Gross liabilities before any offsetting application.

### Debt

See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt for a detailed discussion of our debt.

### Operating Lease Obligations

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites telecommunications equipment locations and various office equipment. These lease contracts are subject to certain escalation clauses.

The consolidated future minimum lease commitments payable with non-cancellable operating leases as at June 30, 2014 and December 31, 2013 are as follows:

|   | June 30,<br>2014   | December 31,<br>2013 |
|---|--------------------|----------------------|
|   | (Unaudited)        | (Audited)            |
|   | (in million pesos) |                      |
| Within one year                             | 8,994              | 7,809                |
| After one year but not more than five years | 6,128              | 5,104                |
| More than five years                        | 1,841              | 1,649                |
| <b>Total</b>                                | <b>16,963</b>      | <b>14,562</b>        |

### Finance Lease Obligations

See Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases for

the detailed discussion of our long-term finance lease obligations.

#### *Unconditional Purchase Obligations*

See *Note 24 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AIL Related Agreements* for a detailed discussion of PLDT's obligation under the Original and the Amended ATPA.

Under the Amended ATPA, PLDT's aggregate remaining minimum obligation is approximately Php212 million and Php231 million as at June 30, 2014 and December 31, 2013, respectively.

#### *Other Obligations – Various Trade and Other Obligations*

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits and other related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php105,605 million and Php107,131 million as at June 30, 2014 and December 31, 2013, respectively. See *Note 22 – Accounts Payable* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

#### *Commercial Commitments*

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php18 million and Php20 million as at June 30, 2014 and December 31, 2013, respectively. These commitments will expire within one year.

#### *Collateral*

We have not made any pledges as collateral with respect to our financial liabilities as at June 30, 2014 and December 31, 2013.

#### *Foreign Currency Exchange Risk*

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instruments will fluctuate because of changes in foreign exchange rates.

The revaluation of our foreign currency-denominated financial assets and liabilities as a

result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. dollar-linked and U.S. dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange sale and purchase contracts, currency swap contracts and foreign currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We also enter into forward foreign exchange sale contracts to manage foreign currency risks associated with our U.S. dollar-linked and U.S. dollar-denominated revenues. In order to manage the hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of foreign currency option contracts, and fixed to floating coupon only swap contracts. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized as cumulative conversion adjustments in other comprehensive income until the hedged transaction affects our consolidated income statement or when the hedging instrument expires, or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the period.

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at June 30, 2014 and December 31, 2013:

|  |  | June 30, 2014 |                    | December 31, 2013 |                    |
|--|--|---------------|--------------------|-------------------|--------------------|
|  |  | (Unaudited)   |                    | (Audited)         |                    |
|  |  | U.S. Dollar   | Php <sup>(1)</sup> | U.S. Dollar       | Php <sup>(2)</sup> |

|   | (in millions) |               |            |               |
|---|---------------|---------------|------------|---------------|
| <b>Noncurrent Financial Assets</b>                            |               |               |            |               |
| Investment in debt securities and other long-term investments | 7             | 306           | 49         | 2,172         |
| Derivative financial assets                                   | 1             | 26            | 1          | 24            |
| Advances and other noncurrent assets – net of current portion | –             | 1             | 1          | 32            |
| <b>Total noncurrent financial assets</b>                      | <b>8</b>      | <b>333</b>    | <b>51</b>  | <b>2,228</b>  |
| <b>Current Financial Assets</b>                               |               |               |            |               |
| Cash and cash equivalents                                     | 106           | 4,641         | 145        | 6,450         |
| Short-term investments  | 14            | 600           | 13         | 591           |
| Trade and other receivables – net                             | 193           | 8,425         | 173        | 7,685         |
| Derivative financial assets                                   | –             | –             | –          | 10            |
| Current portion of advances and other noncurrent assets       | –             | 8             | –          | –             |
| <b>Total current financial assets</b>                         | <b>313</b>    | <b>13,674</b> | <b>331</b> | <b>14,736</b> |
| <b>Total Financial Assets</b>                                 | <b>321</b>    | <b>14,007</b> | <b>382</b> | <b>16,964</b> |

|   |              |               |              |               |
|---|--------------|---------------|--------------|---------------|
| <b>Noncurrent Financial Liabilities</b>                         |              |               |              |               |
| Interest-bearing financial liabilities – net of current portion | 947          | 41,353        | 1,047        | 46,477        |
| Derivative financial liabilities                                | 42           | 1,820         | 42           | 1,869         |
| <b>Total noncurrent financial liabilities</b>                   | <b>989</b>   | <b>43,173</b> | <b>1,089</b> | <b>48,346</b> |
| <b>Current Financial Liabilities</b>                            |              |               |              |               |
| Accounts payable  | 177          | 7,709         | 166          | 7,381         |
| Accrued expenses and other current liabilities                  | 132          | 5,756         | 125          | 5,552         |
| Current portion of interest-bearing financial liabilities       | 298          | 12,990        | 292          | 12,966        |
| Derivative financial liabilities                                | 2            | 105           | 2            | 105           |
| <b>Total current financial liabilities</b>                      | <b>609</b>   | <b>26,560</b> | <b>585</b>   | <b>26,004</b> |
| <b>Total Financial Liabilities</b>                              | <b>1,598</b> | <b>69,733</b> | <b>1,674</b> | <b>74,350</b> |

(1) The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php43.65 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at June 30, 2014.

(2) The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php44.40 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2013.

As at August 5, 2014, the Philippine peso-U.S. dollar exchange rate was Php43.70 to US\$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have increased in Philippine peso terms by Php64 million as at June 30, 2014.



Approximately 44% and 57% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at June 30, 2014 and December 31, 2013, respectively. Consolidated foreign currency-denominated debt decreased to Php54,016 million as at June 30, 2014 from Php59,132 million as at December 31, 2013. See *Note 20 – Interest-bearing Financial Liabilities*. The aggregate notional amount of PLDT's outstanding long-term principal only-currency swap contracts was US\$202 million as at June 30, 2014 and December 31, 2013. Consequently, the unhedged portion of our consolidated debt amounts was approximately 36% (or 32%, net of our consolidated U.S. dollar cash balances) and 48% (or 41%, net of our consolidated U.S. dollar cash balances) as at June 30, 2014 and December 31, 2013, respectively.

Approximately, 20% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the six months ended June 30, 2014 as compared with approximately 21% for the six months ended June 30, 2013. Approximately, 11% of our consolidated expenses were denominated in U.S. dollars and/or linked to the U.S. dollar for the six months ended June 30, 2014 as compared with approximately 12% for the six months ended June 30, 2013. In this respect, the higher weighted average exchange rate of the Philippine peso against the U.S. dollar increased our revenues and expenses, and consequently, affects our cash flow from operations in Philippine peso terms.

The Philippine peso appreciated by 1.69% against the U.S. dollar to Php43.65 to US\$1.00 as at June 30, 2014 from Php44.40 to US\$1.00 as at December 31, 2013. As at June 30, 2013, the Philippine peso had depreciated by 5.31% against the U.S. dollar to Php43.26 to US\$1.00 from Php41.08 to US\$1.00 as at December 31, 2012. As a result of our consolidated foreign exchange movements, as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange gains of Php459 million for the six months ended June 30, 2014, while net consolidated foreign exchange losses amounted to Php1,922 million for the six months ended June 30, 2013. See *Note 4 – Operating Segment Information*.

Management conducted a survey among our banks to determine the outlook of the Philippine peso-U.S. dollar exchange rate until September 30, 2014. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 0.58% as compared to the exchange rate of Php43.65 to US\$1.00 as at June 30, 2014. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 0.58% as at June 30, 2014, with all other variables held constant, profit after tax for the six months ended June 30, 2014 would have been approximately Php189 million higher/lower and our consolidated stockholders' equity as at June 30, 2014 would have been approximately Php188 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on conversion of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

### *Interest Rate Risk*

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

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and short-term borrowings with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our liabilities and not for trading purposes.

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at June 30, 2014 and December 31, 2013. Financial instruments that are not subject to interest rate risk were not included in the table.

#### As at June 30, 2014 (Unaudited)

|                           | In U.S. Dollars |           |           |                     |              |       | In Php | Discount/<br>Debt<br>Issuance<br>Cost<br>In Php | Carrying<br>Value<br>In Php | Fair Value        |        |
|---------------------------|-----------------|-----------|-----------|---------------------|--------------|-------|--------|---|-----------------------------|-------------------|--------|
|                           | Below 1 year    | 1-2 years | 2-3 years | 3-5 years           | Over 5 years | Total |        |   |                             | In U.S.<br>Dollar | In Php |
| (in millions)             |                 |           |           |                     |              |       |        |   |                             |                   |        |
| <i>Assets:</i>            |                 |           |           |                     |              |       |        |   |                             |                   |        |
| <i>Investment in Debt</i> |                 |           |           |                     |              |       |        |   |                             |                   |        |
| <i>Securities and</i>     |                 |           |           |                     |              |       |        |   |                             |                   |        |
| <i>Other Long-term</i>    |                 |           |           |                     |              |       |        |   |                             |                   |        |
| <i>Investments</i>        |                 |           |           |                     |              |       |        |   |                             |                   |        |
| U.S. Dollar               | -               | -         | 42        | 7                   | -            | 49    | 2,125  | -   | 2,125                       | 49                | 2,139  |
| Interest rate             | -               | -         | 10.0000%  | 3.5000 to<br>4.000% | -            | -     | -      | -   | -                           | -                 | -      |
| Philippine                | 24              | 1         | 6         | -                   | 3            | 34    | 1,494  | -   | 1,494                       | 34                | 1,493  |



|                                   | In U.S. Dollars                     |                                     |                                     |                                     |                                       |       | In Php  | Discount/<br>Debt<br>Issuance<br>Cost<br>In Php | Carrying<br>Value<br>In Php | Fair Value        |         |
|-----------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---------------------------------------|-------|---------|---|-----------------------------|-------------------|---------|
|                                   | Below 1 year                        | 1-2 years                           | 2-3 years                           | 3-5 years                           | Over 5 years                          | Total |         |   |                             | In U.S.<br>Dollar | In Php  |
|                                   | (in millions)                       |                                     |                                     |                                     |                                       |       |         |   |                             |                   |         |
| <i>Investments</i>                |                                     |                                     |                                     |                                     |                                       |       |         |   |                             |                   |         |
| U.S. Dollar                       | -                                   | -                                   | 42                                  | 7                                   | -                                     | 49    | 2,172   | -   | 2,172                       | 49                | 2,185   |
| Interest rate                     |                                     |                                     | 10.0000%                            | 3.5000 to<br>4.000%                 |                                       |       |         |   |                             |                   |         |
| Philippine Peso                   | -                                   | -                                   | -                                   | 7                                   | 3                                     | 10    | 471     | -   | 471                         | 11                | 483     |
| Interest rate                     | -                                   | -                                   | -                                   | 4.2500%                             | 4.8370%                               | -     | -       | -   | -                           | -                 | -       |
| <i>Cash in Bank</i>               |                                     |                                     |                                     |                                     |                                       |       |         |   |                             |                   |         |
| U.S. Dollar                       | 20                                  | -                                   | -                                   | -                                   | -                                     | 20    | 882     | -   | 882                         | 20                | 882     |
| Interest rate                     | 0.0100% to<br>0.7500%               | -                                   | -                                   | -                                   | -                                     | -     | -       | -   | -                           | -                 | -       |
| Philippine Peso                   | 97                                  | -                                   | -                                   | -                                   | -                                     | 97    | 4,303   | -   | 4,303                       | 97                | 4,303   |
| Interest rate                     | 0.0010% to<br>2.0000%               | -                                   | -                                   | -                                   | -                                     | -     | -       | -   | -                           | -                 | -       |
| Other Currencies                  | 2                                   | -                                   | -                                   | -                                   | -                                     | 2     | 96      | -   | 96                          | 2                 | 96      |
| Interest rate                     | 0.0100% to<br>0.5000%               | -                                   | -                                   | -                                   | -                                     | -     | -       | -   | -                           | -                 | -       |
| <i>Temporary Cash Investments</i> |                                     |                                     |                                     |                                     |                                       |       |         |   |                             |                   |         |
| U.S. Dollar                       | 116                                 | -                                   | -                                   | -                                   | -                                     | 116   | 5,164   | -   | 5,164                       | 116               | 5,164   |
| Interest rate                     | 0.2500% to<br>4.0000%               | -                                   | -                                   | -                                   | -                                     | -     | -       | -   | -                           | -                 | -       |
| Philippine Peso                   | 469                                 | -                                   | -                                   | -                                   | -                                     | 469   | 20,803  | -   | 20,803                      | 469               | 20,803  |
| Interest rate                     | 0.5600% to<br>4.7500%               | -                                   | -                                   | -                                   | -                                     | -     | -       | -   | -                           | -                 | -       |
| <i>Short-term Investments</i>     |                                     |                                     |                                     |                                     |                                       |       |         |   |                             |                   |         |
| U.S. Dollar                       | 13                                  | -                                   | -                                   | -                                   | -                                     | 13    | 591     | -   | 591                         | 13                | 591     |
| Interest rate                     | 0.6050%                             | -                                   | -                                   | -                                   | -                                     | -     | -       | -   | -                           | -                 | -       |
| Philippine Peso                   | 3                                   | -                                   | -                                   | -                                   | -                                     | 3     | 127     | -   | 127                         | 3                 | 127     |
| Interest rate                     | 1.5000%                             | -                                   | -                                   | -                                   | -                                     | -     | -       | -   | -                           | -                 | -       |
|                                   | 720                                 | -                                   | 42                                  | 14                                  | 3                                     | 779   | 34,609  | -   | 34,609                      | 780               | 34,634  |
| <i>Liabilities:</i>               |                                     |                                     |                                     |                                     |                                       |       |         |   |                             |                   |         |
| <i>Long-term Debt</i>             |                                     |                                     |                                     |                                     |                                       |       |         |   |                             |                   |         |
| <i>Fixed Rate</i>                 |                                     |                                     |                                     |                                     |                                       |       |         |   |                             |                   |         |
| U.S. Dollar                       |                                     |                                     |                                     |                                     |                                       |       |         |   |                             |                   |         |
| Notes                             | -                                   | -                                   | -                                   | 234                                 | -                                     | 234   | 10,401  | 67  | 10,334                      | 274               | 12,160  |
| Interest rate                     | -                                   | -                                   | -                                   | 8.3500%                             | -                                     | -     | -       | -   | -                           | -                 | -       |
| U.S. Dollar                       | -                                   | 65                                  | 26                                  | 33                                  | -                                     | 124   | 5,493   | 99  | 5,394                       | 126               | 5,598   |
| Fixed Loans                       |                                     |                                     |                                     |                                     |                                       |       |         |   |                             |                   |         |
| Interest rate                     | -                                   | 1.4100% to<br>3.9550%               | 1.4100% to<br>3.9550%               | 1.4100% to<br>3.9550%               | -                                     | -     | -       | -   | -                           | -                 | -       |
| Philippine<br>Peso                | 17                                  | 29                                  | 14                                  | 197                                 | 647                                   | 904   | 40,125  | 46  | 40,079                      | 949               | 42,120  |
| Interest rate                     | 6.3981%                             | 3.9250% to<br>6.2600%               | 3.9250% to<br>6.2600%               | 3.9250% to<br>6.3462%               | 3.9250% to<br>6.3462%                 | -     | -       | -   | -                           | -                 | -       |
| <i>Variable Rate</i>              |                                     |                                     |                                     |                                     |                                       |       |         |   |                             |                   |         |
| U.S. Dollar                       | 21                                  | 480                                 | 235                                 | 245                                 | -                                     | 981   | 43,560  | 156   | 43,404                      | 981               | 43,560  |
| Interest rate                     | 0.3500% to<br>1.8000% over<br>LIBOR | 0.3000% to<br>1.9000% over<br>LIBOR | 0.3000% to<br>1.9000% over<br>LIBOR | 0.3000% to<br>1.9000% over<br>LIBOR | -                                     | -     | -       | -   | -                           | -                 | -       |
| Philippine<br>Peso                | 20                                  | 2                                   | 1                                   | 1                                   | 86                                    | 110   | 4,893   | 14  | 4,879                       | 110               | 4,893   |
| Interest rate                     | PHP PDST-F +<br>0.3000%             | BSP overnight<br>rate - 0.3500%     | BSP overnight<br>ate - 0.3500%      | BSP overnight<br>rate - 0.3500%     | BSP<br>overnight<br>rate -<br>0.3500% | -     | -       | -   | -                           | -                 | -       |
|                                   | 58                                  | 576                                 | 276                                 | 710                                 | 733                                   | 2,353 | 104,472 | 382   | 104,090                     | 2,440             | 108,331 |

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the

particular instrument.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until September 30, 2014. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 10 basis points and 20 basis points higher/lower, respectively, as compared to levels as at June 30, 2014. If U.S. dollar interest rates had been 10 basis points higher/lower as compared to market levels as at June 30, 2014, with all other variables held constant, profit after tax for the six months ended June 30, 2014 and our consolidated stockholders' equity as at June 30, 2014 would have been approximately Php23 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 20 basis points higher/lower as compared to market levels as at June 30, 2014, with all other variables held constant, profit after tax for the six months ended June 30, 2014 and our consolidated stockholders' equity as at June 30, 2014 would have been approximately Php34 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

#### *Credit Risk*

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

The table below shows the maximum exposure to credit risk for the components of our consolidated statements of financial position, including derivative financial instruments as at June 30, 2014 and December 31, 2013:

|   | June 30, 2014 (Unaudited) |   |                      |
|---|---------------------------|---|----------------------|
|   | Gross Maximum Exposure    | Collateral and Other Credit Enhancements* | Net Maximum Exposure |
|   | (in million pesos)        |   |                      |
| <i>Loans and receivables:</i>                                 |                           |   |                      |
| Advances and other noncurrent assets                          | 12,369                    | 1   | 12,368               |
| Cash and cash equivalents                                     | 42,867                    | 225                                       | 42,642               |
| Short-term investments  | 459                       | –   | 459                  |
| Investment in debt securities and other long-term investments | 2,125                     | –   | 2,125                |
| Foreign administrations                                       | 6,447                     | –   | 6,447                |
| Retail subscribers  | 5,994                     | 46  | 5,948                |
| Corporate subscribers   | 2,394                     | 135                                       | 2,259                |
| Domestic carriers   | 1,087                     | –   | 1,087                |
| Dealers, agents and others                                    | 3,118                     | 1   | 3,117                |
| <i>HTM investments:</i>                                       |                           |   |                      |
| Investment in debt securities and other long-term investments | 1,494                     | –   | 1,494                |
| <i>Available-for-sale financial investments</i>               |                           |   |                      |
|   | 222                       | –   | 222                  |
| <i>Financial instruments at FVPL:</i>                         |                           |   |                      |
| Short-term investments  | 600                       | –   | 600                  |
| <i>Derivatives used for hedging:</i>                          |                           |   |                      |
| Interest rate swap  | 26                        | –   | 26                   |
| <b>Total</b>  | <b>79,202</b>             | <b>408</b>                                | <b>78,794</b>        |

\* Includes bank insurance, security deposits and customer deposits. We have no collateral held as at June 30, 2014.

|  | December 31, 2013 (Audited) |   |                      |
|--|-----------------------------|---|----------------------|
|  | Gross Maximum Exposure      | Collateral and Other Credit Enhancements* | Net Maximum Exposure |
|  | (in million pesos)          |   |                      |

|   | December 31, 2013 (Audited)  |   |                            |
|---|------------------------------|---|----------------------------|
|   | Gross<br>Maximum<br>Exposure | Collateral and<br>Other Credit<br>Enhancements* | Net<br>Maximum<br>Exposure |
|   | (in million pesos)           |   |                            |
| <i>Loans and receivables:</i>                                 |                              |   |                            |
| Advances and other noncurrent assets                          | 10,272                       | –   | 10,272                     |
| Cash and cash equivalents                                     | 31,905                       | 241   | 31,664                     |
| Short-term investments  | 127                          | –   | 127                        |
| Investment in debt securities and other long-term investments | 2,172                        | –   | 2,172                      |
| Foreign administrations                                       | 5,721                        | –   | 5,721                      |
| Retail subscribers  | 5,414                        | 41  | 5,373                      |
| Corporate subscribers   | 2,055                        | 135   | 1,920                      |
| Domestic carriers   | 1,381                        | –   | 1,381                      |
| Dealers, agents and others                                    | 2,993                        | 1   | 2,992                      |
| <i>HTM investments:</i>                                       |                              |   |                            |
| Investment in debt securities and other long-term investments | 471                          | –   | 471                        |
| <i>Available-for-sale financial investments</i>               | 220                          | –   | 220                        |
| <i>Financial instruments at FVPL:</i>                         |                              |   |                            |
| Short-term investments  | 591                          | –   | 591                        |
| Short-term currency swaps                                     | 10                           | –   | 10                         |
| <i>Derivatives used for hedging:</i>                          |                              |   |                            |
| Interest rate swap  | 24                           | –   | 24                         |
| <b>Total</b>  | <b>63,356</b>                | <b>418</b>                                      | <b>62,938</b>              |

\* Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2013.

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at June 30, 2014 and December 31, 2013:

|   | Total         | Neither past due<br>nor impaired |                        | Past due but | Impaired      |
|---|---------------|----------------------------------|------------------------|--------------|---------------|
|   |               | Class A <sup>(1)</sup>           | Class B <sup>(2)</sup> | not impaired |               |
| (in million pesos)  |               |                                  |                        |              |               |
| <b>June 30, 2014 (Unaudited)</b>                              |               |                                  |                        |              |               |
| <i>Loans and receivables:</i>                                 | 92,415        | 60,227                           | 9,412                  | 7,221        | 15,555        |
| Advances and other noncurrent assets                          | 12,582        | 10,670                           | 1,677                  | 22           | 213           |
| Cash and cash equivalents                                     | 42,867        | 41,030                           | 1,837                  | –            | –             |
| Short-term investments  | 459           | 459                              | –                      | –            | –             |
| Investment in debt securities and other long-term investments | 2,125         | 2,125                            | –                      | –            | –             |
| Retail subscribers  | 13,977        | 1,475                            | 2,224                  | 2,295        | 7,983         |
| Corporate subscribers   | 8,127         | 719                              | 603                    | 1,072        | 5,733         |
| Foreign administrations                                       | 6,583         | 1,156                            | 2,386                  | 2,905        | 136           |
| Domestic carriers   | 1,194         | 536                              | 180                    | 371          | 107           |
| Dealers, agents and others                                    | 4,501         | 2,057                            | 505                    | 556          | 1,383         |
| <i>HTM investments:</i>                                       | 1,494         | 1,494                            | –                      | –            | –             |
| Investment in debt securities and other long-term investments | 1,494         | 1,494                            | –                      | –            | –             |
| <i>Available-for-sale financial investments</i>               | 222           | 165                              | 57                     | –            | –             |
| <i>Financial instruments at FVPL<sup>(3)</sup>:</i>           | 600           | 600                              | –                      | –            | –             |
| Short-term investments  | 600           | 600                              | –                      | –            | –             |
| <i>Derivatives used for hedging:</i>                          | 26            | 26                               | –                      | –            | –             |
| Interest rate swaps   | 26            | 26                               | –                      | –            | –             |
| <b>Total</b>  | <b>94,757</b> | <b>62,512</b>                    | <b>9,469</b>           | <b>7,221</b> | <b>15,555</b> |
| <b>December 31, 2013 (Audited)</b>                            |               |                                  |                        |              |               |
| <i>Loans and receivables:</i>                                 | 76,676        | 46,362                           | 7,772                  | 7,906        | 14,636        |
| Advances and other noncurrent assets                          | 10,384        | 10,241                           | 22                     | 9            | 112           |
| Cash and cash equivalents                                     | 31,905        | 29,129                           | 2,776                  | –            | –             |
| Short-term investments  | 127           | 127                              | –                      | –            | –             |
| Investment in debt securities and other long-term investments | 2,172         | 2,172                            | –                      | –            | –             |
| Retail subscribers  | 12,563        | 1,318                            | 1,822                  | 2,274        | 7,149         |
| Corporate subscribers   | 7,904         | 698                              | 343                    | 1,014        | 5,849         |
| Foreign administrations                                       | 5,840         | 1,242                            | 1,765                  | 2,714        | 119           |
| Domestic carriers   | 1,461         | 350                              | 22                     | 1,009        | 80            |
| Dealers, agents and others                                    | 4,320         | 1,085                            | 1,022                  | 886          | 1,327         |
| <i>HTM investments:</i>                                       | 471           | 471                              | –                      | –            | –             |
| Investment in debt securities and other long-term investments | 471           | 471                              | –                      | –            | –             |
| <i>Available-for-sale financial investments</i>               | 220           | 166                              | 54                     | –            | –             |
| <i>Financial instruments at FVPL<sup>(3)</sup>:</i>           | 601           | 601                              | –                      | –            | –             |
| Short-term investments  | 591           | 591                              | –                      | –            | –             |



|                                      | Total         | Neither past due<br>nor impaired |                        | Past due but |               |
|--------------------------------------|---------------|----------------------------------|------------------------|--------------|---------------|
|                                      |               | Class A <sup>(1)</sup>           | Class B <sup>(2)</sup> | not impaired | Impaired      |
| (in million pesos)                   |               |                                  |                        |              |               |
| Short-term currency swaps            | 10            | 10                               | –                      | –            | –             |
| <i>Derivatives used for hedging:</i> | <i>24</i>     | <i>24</i>                        | –                      | –            | –             |
| Interest rate swaps                  | 24            | 24                               | –                      | –            | –             |
| <b>Total</b>                         | <b>77,992</b> | <b>47,624</b>                    | <b>7,826</b>           | <b>7,906</b> | <b>14,636</b> |

<sup>(1)</sup> This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.

<sup>(2)</sup> This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.

<sup>(3)</sup> Gross receivables from counterparties, before any offsetting arrangements.

The aging analysis of past due but not impaired class of financial assets as at June 30, 2014 and December 31, 2013 are as follows:

|   | Total         | Neither past due nor impaired | Past due but not impaired |            |              | Impaired      |
|---|---------------|-------------------------------|---------------------------|------------|--------------|---------------|
|   |               |                               | 1-60 days                 | 61-90 days | Over 91 days |               |
| (in million pesos)  |               |                               |                           |            |              |               |
| June 30, 2014 (Unaudited)                                     |               |                               |                           |            |              |               |
| <i>Loans and receivables:</i>                                 | 92,415        | 69,639                        | 3,103                     | 840        | 3,278        | 15,555        |
| Advances and other noncurrent assets                          | 12,582        | 12,347                        | 1                         | –          | 21           | 213           |
| Cash and cash equivalents                                     | 42,867        | 42,867                        | –                         | –          | –            | –             |
| Short-term investments  | 459           | 459                           | –                         | –          | –            | –             |
| Investment in debt securities and other long-term investments | 2,125         | 2,125                         | –                         | –          | –            | –             |
| Retail subscribers  | 13,977        | 3,699                         | 1,505                     | 143        | 647          | 7,983         |
| Corporate subscribers   | 8,127         | 1,322                         | 501                       | 220        | 351          | 5,733         |
| Foreign administrations                                       | 6,583         | 3,542                         | 785                       | 213        | 1,907        | 136           |
| Domestic carriers   | 1,194         | 716                           | 115                       | 101        | 155          | 107           |
| Dealers, agents and others                                    | 4,501         | 2,562                         | 196                       | 163        | 197          | 1,383         |
| <i>HTM investments:</i>                                       | 1,494         | 1,494                         | –                         | –          | –            | –             |
| Investment in debt securities and other long-term investments | 1,494         | 1,494                         | –                         | –          | –            | –             |
| <i>Available-for-sale financial investments</i>               | 222           | 222                           | –                         | –          | –            | –             |
| <i>Financial instruments at FVPL:</i>                         | 600           | 600                           | –                         | –          | –            | –             |
| Short-term investments  | 600           | 600                           | –                         | –          | –            | –             |
| Short-term currency swaps                                     | –             | –                             | –                         | –          | –            | –             |
| <i>Derivatives used for hedging:</i>                          | 26            | 26                            | –                         | –          | –            | –             |
| Interest rate swaps   | 26            | 26                            | –                         | –          | –            | –             |
| <b>Total</b>  | <b>94,757</b> | <b>71,981</b>                 | <b>3,103</b>              | <b>840</b> | <b>3,278</b> | <b>15,555</b> |
| December 31, 2013 (Audited)                                   |               |                               |                           |            |              |               |
| <i>Loans and receivables:</i>                                 | 76,676        | 54,134                        | 3,303                     | 787        | 3,816        | 14,636        |
| Advances and other noncurrent assets                          | 10,384        | 10,263                        | 1                         | –          | 8            | 112           |
| Cash and cash equivalents                                     | 31,905        | 31,905                        | –                         | –          | –            | –             |
| Short-term investments  | 127           | 127                           | –                         | –          | –            | –             |
| Investment in debt securities and other long-term investments | 2,172         | 2,172                         | –                         | –          | –            | –             |
| Retail subscribers  | 12,563        | 3,140                         | 1,615                     | 172        | 487          | 7,149         |

|   | Total         | Neither past<br>due nor<br>impaired | Past due but not impaired |            |              | Impaired      |
|---|---------------|-------------------------------------|---------------------------|------------|--------------|---------------|
|   |               |                                     | 1-60 days                 | 61-90 days | Over 91 days |               |
|   |               |                                     | (in million pesos)        |            |              |               |
| Corporate subscribers   | 7,904         | 1,041                               | 384                       | 224        | 406          | 5,849         |
| Foreign administrations   | 5,840         | 3,007                               | 740                       | 158        | 1,816        | 119           |
| Domestic carriers   | 1,461         | 372                                 | 129                       | 134        | 746          | 80            |
| Dealers, agents and<br>others                                       | 4,320         | 2,107                               | 434                       | 99         | 353          | 1,327         |
| <i>HTM investments:</i>   | <i>471</i>    | <i>471</i>                          | -                         | -          | -            | -             |
| Investment in debt<br>securities and other<br>long-term investments | 471           | 471                                 | -                         | -          | -            | -             |
| <i>Available-for-sale financial<br/>investments</i>                 | <i>220</i>    | <i>220</i>                          | -                         | -          | -            | -             |
| <i>Financial instruments at FVPL:</i>                               | <i>601</i>    | <i>601</i>                          | -                         | -          | -            | -             |
| Short-term investments  | 591           | 591                                 | -                         | -          | -            | -             |
| Short-term currency<br>swaps  | 10            | 10                                  | -                         | -          | -            | -             |
| <i>Derivatives used for<br/>hedging:</i>                            | <i>24</i>     | <i>24</i>                           | -                         | -          | -            | -             |
| Interest rate swaps   | 24            | 24                                  | -                         | -          | -            | -             |
| <b>Total</b>  | <b>77,992</b> | <b>55,450</b>                       | <b>3,303</b>              | <b>787</b> | <b>3,816</b> | <b>14,636</b> |

### *Impairment Assessments*

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Our impairment assessments are classified into two areas: individually assessed allowance and collectively assessed allowances.

#### *Individually assessed allowance*

We determine the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. We also recognize an impairment for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

#### *Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with our policy.

### *Capital Management Risk*

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrance of debt as we seek new investment opportunities for new businesses and growth areas. On August 5, 2014, the PLDT Board of Directors approved the amendment of our dividend policy, increasing the dividend payout rate to 75% from 70% of our core earnings per share as regular dividends. Further, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. We did not buy back any shares of common stock in the first quarter of 2014 and 2013.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

We monitor capital using several financial leverage measurements calculated in conformity with PFRS, such as net consolidated debt to equity ratio. Net consolidated debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt, including current portion and notes payable), excluding discontinued operations. Our objective is to maintain our net consolidated debt to equity ratio below 100%.

The table below provides information regarding our consolidated debt to equity ratio as at June 30, 2014 and December 31, 2013:

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|  | June 30,<br>2014<br>(Unaudited) | December 31,<br>2013<br>(Audited) |
|--|---------------------------------|-----------------------------------|
|--|---------------------------------|-----------------------------------|

|   | (in million pesos) |          |
|---|--------------------|----------|
| Long-term debt, including current portion (Note 20) | 122,993            | 104,090  |
| Cash and cash equivalents (Note 15)                 | (42,867)           | (31,905) |
| Short-term investments                              | (1,059)            | (718)    |
| Net consolidated debt                               | 79,067             | 71,467   |
| Equity attributable to equity holders of PLDT       | 130,100            | 137,147  |
| Net consolidated debt to equity ratio               | 61%                | 52%      |

No changes were made in the objectives, policies or processes for managing capital during the six months ended June 30, 2014 and 2013.