PLDT INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2019 (UNAUDITED) AND DECEMBER 31, 2018 (AUDITED)
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (UNAUDITED)

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in million pesos)

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Noncurrent Assets		
Property and equipment (Notes 9 and 23)	**224,021**	195,964
Right-of-use assets (Note 10)	**18,836**	—
Investments in associates and joint ventures (Note 11)	**54,317**	55,427
Financial assets at fair value through profit or loss (Note 12)	**3,767**	4,763
Debt instruments at amortized cost – net of current portion (Note 13)	**—**	150
Investment properties (Notes 6 and 14)	**777**	777
Goodwill and intangible assets (Note 15)	**68,001**	68,583
Deferred income tax assets – net (Note 7)	**24,666**	27,697
Derivative financial assets – net of current portion (Note 29)	**10**	140
Prepayments – net of current portion (Notes 19 and 26)	**37,592**	23,338
Financial assets at fair value through other comprehensive income – net of current portion (Notes 6 and 26)	**161**	2,749
Contract assets – net of current portion (Note 5)	**687**	1,083
Other financial assets – net of current portion (Note 29)	**2,906**	2,275
Other non-financial assets – net of current portion	**282**	230
Total Noncurrent Assets	**436,023**	383,176
Current Assets		
Cash and cash equivalents (Note 16)	**27,138**	51,654
Short-term investments (Note 29)	**424**	1,165
Trade and other receivables (Note 17)	**20,622**	24,056
Inventories and supplies (Note 18)	**3,179**	2,878
Current portion of contract assets (Note 5)	**2,084**	2,185
Current portion of derivative financial assets (Note 29)	**60**	183
Current portion of debt instruments at amortized cost (Note 13)	**150**	—
Current portion of prepayments (Note 19)	**10,551**	8,380
Current portion of financial assets at fair value through other comprehensive income (Notes 6 and 26)	**2,718**	1,604
Current portion of other financial assets (Notes 20 and 29)	**7,040**	7,008
Current portion of other non-financial assets	**399**	461
Total Current Assets	**74,365**	99,574
TOTAL ASSETS	**510,388**	482,750

EQUITY AND LIABILITIES		
Equity		
Non-voting serial preferred stock (Note 20)	**360**	360
Voting preferred stock (Note 20)	**150**	150
Common stock (Note 20)	**1,093**	1,093
Treasury stock (Note 20)	**(6,505)**	(6,505)
Treasury shares under employee benefit trust (Note 27)	**(394)**	(854)
Capital in excess of par value (Note 20)	**130,526**	130,526
Other equity reserves (Note 27)	**684**	697
Retained earnings (Note 20)	**10,820**	12,081
Other comprehensive loss (Note 6)	**(26,541)**	(25,190)
Total Equity Attributable to Equity Holders of PLDT (Note 29)	**110,193**	112,358
Noncontrolling interests (Note 6)	**4,155**	4,308
TOTAL EQUITY	**114,348**	116,666

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (*continued*)
(in million pesos)

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 21 and 29)	**161,244**	155,835
Lease liabilities – net of current portion (Note 22)	**17,101**	—
Deferred income tax liabilities (Note 7)	**2,692**	2,981
Derivative financial liabilities – net of current portion (Note 29)	**6**	—
Customers' deposits (Note 29)	**2,205**	2,194
Pension and other employee benefits (Note 27)	**4,735**	7,182
Deferred credits and other noncurrent liabilities (Note 23)	**5,757**	5,284
Total Noncurrent Liabilities	**193,740**	173,476
Current Liabilities		
Accounts payable (Note 24)	**79,430**	74,610
Accrued expenses and other current liabilities (Notes 25 and 28)	**99,050**	95,724
Current portion of interest-bearing financial liabilities (Notes 21, 26 and 29)	**17,140**	20,441
Current portion of lease liabilities (Note 22)	**4,476**	—
Dividends payable (Notes 20 and 30)	**1,595**	1,533
Current portion of derivative financial liabilities (Note 29)	**64**	80
Income tax payable	**545**	220
Total Current Liabilities	**202,300**	192,608
TOTAL LIABILITIES	**396,040**	366,084
TOTAL EQUITY AND LIABILITIES	**510,388**	482,750

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
For the Nine Months Ended September 30, 2019 and 2018
(in million pesos, except earnings per common share amounts which are in pesos)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2019	2018	**2019**	2018
	(Unaudited)			
REVENUES				
Service revenues (Note 5)	**119,008**	113,601	**40,652**	38,015
Non-service revenues (Note 5)	**5,428**	8,275	**1,800**	2,397
	124,436	121,876	**42,452**	40,412
EXPENSES				
Selling, general and administrative expenses (Note 5)	**51,027**	53,010	**18,964**	17,758
Depreciation and amortization (Notes 9 and 10)	**28,613**	27,500	**9,710**	9,611
Cost of sales and services (Note 5)	**9,464**	11,070	**3,162**	3,560
Asset impairment (Note 5)	**3,852**	4,164	**1,208**	1,352
Interconnection costs	**2,740**	4,574	**1,039**	1,441
	95,696	100,318	**34,083**	33,722
	28,740	21,558	**8,369**	6,690
OTHER EXPENSES – NET (Note 5)	**(6,125)**	(309)	**(2,825)**	(1,003)
INCOME BEFORE INCOME TAX	**22,615**	21,249	**5,544**	5,687
PROVISION FOR INCOME TAX (Note 7)	**6,579**	4,923	**1,743**	1,166
NET INCOME	**16,036**	16,326	**3,801**	4,521
ATTRIBUTABLE TO:				
Equity holders of PLDT (Note 8)	**15,996**	16,269	**3,789**	4,507
Noncontrolling interests	**40**	57	**12**	14
	16,036	16,326	**3,801**	4,521
Earnings Per Share Attributable to Common Equity Holders of PLDT (Note 8)				
Basic	**73.83**	75.09	**17.46**	20.78
Diluted	**73.83**	75.09	**17.46**	20.78

Certain amounts in 2018 were reclassified to conform with the current presentation.
See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2019 and 2018
(in million pesos)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2019	2018	**2019**	2018
	(Unaudited)			
NET INCOME	**16,036**	16,326	**3,801**	4,521
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)				
Financial instrument at fair value through other comprehensive income (loss) (Note 26)	**122**	(128)	**32**	(128)
Foreign currency translation differences of subsidiaries	**113**	299	**181**	50
Net transactions on cash flow hedges:	**(230)**	(146)	**(33)**	(10)
Net fair value losses on cash flow hedges (Note 29)	**(302)**	(132)	**(45)**	(15)
Income tax related to fair value adjustments charged directly to equity (Note 7)	**72**	(14)	**12**	5
Net gains on available-for-sale financial investments:	**—**	10	**—**	4,337
Unrealized gains from changes in fair value adjustments recognized during the period (Note 12)	**—**	—	**—**	4,337
Income tax related to fair value adjustments charged directly to equity (Note 7)	**—**	10	**—**	—
Share in the other comprehensive gain of associates and joint ventures accounted for using the equity method (Note 11)	**—**	—	**—**	182
Net other comprehensive gain to be reclassified to profit or loss in subsequent period	**5**	35	**180**	4,431
Share in the other comprehensive gain of associates and joint ventures accounted for using the equity method (Note 11)	**1**	—	**—**	—
Revaluation increment on investment properties:	**(1)**	(2)	**—**	(1)
Depreciation of revaluation increment in investment properties transferred to property and equipment (Note 9)	**(2)**	(2)	**(1)**	(1)
Income tax related to revaluation increment charged directly to equity	**1**	—	**1**	—
Actuarial losses on defined benefit obligations:	**(1,354)**	(2,062)	**(406)**	(246)
Remeasurement in actuarial losses on defined benefit obligations (Note 27)	**(1,940)**	(2,947)	**(579)**	(352)
Income tax related to remeasurement adjustments (Note 7)	**586**	885	**173**	106
Net other comprehensive loss not to be reclassified to profit or loss in subsequent period	**(1,354)**	(2,064)	**(406)**	(247)
Total Other Comprehensive Loss – Net of Tax	**(1,349)**	(2,029)	**(226)**	4,184
TOTAL COMPREHENSIVE INCOME	**14,687**	14,297	**3,575**	8,705
ATTRIBUTABLE TO:				
Equity holders of PLDT	**14,648**	14,232	**3,561**	8,689
Noncontrolling interests	**39**	65	**14**	16
	14,687	14,297	**3,575**	8,705

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Nine Months Ended September 30, 2019 and 2018
(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Treasury Shares under Employee Benefit Trust	Capital in Excess of Par Value	Other Equity Reserves	Retained Earnings	Other Comprehensive (Loss)	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
Balances as at January 1, 2019	**510**	**1,093**	**(6,505)**	**(854)**	**130,526**	**697**	**12,081**	**(25,190)**	**112,358**	**4,308**	**116,666**
Effect of adoption of PFRS 16 (Note 2)	**—**	**—**	**—**	**—**	**—**	**—**	**(1,658)**	**—**	**(1,658)**	**—**	**(1,658)**
Effect of adoption of PFRS 9	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3)**	**(3)**	**—**	**(3)**
Balances as at January 1, 2019 (as restated)	**510**	**1,093**	**(6,505)**	**(854)**	**130,526**	**697**	**10,423**	**(25,193)**	**110,697**	**4,308**	**115,005**
Total comprehensive income (loss):	**—**	**—**	**—**	**—**	**—**	**—**	**15,996**	**(1,348)**	**14,648**	**39**	**14,687**
Net income (Note 8)	**—**	**—**	**—**	**—**	**—**	**—**	**15,996**	**—**	**15,996**	**40**	**16,036**
Other comprehensive loss (Note 6)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,348)**	**(1,348)**	**(1)**	**(1,349)**
Cash dividends (Note 20)	**—**	**—**	**—**	**—**	**—**	**—**	**(15,599)**	**—**	**(15,599)**	**(18)**	**(15,617)**
Distribution charges on perpetual notes (Note 20)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(177)**	**(177)**
Other equity reserves (Note 27)	**—**	**—**	**—**	**—**	**—**	**(13)**	**—**	**—**	**(13)**	**—**	**(13)**
Treasury shares under employee benefit trust (Note 27)	**—**	**—**	**—**	**460**	**—**	**—**	**—**	**—**	**460**	**—**	**460**
Acquisition and dilution of noncontrolling interests	—	—	—	—	—	—	—	—	—	**3**	**3**
Balances as at September 30, 2019 (Unaudited)	**510**	**1,093**	**(6,505)**	**(394)**	**130,526**	**684**	**10,820**	**(26,541)**	**110,193**	**4,155**	**114,348**
Balances as at January 1, 2018	510	1,093	(6,505)	(940)	130,374	827	634	(19,151)	106,842	4,341	111,183
PFRS 15 and PFRS 9 adjustments	—	—	—	—	—	—	7,053	(4,500)	2,553	—	2,553
Total comprehensive income (loss):	—	—	—	—	—	—	16,269	(2,037)	14,232	65	14,297
Net income (Note 8)	—	—	—	—	—	—	16,269	—	16,269	57	16,326
Other comprehensive income (loss) (Note 6)	—	—	—	—	—	—	—	(2,037)	(2,037)	8	(2,029)
Cash dividends (Note 20)	—	—	—	—	—	—	(13,872)	—	(13,872)	(15)	(13,887)
Distribution charges on perpetual notes (Note 20)	—	—	—	—	—	—	(177)	—	(177)	—	(177)
Other equity reserves (Note 27)	—	—	—	—	—	(211)	—	—	(211)	—	(211)
Treasury shares under employee benefit trust (Note 27)	—	—	—	86	—	—	—	—	86	—	86
Acquisition and dilution of noncontrolling interests	—	—	—	—	25	—	—	—	25	(93)	(68)
Balances as at September 30, 2018 (Unaudited)	510	1,093	(6,505)	(854)	130,399	616	9,907	(25,688)	109,478	4,298	113,776

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2019 and 2018
(in million pesos)

	2019	2018
		(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**22,615**	21,249
Adjustments for:		
Depreciation and amortization (Notes 9 and 10)	**28,613**	27,500
Interest on loans and other related items – net (Note 5)	**5,260**	5,049
Asset impairment (Note 5)	**3,852**	4,164
Accretion on financial liabilities (Notes 5 and 21)	**1,240**	108
Pension benefit costs (Notes 5 and 27)	**1,140**	1,352
Equity share in net losses (earnings) of associates and joint ventures (Notes 5 and 11)	**1,111**	(199)
Amortization of intangible assets (Notes 5 and 15)	**582**	641
Incentive plan (Notes 5 and 27)	**451**	127
Losses (gains) on derivative financial instruments – net (Notes 5 and 29)	**190**	(1,053)
Impairment of investments (Note 11)	**34**	60
Losses (gains) on disposal of property and equipment (Note 9)	**13**	(8)
Losses (gains) on disposal of investments in subsidiaries – net (Note 11)	**—**	(144)
Foreign exchange losses (gains) – net (Notes 5 and 9)	**(10)**	891
Interest income (Note 5)	**(1,405)**	(1,396)
Others	**(429)**	(3,200)
Operating income before changes in assets and liabilities	**63,257**	55,141
Decrease (increase) in:		
Prepayments	**(17,412)**	837
Other financial and non-financial assets	**157**	243
Trade and other receivables	**1,656**	(12,385)
Inventories and supplies	**(36)**	(1,686)
Contract assets	**388**	356
Increase (decrease) in:		
Customers' deposits	**11**	20
Pension and other employee benefits	**(5,945)**	(4,849)
Other noncurrent liabilities	**78**	30
Accounts payable	**12,409**	4,977
Accrued expenses and other current liabilities	**4,664**	1,624
Net cash flows generated from operations	**59,227**	44,308
Income taxes paid	**(1,532)**	(1,686)
Net cash flows from operating activities	**57,695**	42,622

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the Nine Months Ended September 30, 2019 and 2018
(in million pesos)

	2019	2018
	(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**1,363**	904
Proceeds from:		
Collection of notes receivable	**1,771**	11,707
Proceeds from maturity of short-term investments	**1,283**	5,249
Disposal of financial assets at fair value through profit or loss (Note 12)	**1,021**	11,400
Disposal of property and equipment (Note 9)	**172**	276
Disposal of investments in associates and joint ventures (Note 11)	**—**	1,710
Redemption of investment in debt securities	**—**	105
Payments for:		
Purchase of investments in associates and joint ventures (Note 11)	**(70)**	(111)
Purchase of short-term investments	**(552)**	(8,699)
Interest capitalized to property and equipment (Notes 5 and 9)	**(1,152)**	(1,120)
Purchase of property and equipment (Note 9)	**(60,005)**	(39,364)
Acquisition of intangible assets (Note 15)	**—**	(12)
Net additions to right-of-use assets (Note 10)	**(2,251)**	—
Increase in other financial and non-financial assets	**(129)**	(33)
Net cash flows used in investing activities	**(58,549)**	(17,988)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availments of long-term debt (Notes 21 and 30)	**18,000**	20,500
Derivative financial instruments (Note 29)	**—**	709
Payments for:		
Debt issuance costs (Notes 21 and 30)	**(54)**	(38)
Derivative financial instruments (Note 29)	**(160)**	—
Distribution charges on perpetual notes (Note 20)	**(177)**	(177)
Settlement of obligations under lease liabilities (Note 22)	**(4,363)**	—
Interest – net of capitalized portion (Notes 5, 21 and 30)	**(5,252)**	(4,802)
Cash dividends (Notes 20 and 30)	**(15,556)**	(13,798)
Long-term debt (Notes 21 and 30)	**(15,626)**	(16,458)
Decrease in treasury shares under employee benefit trust	**—**	26
Net cash flows used in financing activities	**(23,188)**	(14,038)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(474)**	1,705
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(24,516)**	12,301
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD (Note 16)	**51,654**	32,905
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (Note 16)	**27,138**	45,206

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

PLDT Inc. (formerly Philippine Long Distance Telephone Company), which we refer to as 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., 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 September 30, 2019. 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 September 30, 2019. 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 its affiliates, or JG Summit Group. 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 September 30, 2019, the JG Summit Group beneficially owned approximately 8% of PLDT's outstanding common shares.

On October 16, 2012, 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 between BTFHI and PLDT dated October 15, 2012. 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 September 30, 2019. See *Note 20 – Equity – Preferred Stock – Voting Preferred Stock* and *Note 28 – 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 American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5.00 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 27.8 million ADSs outstanding as at September 30, 2019.

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 largest and most diversified telecommunications company in the Philippines which delivers data and multi-media services nationwide. We have organized our business into business units based on our products and services and have three reportable operating segments which serve as the bases for management's decision to allocate resources and evaluate operating performance. Our principal activities are discussed in *Note 4 – Operating Segment Information*.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines. Information on our structure is provided in *Note 2 – Summary of Significant Accounting Policies – Basis of Consolidation*. Information on other related party relationships of the PLDT Group is provided in *Note 26 – Related Party Transactions*.

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, as issued by the Philippine Financial Reporting Standards Council, or FRSC.

Our consolidated financial statements have been prepared under the historical cost basis, except for derivative financial assets, financial assets at fair value through profit or loss, or FVPL, financial assets at fair value through other comprehensive income, or FVOCI, and investment properties that are 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 nine months ended September 30, 2019 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 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 September 30, 2019 and December 31, 2018:

			September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
			Percentage of Ownership			
Name of Subsidiary	**Place of Incorporation**	**Principal Business Activity**	**Direct**	**Indirect**	Direct	Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	**100.0**	**—**	100.0	—
Smart Broadband, Inc., or SBI, and Subsidiary	Philippines	Internet broadband distribution services	**—**	**100.0**	—	100.0
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services	**—**	**100.0**	—	100.0
I-Contacts Corporation	Philippines	Operations support servicing business	**—**	**100.0**	—	100.0
Smart Money Holdings Corporation, or SMHC[a]	Cayman Islands	Investment company	**—**	**100.0**	—	100.0
Far East Capital Limited, or FECL, and Subsidiary, or FECL Group[a]	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	**—**	**100.0**	—	100.0
PH Communications Holdings Corporation, or PHC	Philippines	Investment company	**—**	**100.0**	—	100.0
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services	**—**	**100.0**	—	100.0
Francom Holdings, Inc., or FHI:	Philippines	Investment company	**—**	**100.0**	—	100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group[a]	British Virgin Islands	Content provider, mobile applications development and services	**—**	**100.0**	—	100.0
Wifun, Inc., or Wifun	Philippines	Software developer and selling of WiFi access equipment	**—**	**100.0**	—	100.0
Telesat, Inc.[a]	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, (a wholly-owned subsidiary of Digitel)	Philippines	Cellular mobile services	**—**	**99.6**	—	99.6
Fixed Line						
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.[a]	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	—
Talas Data Intelligence, Inc., or Talas	Philippines	Business infrastructure and solutions; intelligent data processing and implementation services and data analytics insight generation	**100.0**	**—**	100.0	—
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	**100.0**	**—**	100.0	—
IP Converge Data Services, Inc., or IPCDSI, and Subsidiary, or IPCDSI Group	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	**—**	**100.0**	—	100.0
Curo Teknika, Inc., or Curo	Philippines	Managed IT outsourcing	**—**	**100.0**	—	100.0
ABM Global Solutions, Inc., or AGS, and Subsidiaries, or AGS Group	Philippines	Internet-based purchasing, IT consulting and professional services	**—**	**100.0**	—	100.0
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	**—**	**95.0**	—	95.0
netGames, Inc.[a]	Philippines	Gaming support services	**—**	**57.5**	—	57.5
MVP Rewards Loyalty Solutions, Inc., or MRSI[b]	Philippines	Full-services customer rewards and loyalty programs	**—**	**100.0**	—	100.0
Digitel:	Philippines	Telecommunications services	**99.6**	**—**	99.6	—
Digitel Information Technology Services, Inc.[a]	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	—
Pacific Global One Aviation Company, Inc., or PG1	Philippines	Air transportation business	**65.0**	**—**	65.0	—

Name of Subsidiary	Place of Incorporation	Principal Business Activity	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Pilipinas Global Network Limited, or PGNL, and Subsidiaries	British Virgin Islands	Internal distributor of Filipino channels and content	**64.6**	**—**	64.6	—
Others						
PLDT Global Investments Holdings, Inc., or PGIH	Philippines	Investment company	**100.0**	**—**	100.0	—
PLDT Digital Investments Pte. Ltd., or PLDT Digital, and Subsidiaries	Singapore	Investment company	**100.0**	**—**	100.0	—
Mabuhay Investments Corporation, or MIC[(a)]	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	**—**	**99.9**	—	99.9

[(a)] *Ceased commercial operations.*
[(b)] *On September 14, 2018, MRSI was incorporated and ePLDT made an initial investment of Php50 million.*

Subsidiaries are fully consolidated from the date of acquisition, being the date on which PLDT 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.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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 and impact is presented as part of other equity reserves.

If PLDT 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.

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 is obligated to sell its *Red Mobile* business to Smart consisting primarily of its subscriber base, brand and fixed assets; and

- Smart is obligated to sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 Megahertz, or 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 PLDT 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. In a letter dated January 21, 2013, the NTC referred the computation of the CRA to the Commissioners of the NTC.

In a letter dated March 5, 2018, PLDT informed the NTC that it is waiving its right to recover any and all cost related to the 10MHz of 3G radio frequency previously assigned to CURE. Accordingly, CURE will not claim any cost associated with it in the event of subsequent assignment by the NTC to another qualified telecommunication company. With the foregoing, PLDT is deemed to have fully complied with its obligation to divest from CURE as a condition to the sale and transfer of Digitel shares to PLDT.

In 2018, Smart recognized full impairment of its receivable from CURE, due to uncertainty of collectability, and its investments in PHC and FHI, which holds the 97% and 3% interest in CURE, respectively. These transactions were eliminated in our consolidated financial statements.

Transfer of SBI's Home Broadband Subscription Assets to PLDT

On September 26, 2017, the Board of Directors of PLDT and SBI, a subsidiary providing wireless broadband services, approved the sale and transfer of SBI's trademark and subscribers, and all of SBI's assets, rights and obligations directly or indirectly connected to its HOME Ultera and HOMEBRO Wimax businesses to PLDT. The transfer was effective January 1, 2018. Subscription assets and trademark are amortized over two years and 10 years, respectively, using the straight-line method of accounting.

SBI's businesses are currently being managed by PLDT pursuant to the Operations Maintenance and Management Agreement between PLDT and SBI effective October 1, 2012. Subsequent to the transfer, SBI will continue to provide broadband services to its existing Canopy subscribers using a portion of Smart's network. The transfer is in accordance with the said agreement and in order to achieve the expected benefits, as follows:

- Seamless upgrades of PLDT products;
- Flexibility for business in cross-selling of PLDT products; and
- Enhanced customer experience.

On December 18, 2017, PLDT settled the partial consideration to SBI amounting to Php1,294 million. The remaining balance of Php1,152 million was fully paid on July 31, 2018.

This transaction was eliminated in our consolidated financial statements.

ePLDT's Additional Investment in ePDS

On March 5, 2018 and August 7, 2018, the Board of Directors of ePLDT approved the additional investment in ePDS amounting to Php134 million and Php66 million, respectively, thereby increasing its equity interest in ePDS from 67% to 95%. This transaction was eliminated in our consolidated financial statements.

Expiration of Digitel's Congressional Franchise

On February 17, 1994, the Philippine Congress granted a legislative franchise to Digitel under R.A. No. 7678 to install, operate and maintain telecommunications systems throughout the Philippines for public domestic and international telecommunications, and for other purposes. R.A. No. 7678 expired on February 17, 2019 and was not renewed.

Expiration of Philcom's Legislative Franchise

Effective September 15, 2019, Philcom ceased to operate as a telecommunications service provider, pursuant to the expiration of its legislative franchise, R.A. 7783. In order to facilitate continued customer service, arrangements have been made between Philcom and PLDT where PLDT would make its services available to the affected Philcom subscribers on voluntary basis. The NTC interposed no objection to the transfer of Philcom's subscribers to PLDT, subject to certain conditions. Consequently, Philcom and PLDT executed a Deed of Assignment on September 13, 2019 wherein all property and equipment of Philcom, accounts receivable, inventories and subscribers were transferred to PLDT for a total consideration of Php2,106 million, after complying with the conditions imposed by NTC. This transaction was eliminated in our consolidated financial statements.

New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except that we have adopted the following new standards, interpretation and amendments starting January 1, 2019. Except for the adoption of PFRS 16, *Leases*, the adoption of these new standards, interpretation and amendments did not have significant impact on our financial position or performance.

- Philippine Interpretation to International Financial Reporting Interpretations Committee, or IFRIC, 23, *Uncertainty over Income Tax Treatments*

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

- Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation (Part of Annual Improvements to PFRSs 2015-2017 Cycle)*

- Amendments to PAS 12, *Income Taxes, Income tax consequences of payments on financial instruments classified as equity (Part of Annual Improvements to PFRSs 2015-2017 Cycle)*

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

- Amendments to PAS 23, *Borrowing Costs, Borrowing costs eligible for capitalization (Part of Annual Improvements to PFRSs 2015-2017 Cycle)*

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

- PFRS 16, *Leases*

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

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

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

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

We applied the modified retrospective approach upon adoption of PFRS 16 on January 1, 2019 and applied the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*. We, therefore, did not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC 4.

We elected to use the exemptions provided by the standard on lease contracts for which the lease term ends within 12 months as at the date of initial application, and lease contracts for which the underlying asset is of low value.

Our cash flows from operating activities have increased and cash flows from financing cash flows decreased as repayment of the principal portion of the lease liabilities were classified as cash flows from financing activities. In addition, our total assets and total liabilities have increased due to the recognition of right-of-use asset and lease liability. The accounting for operating leases where we act as the lessee will significantly change due to the adoption of PFRS 16.

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

	Increase (Decrease)
	(in million pesos)
Assets:	
Right-of-use assets (Note 10)	**20,047**
Deferred income tax assets – net (Note 7)	**653**
Prepayments – net of current portion	**(481)**
Current portion of prepayments	**(2)**
Total Assets	**20,217**
Liabilities:	
Lease liabilities – net of current portion (Note 22)	**18,688**
Accrued expenses and other current liabilities	**(694)**
Current portion of lease liabilities (Note 22)	**3,881**
Total Liabilities	**21,875**
Net impact on equity:	
Retained earnings	**(1,658)**
Noncontrolling interests	**–**

Set out below are the amounts by which each financial statement line item is affected for the period ended September 30, 2019 as a result of the adoption of PFRS 16. The adoption of PFRS 16 did not have a material impact on other comprehensive income or on our investing cash flows. The first column shows amounts prepared under PFRS 16 and the second column shows what the amounts would have been had PFRS 16 not been adopted.

Consolidated statement of profit or loss for the nine months ended September 30, 2019 (Unaudited)

	PFRS 16	PAS 17	Increase (Decrease)
		(in millions)	
Expenses:			
Rent (Notes 3 and 5)	768	5,182	(4,414)
Depreciation and amortization	3,462	—	3,462
Financing costs (Note 5)	1,149	—	1,149
Net impact on profit for the period	5,379	5,182	197
Tax effect	(1,506)	(1,453)	(53)
Net impact on profit for the period, net of tax	3,873	3,729	144
Attributable to:			
Equity holders of PLDT	(3,873)	(3,729)	(144)
Noncontrolling interests	—	—	—

Consolidated statement of financial position as at September 30, 2019 (Unaudited)

	PFRS 16	PAS 17	Increase (Decrease)
		(in millions)	
Assets:			
Right-of-use assets (Note 10)	18,836	—	18,836
Deferred income tax assets - net (Note 7)	24,666	23,938	728
Prepayments – net of current portion (Note 19)	37,592	37,594	(2)
Current portion of prepayments (Note 19)	10,551	11,032	(481)
Total Assets	91,645	72,564	19,081
Liabilities:			
Lease liabilities – net of current portion (Note 22)	17,101	—	17,101
Accrued expenses and other current liabilities (Note 25)	99,050	99,744	(694)
Current portion of lease liabilities (Note 22)	4,476	—	4,476
Total Liabilities	120,627	99,744	20,883
Net impact on equity:			
Retained earnings	15,026	16,828	(1,802)
Noncontrolling interests	4,155	4,155	—

Upon adoption of PFRS 16, we applied a single recognition and measurement approach for all leases, except for short-term leases and leases of ‘low-value’ assets. The standard provides specific transition requirements and practical expedients, which we have applied.

- Leases previously classified as finance leases

We did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17). The requirements of PFRS 16 was applied to these leases from January 1, 2019.

- Leases previously accounted for as operating leases

We recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of ‘low-value’ assets. The right-of-use assets were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rates at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

We also applied the available practical expedients wherein we:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Elected not to separate non-lease components from lease components and accounted them as single lease component.

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

- Right-of -use assets of Php20,047 million were recognized and presented separately in the statement of financial position.
- Deferred income tax assets – net increased by Php653 million because of the deferred tax impact of the changes in assets and liabilities.
- Prepayments of Php483 million and accrued expenses and other current liabilities of Php694 million related to previous operating leases were derecognized.
- Lease liabilities of Php22,569 million were recognized and presented separately in the statement of financial position.
- The net effect of Php1,658 million of these adjustments had been adjusted to retained earnings.

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 in the acquiree. For each business combination, we elect whether to measure the components of the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in selling, general and administrative expenses.

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 that is classified as equity is not remeasured and subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument within the scope of PFRS 9 is measured at fair value with the changes in fair value recognized in profit or loss. In accordance with PFRS 9, other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for 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 on a bargain purchase 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 cash-generating units, or 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 has been allocated to 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 disposed operation 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 nor 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 of 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 directly attributable transaction costs. The details of our investments in associates are disclosed in *Note 11 – Investments in Associates and Joint Ventures – Investments in Associates*.

Under the equity method, an investment in an associate is carried 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 statements reflect 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 statement of comprehensive income and consolidated 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 interests in those associates.

Our share in the profits or losses of our associates is included under "Other income (expenses)" in 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 associate, 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 statements.

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 our consolidated financial statements.

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 in accordance with the PFRS applicable to the particular assets, liabilities and transactions.

- 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 11 – Investments in Associates and Joint Ventures – 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. Our investment in 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 over the joint venture, we measure and recognize our retained 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 with no remeasurement.

Current Versus Noncurrent Classifications

We present assets and liabilities in our consolidated statements of financial position based on current or noncurrent classification.

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

The terms of the liquidity that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

We classify all other liabilities as noncurrent.

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

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 separate financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for the subsidiaries discussed below) 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 gain or loss arising from transactions of non-monetary items measured at fair value is treated in line with the recognition of this gain or loss on the change in fair value of the items (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

The functional currency of SMHC, FECL Group, PLDT Global and certain of its subsidiaries, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC is the U.S. dollar; the functional currency of iCommerce Investments Pte. Ltd., or iCommerce, Chikka Pte. Ltd., or CPL, and ABM Global Solutions Pte. Ltd., or AGSPL, is the Singaporean dollar; and the functional currency of PT Advance Business Microsystems Global Solutions, or AGS Indonesia, 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. Upon 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 as at reporting date.

Financial Instruments

Financial Instruments – Initial recognition and subsequent measurement

Classification of financial assets

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and our business model for managing the financial assets. We classify our financial assets into the following measurement categories:

- Financial assets measured at amortized cost;
- Financial assets measured at FVPL;
- Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss; and

- Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss.

Contractual cash flows characteristics

In order for us to identify the measurement of our debt financial assets, a solely payments of principal and interest, or SPPI, test needs to be initially performed in order to determine whether the contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Once a debt financial asset passed the SPPI test, business model assessment, which identifies our objective of holding the financial assets – hold to collect or hold to collect and sell, will be performed. Otherwise, if the debt financial asset failed the test, such will be measured at FVPL.

In making the assessment, we determine whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the SPPI test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model

Our business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Our business model does not depend on management's intentions for an individual instrument.

Our business model refers to how we manage our financial assets in order to generate cash flows. Our business model determines whether cash flows will result from collecting contractual cash flows, collecting contractual cash flows and selling financial assets or neither.

Financial assets at amortized cost

A financial asset is measured at amortized cost if: (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate, or EIR, method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in our consolidated income statements and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Asset impairment' in our consolidated income statements.

Our financial assets at amortized cost include debt instruments at amortized cost, cash and cash equivalents, short-term investments, trade and other receivables, contract assets and portions of other financial assets as at September 30, 2019 and December 31, 2018. See *Note 13 – Debt Instruments at Amortized Cost, Note 16 – Cash and Cash Equivalents, Note 17 – Trade and Other Receivables* and *Note 29 – Financial Assets and Liabilities.*

Financial assets at FVOCI (debt instruments)

A financial asset is measured at FVOCI if: (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the ECL model.

Our financial assets at FVOCI include receivables from MPIC as at September 30, 2019 and December 31, 2018. See *Note 26 – Related Party Transactions* and *Note 29 – Financial Assets and Liabilities*.

Financial assets at FVPL

Financial assets at FVPL are measured at fair value. Included in this classification are derivative financial assets, equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVPL are initially recognized at fair value, with transaction costs recognized in our consolidated income statements as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in our consolidated income statements.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, we may choose at initial recognition to designate the financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the PLDT Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL, and the gains or losses from disposal of financial investments.

Our financial assets at FVPL include derivative financial assets and equity investments as at September 30, 2019 and December 31, 2018. See *Note 12 – Financial Assets at FVPL* and *Note 29 – Financial Assets and Liabilities.*

Classification of financial liabilities

Financial liabilities are measured at amortized cost, except for the following:

- Financial liabilities measured at FVPL;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when we retain continuing involvement;
- Financial guarantee contracts;
- Commitments to provide a loan at a below-market interest rate; and
- Contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at FVPL if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- If a host contract contains one or more embedded derivatives; or

- If a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVPL, the movement in fair value attributable to changes in our own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Our financial liabilities at FVPL include forward foreign exchange contracts, long-term principal only-currency swaps, interest rate swaps and liability from redemption of preferred stock as at September 30, 2019 and December 31, 2018. See *Note 29 – Financial Assets and Liabilities.*

Our other financial liabilities include interest-bearing financial liabilities, lease liabilities, customers' deposits, dividends payable, accounts payable and accrued expenses and other current liabilities, (except for statutory payables) as at September 30, 2019 and December 31, 2018. See *Note 21 – Interest-bearing Financial Liabilities* and *Note 29 – Financial Assets and Liabilities.*

Reclassifications of financial instruments

We reclassify our financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively and any previously recognized gains, losses or interest shall not be restated. We do not reclassify our financial liabilities.

We do not reclassify our financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;

- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and

- There is a change in measurement on credit exposures measured at FVPL.

Impairment of Financial Assets

We recognize ECL for debt instruments that are measured at amortized cost and FVOCI.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money; and

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL

For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL – not credit-impaired

For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL – credit-impaired

Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted EIR to the amortized cost of the financial asset.

Loss allowances

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- The financial instrument has a low risk of default;
- The counterparty has a strong capacity to meet its contractual cash flow obligations in the near term; and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the counterparty to fulfill its contractual cash flow obligations.

We consider a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

The loss allowances recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stage 2 and 3 due to the financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period;
- Impact on the measurement of ECL due to changes in probability of defaults, or PDs, loss given defaults, or LGDs, and exposure at defaults, or EADs, in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Unwinding of discount within ECL due to passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

Write-off policy

We write-off a financial asset measured at amortized cost, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. We write-off an account when all of the following conditions are met:

- The asset is in past due for over 90 days, or is already an item-in-litigation with any of the following:
    a. No properties of the counterparty could be attached
    b. The whereabouts of the client cannot be located
    c. It would be more expensive for the Group to follow-up and collect the amount, hence we have ceased enforcement activity, and
    d. Collections can no longer be made due to insolvency or bankruptcy of the counterparty;
- Expanded credit arrangement is no longer possible;
- Filing of legal case is not possible; and
- The account has been classified as 'Loss'.

Simplified approach

The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to 'Trade and other receivables' and 'Contract assets'. We have established a provision matrix for billed trade receivables and a vintage analysis for contract assets and unbilled trade receivables that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or where applicable as part of a financial asset or part of a group of similar financial assets) is primarily derecognized when: (1) the right to receive cash flows from the asset has expired; or (2) we have transferred the right 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 right 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 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 rates. 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 29 – 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 "Other income (expense) – Gains (losses) on derivative financial instruments – net" in our consolidated income statements.

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 statements.

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

Fair value hedges

The change in the fair value of a hedging instrument is recognized in our consolidated income statements as financing cost. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in our consolidated income statements.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in our consolidated income statements.

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 an asset or liability with a corresponding gain or loss 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 statements. See *Note 29 – 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 transaction 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 hedge our interest rate exposure and a long-term principal only-currency swap agreement to hedge our foreign exchange exposure on certain outstanding loan balances. See *Note 29 – Financial Assets and Liabilities*.

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 and Equipment

Property and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. Land is stated at cost less any impairment in value. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing component parts of the property and equipment when the cost is incurred, if the recognition criteria are met. When significant parts of property 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 and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized as expense as incurred. 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.

Depreciation and amortization commence once the property and equipment are available for their intended 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 and equipment are disclosed in *Note 9 – Property and Equipment*.

The residual values, estimated useful lives, and methods of depreciation and amortization are reviewed at least at each financial year-end and adjusted prospectively, if appropriate.

An item of property and equipment and any significant part initially recognized are 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 when 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.

Property under construction is transferred to the related property and equipment when the construction or installation and related activities necessary to prepare the property and equipment for their intended use have been completed, and the property and equipment are ready for operational use.

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 their intended use or sale. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalized until the assets are substantially completed for their intended use or sale.

All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 and equipment. The amount of asset retirement obligations is accreted and such accretion is recognized as interest expense. See *Note 9 – Property and Equipment* and *Note 23 – Deferred Credits and Other Noncurrent Liabilities*.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. 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. Fair values are determined based on an amount evaluation performed by a Philippine SEC accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognized when they are disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their 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 owner-occupied property becomes an investment property, we account for such property in accordance with the policy stated under property 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 accumulated impairment losses. 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 economic useful life using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At the minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed 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 statements.

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the CGU level. 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 15 – 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 statements when the asset is derecognized.

Internally generated intangibles are not capitalized, and the related 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 for using the weighted average cost method. Net realizable value is determined by either estimating the selling price in the ordinary course of 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 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 of disposal and its value in use, or VIU. The 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 VIU, 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 of disposal, 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 statements.

For assets, excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or 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 assumptions 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 statements. 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 and equipment, right-of-use assets, and intangible assets with definite useful lives

For property and equipment and right-of-use assets, we also assess for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage. For intangible assets with definite useful lives, we assess for impairment whenever there is an indication that the intangible assets may be impaired. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets, Note 9 – Property and Equipment, Note 10 – Right-of-Use Assets* and *Note 15 – Goodwill and Intangible Assets* for further disclosures relating to impairment of non-financial assets.

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 statements. See *Note 11 – Investments in Associates and Joint Ventures* for further disclosures relating to impairment of non-financial assets.

Goodwill

Goodwill is tested for impairment annually as at December 31 and when 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.

See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets* and *Note 15 – Goodwill and Intangible Assets – Impairment testing of goodwill and intangible assets with indefinite useful life* for further disclosures relating to impairment of non-financial assets.

Intangible asset with indefinite useful life

Intangible asset with indefinite useful life is not amortized but is 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 or the CGU, and its carrying amount and recognize the amount of impairment in our consolidated income statements. Impairment losses relating to intangible assets can be reversed in future periods.

See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets* and *Note 15 – Goodwill and Intangible Assets – Impairment testing of goodwill and intangible assets with indefinite useful life* for further disclosures relating to impairment of non-financial assets.

Investment in Debt Securities

Investment in debt securities consists of time deposits and government securities which are carried at amortized cost using the EIR method. Interest earned from these securities is recognized under "Other income (expenses) – Interest income" in our consolidated income statements.

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, financial assets at FVPL, financial assets at FVOCI and non-financial assets such as investment properties, at fair value at each reporting date. The fair values of financial instruments measured at amortized cost are disclosed in *Note 29 – Financial Assets and Liabilities*. The fair values of investment properties are disclosed in *Note 14 – Investment Properties*.

Fair value is the estimated 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 our consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: (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 our consolidated 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 FVPL 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 certain short-term investments and investment 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

Revenue from contracts with customers

Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration which we expect to be entitled to in exchange for those goods or services. PFRS 15 prescribes a five-step model to be followed in the recognition of revenue, wherein we take into consideration the performance obligations which we need to perform in the agreements we have entered into with our customers. Revenue is measured by allocating the transaction price, which includes variable considerations, to each performance obligation on a relative stand-alone selling price basis, taking into account contractually defined terms of payment and excluding value-added tax, or VAT, or overseas communication tax, or OCT, where applicable. Transaction prices are adjusted for the effects of a significant component if we expect, at contract inception, that the period between the transfer of the promised goods or services to the customer and when the customer pays for that good or service will be more than one year.

When allocating the total contract transaction price to identified performance obligations, a portion of the total transaction price may relate to service performance obligations which were not satisfied or are partially satisfied as of end of the reporting period. In determining the transaction price allocated, we do not include nonrecurring charges and estimates for usage, nor do we consider arrangements with an original expected duration of one year or less.

Remaining performance obligations are associated with our wireless and fixed line subscription contracts. As at September 30, 2019, excluding the performance obligations for contracts with original expected duration of less than one year, the aggregate amount of the transaction price allocated to remaining performance obligations was Php4,867 million, of which we expect to recognize approximately 21% in October to December 2019 and 79% in 2020 and onwards. As at December 31, 2018, excluding the performance obligations for contracts with original expected duration of less than one year, the aggregate amount of the transaction price allocated to remaining performance obligations was Php30,753 million, of which we expect to recognize approximately 63% in 2019 and 37% in 2020 and onwards.

When determining our performance obligations, 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. We are a principal and record revenue on a gross basis if we control the promised goods or services before transferring them or rendering those to the customer. However, if our role is only to arrange for another entity to provide the goods or services, then we are an agent and will need to record revenue at the net amount that we retain for our agency services.

The disclosures of significant accounting judgments, estimates and assumptions relating to revenue from contracts with customers are provided in *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Identifying performance obligations*.

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.

Services may be rendered separately or bundled with goods or other services. The specific recognition criteria are as follows:

i. Single Performance Obligation (POB) Contracts

Postpaid service arrangements include fixed monthly charges (including excess of consumable fixed monthly service fees) generated from cellular voice, short messaging services, or SMS, and data services through the postpaid plans of Smart, Sun Cellular and Infinity brands, from local exchange services primarily through landline and related services, and from fixed line and other network services primarily through broadband and leased line services, which we recognize 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 at their stand-alone selling prices and recognized as the additional service is provided or as availed by the subscribers.

Our prepaid service revenues arise from the usage of airtime load from channels and prepaid cards provided by Smart, Sun Cellular, TNT, SmartBro and Sun Broadband brands. Proceeds from over-the-air reloading channels and prepaid cards are initially recognized as contract liability and realized upon actual usage of the airtime value for voice, SMS, mobile data and other VAS, prepaid unlimited and bucket-priced SMS and call subscriptions, net of bonus credits from load packages purchased, such as free additional call minutes, SMS, data allocation or airtime load, or upon expiration, whichever comes earlier.

We also consider recognizing revenue from the expected breakage or expiry of airtime load in proportion to the pattern of rights exercised by the customer if it expects to be entitled to that breakage amount. If we do not expect to be entitled to a breakage amount based on historical experience with the customers, then we recognize the expected breakage amount as revenue when the likelihood of the prepaid customer exercising its remaining rights becomes remote.

Interconnection fees and charges arising from the actual usage of airtime value or subscriptions 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. In general, non-refundable upfront fees, such as activation fees, that do not relate to the transfer of a promised good or service, are deferred and recognized as revenue throughout the estimated average length of the customer relationship, and the related incremental costs incurred are similarly deferred and recognized as expense over the same period, if such costs generate or enhance resources of the entity and are expected to be recovered.

Installation fees for voice services are considered as a single performance obligation together with monthly service fees, recognized over the customer subscription period since the subscriber cannot benefit from the installation services on its own or together with other resources that are readily available to the subscriber. Installation fees for data services are also not capable of being distinct from the sale of modem since the subscriber obtains benefit from the combined output of the installation services and the device, and is recognized upon delivery of the modem and performance of modem installation. The related incremental costs are recognized in the same manner in our consolidated income statements, if such costs are expected to be recovered.

ii. Bundled Contracts

In revenue arrangements, which involve bundled sales of mobile devices and accessories (non-service component), and telecommunication services (service component), the total transaction price is allocated based on the relative stand-alone selling prices of each distinct performance obligation. Stand-alone selling price is the price at which we sell the good or service separately to a customer. However, if goods or services are not currently offered separately, we use the adjusted market or cost-plus margin method to determine the stand-alone selling price to be used in the transaction price allocation. We adjust the transaction price for the effects of the time value of money if the timing of the payment and delivery of goods or services do not coincide, effects of which are considered as containing a significant financing component.

Revenues from the sale of non-service component are recognized at the point in time when the goods are delivered while revenues from telecommunication services component are recognized over on a straight-line basis over the contract period when the services are provided to subscribers.

Significant Financing Component

The non-service component included in contracts with customers have significant financing component considering the period between the time of the transfer of control over the mobile device and the customer's payment of the price of the mobile device, which is more than one year.

The transaction price for such contracts is determined by discounting the amount of promised consideration using the appropriate discount rate. We concluded that there is a significant financing component for those contracts where the customer elects to pay in arrears considering the length of time between the transfer of mobile device to the customer and the customer's payment, as well as the prevailing interest rates in the market adjusted with customer credit spread.

Customer Loyalty Program

We operate customer engagement and loyalty programs which allows customers to accumulate points when postpaid customers pay their bills on time and in full, purchase products or services, and load or top-up for prepaid customers once registered to the program. Customers may avail of the "MVP Rewards Card" for free, powered by PayMaya, which allows for instant conversion of points into the PayMaya wallet of the customer that can be used for all purchases transacted using the "MVP Rewards Card". The new customer loyalty program is not treated as separate performance obligation but as a reduction of revenue when earned, which is booked under loyalty expense.

iii. International and Domestic Long Distance Contracts

Interconnection revenues for call termination, call transit and network usages are recognized in the period in which the traffic occurs. Revenues 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 statements. Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers.

Variable consideration

We assessed that a variable consideration exists in certain interconnection agreements where there is a monthly aggregation period and the rates applied for the total monthly traffic will depend on the total traffic for the month. We also consider whether contracts with carriers contain volume commitment or tiering arrangement whereby the rate being charged will change upon meeting certain volume of traffic. We estimate the amount of variable consideration to which we are entitled and include in the transaction price some or all of an amount of variable consideration estimated arising from these agreements, unless the impact is not material.

iv. Others

Revenues from VAS include streaming and downloading of games, music, video contents, loan services, messaging services, applications and other digital services which are only arranged for by us on behalf of third-party content providers. The amount of revenue recognized is net of content provider's share in revenue. Revenue is recognized upon service availment. We act as an agent for certain VAS arrangements.

Revenue from server hosting, co-location services and customer support services are recognized at point in time as the services are performed.

Contract balances

Contract assets

A contract asset is initially recognized for revenue earned from installation services because the receipt of consideration is conditional on successful completion of the installation. Upon completion of the installation and acceptance by the customer, the amount recognized as contract assets is reclassified to trade receivables when billed. Contract assets are subject to impairment assessment. Refer to accounting policies on impairment of financial assets in section Financial instruments – initial recognition and subsequent measurement.

Trade receivables

A receivable is recognized if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section Financial instruments – initial recognition and subsequent measurement.

Contract liabilities and unearned revenues

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

Incremental costs to obtain contracts

We often give commissions and incentives to sales agent for meeting certain volume of new connections and corresponding value of plans contracted. These costs are incremental costs to obtain as we would have not incurred these if the contract had not been obtained. These are capitalized as an asset if these are expected to be recovered. Any capitalized incremental costs to obtain would be amortized and recognized as expense over customer subscription period.

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 identified.

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 to be received if the entity settles the obligation. The expense relating to any provision is presented in our consolidated income statements, 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 in our consolidated income statements.

Retirement Benefits

PLDT and certain of its subsidiaries are covered under R.A. 7641 otherwise known as "The Philippine Retirement Law".

Defined benefit pension plans

PLDT has separate and distinct retirement plans for itself and majority of its Philippine-based operating subsidiaries, administered by the respective Funds' 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 consist of the following:

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

Service cost (which includes current service costs, past service costs and gains or losses on curtailments and non-routine settlements) is recognized as part of "Selling, general and administrative expenses – Compensation and employee benefits" account in our consolidated income statements. These amounts are calculated periodically by an independent qualified actuary.

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 asset or obligation. Net defined 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 statements 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 occur. Remeasurements are not classified to profit or loss in subsequent periods.

The net defined benefit asset or obligation 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 and in the case of unquoted securities, the discounted cash flow using the income approach. The value of any defined benefit asset recognized is restricted to the asset ceiling which is 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 27 – 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 and 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 their 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 (income) and other expenses (income) related to the defined benefit plan are recognized in our 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 our 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 our profit or loss. Gains or losses on the settlement of the defined benefit plan are recognized when the settlement occurs. See *Note 27 – Employee Benefits – Defined Contribution Plans* for more details.

Other Long-term Employee Benefits

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 our profit or loss.

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 and is determined using the projected unit credit method. See *Note 27 – Employee Benefits – Other Long-term Employee Benefits* for more details.

Transformation Incentive Plan, or TIP

The PLDT provides incentive compensation to key officers, executives and other eligible participants, in the PLDT Group in the form of PLDT Inc. common shares of stock, or Performance Shares, over a three-year vesting period from January 1, 2017 to December 31, 2019. The award of the performance shares is contingent on the achievement of Performance Targets based on PLDT Group's cumulative consolidated core net income.

The starting point of expense recognition is the date of grant, which is the date when the formal invitation letter was sent to the eligible participants. The fair value of the award (excluding the effect of any service and non-market performance vesting conditions) is determined at the grant date. At each subsequent reporting date until vesting, a best estimate of the cumulative charge to profit or loss at that date is computed. As the share-based payments vests in installments over the service period, the award is treated as expense over the vesting period.

On December 11, 2018, the Executive Compensation Committee, or ECC, of the Board approved Management's recommended modifications to the Plan, and partial equity and cash settled set-up will be implemented for the 2019 TIP Grant. The estimated fair value of remaining unpurchased shares will be given out as cash award. The fair value of the cash award relating to unpurchased shares is determined using the estimate of the fair value of the original award approved in 2017. Please see *Note 3 – Management's Use of Accounting Judgements, Estimates and Assumptions – Estimating pension benefit cost and other employee benefits*.

Leases

Beginning January 1, 2019

- Right-of-use assets

We recognize right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless it is reasonably certain that we obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. Refer to the accounting policies in impairment of non-financial assets section.

- Lease liabilities

At the commencement date of the lease, we recognize lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating a lease, if the lease term reflects exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- Short-term leases and leases of low-value assets

We apply the short-term lease recognition exemption to our short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). We also apply the lease of low-value assets recognition exemption to leases that are considered of low value (i.e., below Php250 thousand). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Prior to January 1, 2019

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 and 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 statements 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 using the EIR 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 statements 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 using the EIR.

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.

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

Deferred income tax

Deferred income tax is provided 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 our consolidated statements of comprehensive income and not in our consolidated income statements.

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 our profit or loss.

VAT

Revenues, expenses and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in our consolidated statements of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in our consolidated statements of financial position to the extent of the recoverable amount.

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 our consolidated financial statements but are disclosed in the notes to our consolidated financial statements when an inflow of economic benefits is probable.

Events After the End of the Reporting Period

Post period-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 our consolidated financial statements. Post period-end events that are not adjusting events are disclosed in the notes to our 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 in our consolidated statement of changes in equity.

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 statements 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 in our consolidated statement of changes in equity and consolidated statements of financial position.

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 in our consolidated statement of changes in equity.

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 our profit or loss as required or permitted by PFRS.

Standards Issued But Not Yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the consolidated financial statements are listed below. We will adopt these standards and amendments to existing standards which are relevant to us when these become effective.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on our future business combinations.

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

The amendments refine the definition of material in PAS 1 and align the definition used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020 with early application permitted.

These amendments have no material impact on our consolidated financial statements.

Effective beginning on or after January 1, 2021

- PFRS 17*, Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

1. A specific adaptation for contracts with participation features (the variable fee approach); and

2. A simplified approach (the premium allocation approach) mainly for short-duration contracts.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required.

The standard has no significant impact on our consolidated financial statements.

Deferred effectivity

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

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

On January 13, 2016, the FRSC deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. We are currently assessing the impact of this amendment.

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 and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments, key 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 within the next reporting period are consistent with those applied in the most recent annual financial statements, except for those that relate to the adoption of PFRS 16. Selected critical judgments and estimates applied in the preparation of the annual consolidated financial statements as discussed below:

Judgments

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

Revenue Recognition

Identifying performance obligations

We identify performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and our promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

Revenues earned from multiple element arrangements offered by our fixed line and wireless businesses are split into separately identifiable performance obligations based on their relative stand-alone selling price in order to reflect the substance of the transaction. The transaction price represents the best evidence of stand-alone selling price for the services we offer since this is the observable price we charge if our services are sold separately. We account for customer contracts in accordance with PFRS 15 and have concluded that the service (telecommunication service) and non-service components (handset or equipment) may be accounted for as separate performance obligations. The handset or equipment is delivered first, followed by the telecommunication service (which is provided over the contract/lock-in period, generally two years). Revenue attributable to the separate performance obligations are based on the allocation of the transaction price relative to the stand-alone selling price.

Installation fees for voice services are considered as a single performance obligation together with monthly service fees, recognized over the customer subscription period since the subscriber cannot benefit from the installation services on its own or together with other resources that are readily available to the subscriber. Installation fees for data services are also not capable of being distinct from the sale of modem since the subscriber obtains benefit from the combined output of the installation services and the device, and is recognized upon delivery of the modem and performance of modem installation.

Principal versus agent consideration

We enter into contracts with our customers involving multiple deliverable arrangements. We determined that we control the goods before they are transferred to customers, and we have the ability to direct the use of the inventory. The following factors indicate that we control the goods before they are being transferred to customers. Therefore, we determined that we are the principal in these contracts.

- We are primarily responsible for fulfilling the promise to provide the specified equipment.
- We bear inventory risk on our inventory before it has been transferred to the customer.
- We have discretion in establishing the prices for the other party's goods or services and, therefore, the benefit that we can receive from those goods or services is not limited. It is incumbent upon us to establish the price of our services to be offered to our subscribers.
- Our consideration in these contracts is the entire consideration billed to the service provider.

Based on the foregoing, we are considered the principal in our contracts with other service providers except for certain VAS arrangements. We have the primary obligation to provide the services to the subscriber.

Timing of revenue recognition

We recognize revenue from contracts with customers over time or at a point in time depending on our evaluation of when the customer obtains control of the promised goods or services and based on the extent of progress towards completion of the performance obligation. For the telecommunication service which is generally provided over the contract period of two years, because control is transferred over time, revenue is recognized monthly as we provide the service. For the handset which is provided at the inception of the contract, because control is transferred at a point in time, revenue is recognized at the time of delivery.

Identifying methods for measuring progress of revenue recognized over time

We determine the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

Revenue from telecommunication services is recognized through the use of input method wherein recognition is over time based on the customer subscription period since the customer simultaneously receives and consumes the benefits as the seller renders the services.

Significant financing component

We concluded that the handset component included in contracts with customers has a significant financing component considering the period between the time of the transfer of control over the handset and the customer's payment of the price of the handset, which is more than one year.

In determining the interest to be applied to the amount of consideration, we concluded that the interest rate is the market interest rate adjusted with credit spread to reflect the customer credit risk that is commensurate with the rate that would be reflected in a separate financing transaction between us and our customer at contract inception.

Estimation of stand-alone selling price

We assessed that the service and non-service components represent separate performance obligations and thus, the amount of revenues should be recognized based on the allocation of the transaction price to the different performance obligations based on their stand-alone selling prices. The stand-alone selling price is the price at which we sell the good or service separately to a customer. However, if goods or services are not currently offered separately, we use the adjusted market or cost-plus margin method to determine the stand-alone selling price to be used in the revenue allocation.

In terms of allocation of transaction price between performance obligations, we assessed that allocating the transaction price using the stand-alone selling prices of the services and handset will result in more revenue allocated to non-service component. The stand-alone selling price is based on the price in which we regularly sells the non-service and service component in a separate transaction.

Financial Instruments

Evaluation of business models in managing financial instruments

We determine our business model at the level that best reflects how we manage groups of financial assets to achieve our business objective. Our business model is not assessed on an instrument-by-instrument basis, but a higher level of aggregated portfolios and is based on observable factors such as:

a. How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

b. The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and

c. The expected frequency, value and timing of sales are also important aspects of our assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from our original expectations, we do not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

We have determined that for cash and cash equivalents, short-term investments, investment in debt securities and other long-term investments (*Note 13 – Debt Instruments at Amortized Cost*), and trade and other receivables, the business model is to collect the contractual cash flows until maturity. For receivables from MPIC, we have determined that its business model is to both collect contractual cash flows and sale of financial assets.

PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

Definition of default and credit-impaired financial assets

We define a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- *Quantitative criteria*

For trade receivables and all other financial assets subject to impairment, default occurs when the receivable becomes 90 days past due, except for trade receivables from Corporate subscribers, which are determined to be in default when the receivables become 120 days past due.

- *Qualitative criteria*

The counterparty meets unlikeliness to pay criteria, which indicates the counterparty is in significant financial difficulty. These are instances where:

a. The counterparty is experiencing financial difficulty or is insolvent;

b. The counterparty is in breach of financial covenant(s);

c. An active market for that financial assets has disappeared because of financial difficulties;

d. Concessions have been granted by the Group, for economic or contractual reasons relating to the counterparty's financial difficulty;

e. It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; and

f. Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments, except FVPL, held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to the ECL models throughout our expected loss calculation.

Significant increase in credit risk

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-month ECL.

Using our judgment and, where possible, relevant historical experience, we may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that we consider are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, we consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the counterparty.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within our investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the PLDT Group.

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, FECL Group, PLDT Global and certain of its subsidiaries, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC, which uses the U.S. dollar; (b) iCommerce, CPL and AGSPL, which uses the Singaporean dollar; and (c) AGS Indonesia, which uses the Indonesian rupiah.

Reclassification of certain land and building from investment property to property and equipment

In 2018, ePLDT reclassified certain land and building amounting to Php1,236 million from investment property to property and equipment because of the change in use of the assets. Prior to reclassification, these land and building were previously held for rental to third party lessees up to the end of the lease arrangement in 2018. Management decided not to renew the lease contracts but instead use the land and building for business operations. As such, management believes that the reclassification to property and equipment is appropriate given the change in use of these assets. See *Note 14 – Investment Properties*.

Determining the lease term of contracts with renewal options – Beginning January 1, 2019

We determine the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

We, as the lessee, have the option, under some of our lease agreements to lease the assets for additional terms. We apply judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, we consider all relevant factors that create an economic incentive for us to exercise the renewal. After the commencement date, we reassess the lease term if there is a significant event or change in circumstances that is within our control and affects our ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

We included the renewal period as part of the lease term for leases of cell sites, offices, business centers, warehouse due to the significance of these assets to our operations. These leases have a non-cancellable period (i.e., three to ten years) and there will be a significant negative effect on our provision of services if a replacement is not readily available.

Total lease expense amounted to Php768 million for the nine months ended September 30, 2019. Total lease obligations amounted to Php21,577 million as at September 30, 2019. See *Note 2 – Summary of Significant Accounting Policies, Note 5 – Income and Expenses – Selling, General and Administrative Expenses, Note 21 – Interest-bearing Financial Liabilities – Obligations under Finance Leases, Note 22 – Lease Liabilities* and *Note 29 – Financial Assets and Liabilities – Liquidity Risk.*

Leases – Prior to January 1, 2019

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. Total lease expense amounted to Php5,302 million for the nine months ended September 30, 2018. Total finance lease obligations amounted to Php514 thousand as at December 31, 2018. See *Note 2 – Summary of Significant Accounting Policies, Note 5 – Income and Expenses – Selling, General and Administrative Expenses* and *Note 29 –Financial Assets and Liabilities – Liquidity Risk.*

Accounting for investment in Multisys Technologies Corporation, or Multisys

On December 3, 2018, PGIH completed the closing of its investment in Multisys. Out of the Php550 million total consideration for the acquisition of existing shares, PGIH paid Php523 million to the owners of Multisys. Further, PGIH invested Php800 million into Multisys as a deposit for future stock subscription pending the approval by the Philippine SEC of the capital increase of Multisys. On February 1, 2019, the Philippine SEC approved the capital increase of Multisys.

Based on our judgment, at the PLDT Group level, PGIH's investment in Multisys gives PGIH a joint control in Multisys and thus is accounted for as investment in joint venture using the equity method. See *Note 11 – Investment in Associates and Joint Ventures – Investment in Joint Ventures – Investment of PGIH in Multisys*.

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 Hastings Holdings, Inc., or Hastings, and indirect interest in Cignal TV, Inc., or Cignal TV.

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

On February 15, 2018, ePLDT ceased to have any economic interest in Hastings as a result of the assignment of the Hastings PDRs to PLDT Beneficial Trust Fund.

See related discussion on *Note 11 – Investments in Associates and Joint Ventures – Investments in Associates – Investment of ePLDT in MediaQuest PDRs*.

Assessment of loss of control over VIH

PLDT assesses the consequences of changes in the ownership interest in a subsidiary that may result in a loss of control as well as the consequence of losing control of a subsidiary during the reporting period. Whether or not PLDT retains control over the subsidiary depends on an evaluation of a number of factors that indicate if there are changes to one or more of the three elements of control. When PLDT has less than majority of the voting rights or similar rights to an investee, PLDT considers all relevant facts and circumstances in assessing whether it has power over an investee, including, among others, representation on its board of directors, voting rights, and other rights of other investors, including their participation in significant decisions made in the ordinary course of business.

As a result of the subscriptions of the new investors in VIH, see *Note 2 – Summary of Significant Accounting Policies – Loss of Control over VIH*, PCEV's ownership interest was diluted to 48.74% as such and retained only two out of the five Board of Director seats in the investee. Consequently, as at November 28, 2018, PLDT lost its control on VIH and accounted for its remaining interest as investment in associate. See *Note 11 – Investments in Associates and Joint Ventures – Investments in Associates – Investment of PCEV in VIH*.

Accounting for investments in Vega Telecom Inc., or VTI, Bow Arken Holdings Company, or Bow Arken, and Brightshare Holdings, Inc., or Brightshare

On May 30, 2016, PLDT acquired a 50% equity interest in each of VTI, Bow Arken and Brightshare. See related discussion on *Note 11 – Investments in Associates and Joint Ventures – Investments in Joint Ventures*. Based on the Memorandum of Agreement, PLDT and Globe Telecom, Inc., or Globe, each have the right to appoint half the members of the Board of Directors of each of VTI, Bow Arken and Brightshare, as well as the (i) co-Chairman of the Board; (ii) co-Chief Executive Officer and President; and (iii) co-Controller where any matter requiring their approval shall be deemed passed or approved if the consents of both co-officers holding the same position are obtained. All decisions of each Board of Directors may only be approved if at least one director nominated by each of PLDT and Globe votes in favor of it.

Based on these rights, PLDT and Globe have joint control over VTI, Bow Arken and Brightshare, which is defined in PFRS 11, *Joint Arrangements,* as a contractually agreed sharing of control of an arrangement and exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Consequently, PLDT and Globe classified the joint arrangement as a joint venture in accordance with PFRS 11 given that PLDT and Globe each have the right to 50% of the net assets of VTI, Bow Arken and Brightshare and their respective subsidiaries.

Accordingly, PLDT accounted for the investment in VTI, Bow Arken and Brightshare using the equity method of accounting in accordance with PAS 28. Under the equity method of accounting, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. See *Note 11 – Investment in Associates and Joint Ventures – Investment in Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare*.

Accounting for investment in Beacon Electric Asset Holdings, Inc., or Beacon, under equity method

PAS 28 provides that where an entity holds 20% or more of the voting power (directly or through subsidiaries) on an investee, it will be presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. If the ownership interest is less than 20%, the entity will be presumed not to have significant influence unless such influence can be clearly demonstrated.

PCEV entered into Share Purchase Agreement with MPIC on May 30, 2016 and June 13, 2017, to sell its equity interest in Beacon for a total consideration of Php26,200 million and Php21,800 million, respectively. Upon closing of these sale transactions, MPIC settled portion of the considerations and the balances will be paid in annual installments until June 2021. MPIC agreed that for as long as: (a) PCEV owns at least 20% of the outstanding capital stock of Beacon; or (b) the purchase price has not been fully paid by MPIC, PCEV shall retain the right to vote 50% of the outstanding capital stock of Beacon.

After full divestment, PCEV continues to hold its representation in the Board of Directors and participate in decision making. PCEV retained 50% proxy voting right and is presumed to still hold joint control over Beacon. The role of the representative of PCEV in the Board of Directors is not to jointly control the business but to ensure security of the payment of its outstanding receivables. Thus, PCEV will remain to hold significant influence over Beacon. See *Note 11 – Investments in Associates and Joint Ventures – Investments in Joint Ventures – Investment of PCEV in Beacon*.

Material partly-owned subsidiaries

Our consolidated financial statements include additional information about subsidiaries that have non-controlling interest, or NCI, that are material to us, see *Note 6 – Components of Other Comprehensive Loss*. Management determined material partly-owned subsidiaries as those with balance of NCI greater than 5% of the total equity as at September 30, 2019 and December 31, 2018.

Material associates and joint ventures

Our consolidated financial statements include additional information about associates and joint ventures that are material to us. See *Note 11 – Investments in Associates and Joint Ventures*. Management determined material associates and joint ventures are those investees where our carrying amount of investments is greater than 5% of the total investments in associates and joint ventures as at September 30, 2019 and December 31, 2018.

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 our consolidated financial statements within the next financial year are discussed below. We based our estimates and assumptions on parameters available when our consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond our control. Such changes are reflected in the assumptions when they occur.

Determination of incremental borrowing rate, or IBR

In calculating the present value of lease payments, we use the IBR at the lease commencement date if the interest rate implicit in the lease is not readily determinable. IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

We use benchmark rates from partner banks based on the tenor of our loan borrowings plus a spread adjustment based on our credit worthiness.

Loss of control over VIH – Fair value measurement of interest retained

A deemed disposal occurs where the proportionate interest of PLDT in a subsidiary is reduced other than by an actual disposal, for example, by the issuance of shares to a third party investor by the subsidiary. When PLDT no longer has control, the remaining interest is measured at fair value as at the date the control was lost. When determining the fair value, PLDT takes into account recent transactions and all the facts and circumstances surrounding the transactions such as timing, transaction size, transaction frequency, and motivations of the investors. When valuing the shares in associates and joint ventures, PLDT carefully assesses the accounting implications of the stipulation in the shareholders' agreements. PLDT considers whether such a transaction has been made at arm's length.

Impairment of non-financial assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill and intangible assets with indefinite useful life, at a minimum, such assets are subject to an impairment test annually and whenever there is an indication that such assets may be impaired. This requires an estimation of the VIU of the CGUs to which these assets are allocated. The VIU calculation 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. See *Note 15 – Goodwill and Intangible Assets – Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Life* for the key assumptions used to determine the VIU of the relevant CGUs.

Determining the recoverable amount of property and equipment, right-of-use assets, investments in associates and joint ventures, intangible assets, prepayments 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 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 position 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.

There were no asset impairment recognized on noncurrent assets for the nine months ended September 30, 2019 and 2018, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment, Note 9 – Property and Equipment – Impairment of Certain Wireless Network Equipment and Facilities, Note 10 – Right-of-Use Assets* and *Note 11 – Investments in Associates and Joint Ventures.*

The carrying values of our property and equipment, right-of-use assets, investments in associates and joint ventures, goodwill and intangible assets, and prepayments are separately disclosed in *Note 9 – Property and Equipment, Note 10 – Right-of-Use Assets, Note 11 – Investments in Associates and Joint Ventures, Note 15 – Goodwill and Intangible Assets* and *Note 19 – Prepayments,* respectively.

Estimating useful lives of property and equipment

We estimate the useful lives of each item of our property and equipment based on the periods over which our assets are expected to be available for use. Our estimation of the useful lives of our property and equipment is also based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of each assets are reviewed every year-end and 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 and equipment would increase our recorded depreciation and decrease the carrying amount of our property and equipment.

In 2018, we shortened the estimated useful lives of certain data network platform and other technology equipment resulting from the transformation projects to improve and simplify the network and systems applications. As a result, we recognized additional depreciation amounting to Php540 million and Php4,511 million for the nine months ended September 30, 2019 and 2018, respectively.

The total depreciation and amortization of property and equipment amounted to Php25,151 million and Php27,500 million for the nine months ended September 30, 2019 and 2018, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php224,021 million and Php195,964 million as at September 30, 2019 and December 31, 2018, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information* and *Note 9 – Property and Equipment*.

Estimating useful lives of intangible assets with finite lives

Intangible assets with finite lives are amortized over their expected useful lives using the straight-line method of amortization. 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 statements.

The total amortization of intangible assets with finite lives amounted to Php582 million and Php641 million for the nine months ended September 30, 2019 and 2018, respectively. Total carrying values of intangible assets with finite lives amounted to Php2,117 million and Php2,699 million as at September 30, 2019 and December 31, 2018, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Selling, General and Administrative Expenses* and *Note 15 – 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. Based on this, management expects that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php2,514 million and Php3,227 million as at September 30, 2019 and December 31, 2018, respectively. Total consolidated provision from deferred income tax amounted to Php3,976 million and Php1,674 million for the nine months ended September 30, 2019 and 2018, respectively. Total consolidated recognized net deferred income tax assets amounted to Php24,666 million and Php27,697 million as at September 30, 2019 and December 31, 2018, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information* and *Note 7 – Income Taxes*.

Estimating allowance for expected credit losses

a. Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the EIR. The cash shortfall is the difference between the cash flows due to us in accordance with the contract and the cash flows that we expect to receive; and

- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the EIR.

We leverage existing risk management indicators (e.g. internal credit risk classification and restructuring triggers), credit risk rating changes and reasonable and supportable information which allow us to identify whether the credit risk of financial assets has significantly increased.

b. Inputs, assumptions and estimation techniques

- *General approach for cash in bank, short-term investments, debt securities and other long-term investments and advances and other noncurrent assets*

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. We consider the probability of our counterparty to default its obligation and the expected loss at default after considering the effects of collateral, any potential value when realized and time value of money.

The assumptions underlying the ECL calculation are monitored and reviewed on a quarterly basis.

- *Simplified approach for trade and other receivables and contract assets*

We use a simplified approach for calculating ECL on trade and other receivables and contract assets. We consider historical days past due for groupings of various customer segments that have similar loss patterns and remaining time to maturities.

We use historical observed default rates and adjust these historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

- *Incorporation of forward-looking information*

We incorporate forward-looking information into both our assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and our measurement of ECL.

To do this, management considered a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs.

The macro-economic factors are aligned with information used by us for other purposes such as strategic planning and budgeting.

We have identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3 to 8 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

We have not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where we are not able to estimate the impact on ECL due to lack of reasonable and supportable information.

Total provision for expected credit losses for trade and other receivables and contract assets amounted to Php3,231 million and Php222 million, respectively, for the nine months ended September 30, 2019. Trade and other receivables and contract assets, net of allowance for expected credit losses, amounted to Php20,622 million and Php2,771 million, respectively, as at September 30, 2019. Total provision for expected credit losses for trade and other receivables and contract assets amounted to Php4,192 million and Php17 million, respectively, for the year ended December 31, 2018. Trade and other receivables and contract assets, net of allowance for expected credit losses, amounted to Php24,056 million and Php3,268 million, respectively, as at December 31, 2018. See *Note 5 – Income and Expenses* and *Note 17 – Trade and Other Receivables.*

- *Grouping of instruments for losses measured on collective basis*

A broad range of forward-looking information were considered as economic inputs such as the gross domestic product, inflation rate, unemployment rates and other economic indicators. For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the PLDT Group to be statistically credible. Where sufficient information is not available internally, then we have considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below.

Trade receivables – Groupings for collective measurement

a. Retail subscribers;

b. Corporate subscribers;

c. Foreign administrations and domestic carriers; and

d. Dealers, agents and others.

The following credit exposures are assessed individually:

- All stage 3 assets, regardless of the class of financial assets; and

- The cash and cash equivalents, investment in debt securities and other long-term investments, and other financial assets.

Estimating pension benefit costs and other employee benefits

The cost of defined benefit and present value of the pension obligation are determined using the projected unit credit method. An actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. Further, our accrued benefit cost is affected by the fair value of the plan assets. Key assumptions used to estimate fair value of the unlisted equity investments included in the plan assets consist of revenue growth rate, direct costs, capital expenditures, discount rates and terminal growth rates. See *Note 27 – 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 amounted to Php1,140 million and Php1,352 million for the nine months ended September 30, 2019 and 2018, respectively. The prepaid benefit costs amounted to Php237 million and Php393 million as at September 30, 2019 and December 31, 2018, respectively. The accrued benefit costs amounted to Php4,735 million and Php7,182 million as at September 30, 2019 and December 31, 2018, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 19 – Prepayments* and *Note 27 – Employee Benefits*.

On September 26, 2017, the Board of Directors of PLDT approved the TIP which intends to provide incentive compensation to key officers, executives and other eligible participants who are consistent performers and contributors to the Company's strategic and financial goals. The incentive compensation will be in the form of Performance Shares, PLDT common shares of stock, which will be released in three annual grants on the condition, among others, that pre-determined consolidated core net income targets are successfully achieved over three annual performance periods from January 1, 2017 to December 31, 2019. On September 26, 2017, the Board of Directors approved the acquisition of 860 thousand Performance Shares to be awarded under the TIP. On March 7, 2018, the ECC of the Board approved the acquisition of additional 54 thousand shares, increasing the total Performance Shares to 914 thousand. Metropolitan Bank and Trust Company, or Metrobank, through its Trust Banking Group, is the appointed Trustee of the trust established for purposes of the TIP. The Trustee is designated to acquire the PLDT common shares in the open market through the facilities of the PSE, and administer their distribution to the eligible participants subject to the terms and conditions of the TIP.

On December 11, 2018, the Executive Compensation Committee, or ECC, of the Board approved Management's recommended modifications to the Plan, and partial equity and cash settled set-up will be implemented for the 2019 TIP Grant. The estimated fair value of remaining unpurchased shares will be given out as cash award. The fair value of the cash award relating to unpurchased shares is determined using the estimate of the fair value of the original award approved in 2017.

As at November 7, 2019, a total of 757 thousand PLDT common shares have been acquired by the Trustee, of which 302 thousand and 204 thousand PLDT common shares have been released to the eligible participants on March 28, 2019 for the 2018 annual grant and on April 5, 2018 for the 2017 annual grant, respectively. The TIP is administered by the ECC of the Board. The expense accrued for the TIP amounted to Php451 million and Php208 million as at September 30, 2019 and December 31, 2018, respectively, and is presented as equity reserves in our consolidated statements of financial position. See *Note 5 – Income and Expenses – Compensation and Employee Benefits* and *Note 27 – Employee Benefits – Other Long-term Employee Benefits*.

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which these are incurred if a reasonable estimate can be made. This requires an estimation of the cost to restore or 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 or 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 Php1,745 million and Php1,656 million as at September 30, 2019 and December 31, 2018, respectively. See *Note 23 – 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 position and performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 28 – 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.

Determination of fair values of financial assets and financial liabilities

When the fair value of financial assets and financial liabilities recorded in our consolidated statements of financial position cannot be measured based on quoted prices in active markets, their fair value is measured 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 noncurrent financial assets and noncurrent financial liabilities as at September 30, 2019 amounted to Php2,557 million and Php161,333 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2018 amounted to Php2,168 million and Php143,392 million, respectively. See *Note 29 – Financial Assets and Liabilities*.

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 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. We have three reportable operating segments as follows:

- Wireless – mobile telecommunications services provided by Smart and DMPI, our mobile service providers; SBI and PDSI, our wireless broadband service providers; and certain subsidiaries of PLDT Global, our mobile virtual network operations, or MVNO, 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, BCC, PLDT Global and certain subsidiaries, and Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, cyber security services, managed information technology services and resellership through ePLDT, IPCDSI Group, AGS Group, Curo and ePDS; full service customer rewards and loyalty programs provided by MRSI; and distribution of Filipino channels and content through PGNL and its subsidiaries; and

- Others – PCEV, PGIH, PLDT Digital and its subsidiaries, and PGIC, our investment companies.

See *Note 2 – Summary of Significant Accounting Policies* for further discussion.

The Management Committee 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 for the period; earnings before interest, taxes, and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income for the period is measured consistent with net income in our consolidated financial statements.

EBITDA for the period is measured as net income 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 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 non-recurring 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.

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 amounts 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 our consolidated financial statements, which is in accordance with PFRS.

The segment revenues, net income, and other segment information of our reportable operating segments for the nine months ended September 30, 2019 and 2018, and as at September 30, 2019 and December 31, 2018 are as follows:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
		(in million pesos, except for EBITDA margin)			
September 30, 2019 (Unaudited)					
Revenues					
External customers	**68,777**	**55,659**	**—**	**—**	**124,436**
Service revenues	**64,498**	**54,510**	**—**	**—**	**119,008**
Non-service revenues	**4,279**	**1,149**	**—**	**—**	**5,428**
Inter-segment transactions	**1,858**	**10,809**	**—**	**(12,667)**	**—**
Service revenues	**1,858**	**10,809**	**—**	**(12,667)**	**—**
Non-service revenues	**—**	**—**	**—**	**—**	**—**
Total revenues	**70,635**	**66,468**	**—**	**(12,667)**	**124,436**
Results					
Depreciation and amortization	**20,479**	**12,302**	**—**	**(4,168)**	**28,613**
Asset impairment	**740**	**3,112**	**—**	**—**	**3,852**
Interest income	**559**	**550**	**325**	**(29)**	**1,405**
Equity share in net earnings (losses) of associates and joint ventures	**—**	**164**	**(1,275)**	**—**	**(1,111)**
Financing costs	**4,817**	**3,804**	**29**	**(2,118)**	**6,532**
Provision for (benefit from) income tax	**3,694**	**2,989**	**(246)**	**142**	**6,579**
Net income (loss) / Segment profit (loss)	**10,433**	**6,373**	**(808)**	**38**	**16,036**
EBITDA	**39,126**	**23,039**	**(91)**	**(4,139)**	**57,935**
EBITDA margin	**59%**	**35%**	**—**	**—**	**49%**
Core income (loss)	**10,762**	**7,916**	**(578)**	**68**	**18,168**
Assets and liabilities					
Operating assets	**277,104**	**180,056**	**18,118**	**(43,873)**	**431,405**
Investments in associates and joint ventures	**—**	**80,817**	**10,729**	**(37,229)**	**54,317**
Deferred income tax assets – net	**13,511**	**12,702**	**(880)**	**(667)**	**24,666**
Total assets	**290,615**	**273,575**	**27,967**	**(81,769)**	**510,388**
Operating liabilities	**210,869**	**222,841**	**3,785**	**(44,147)**	**393,348**
Deferred income tax liabilities	**2,070**	**411**	**287**	**(76)**	**2,692**
Total liabilities	**212,939**	**223,252**	**4,072**	**(44,223)**	**396,040**
Other segment information					
Capital expenditures, including capitalized interest (Note 9)	**22,642**	**30,768**	**—**	**—**	**53,410**
September 30, 2018 (Unaudited)					
Revenues					
External customers	65,251	55,711	914	—	121,876
Service revenues	59,856	52,867	878	—	113,601
Non-service revenues	5,395	2,844	36	—	8,275
Inter-segment transactions	2,112	7,625	8	(9,745)	—
Service revenues	2,112	7,624	8	(9,744)	—
Non-service revenues	—	1	—	(1)	—
Total revenues	67,363	63,336	922	(9,745)	121,876

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
	(in million pesos, except for EBITDA margin)				
Results					
Depreciation and amortization	15,664	11,704	132	—	27,500
Asset impairment	1,922	2,242	—	—	4,164
Equity share in net earnings (losses) of associates and joint ventures	62	152	(15)	—	199
Interest income	436	649	419	(108)	1,396
Financing costs	1,344	3,941	115	(108)	5,292
Provision for income tax	2,221	2,483	219	—	4,923
Net income (loss) / Segment profit (loss)	6,937	9,173	598	(382)	16,326
EBITDA	26,046	24,320	(1,839)	1,172	49,699
EBITDA margin	42%	40%	—	—	44%
Core income (loss)	10,205	9,160	197	(382)	19,180
December 31, 2018 (Audited)					
Assets and liabilities					
Operating assets	230,182	199,557	30,962	(61,075)	399,626
Investments in associates and joint ventures	—	43,426	12,001	—	55,427
Deferred income tax assets – net	16,879	12,479	(1,119)	(542)	27,697
Total assets	247,061	255,462	41,844	(61,617)	482,750
Operating liabilities	168,837	206,812	16,773	(29,319)	363,103
Deferred income tax liabilities	2,321	482	367	(189)	2,981
Total liabilities	171,158	207,294	17,140	(29,508)	366,084
September 30, 2018 (Unaudited)					
Other segment information					
Capital expenditures, including capitalized interest (Note 9)	20,676	14,944	—	—	35,620

The following table shows the reconciliation of our consolidated net income to our consolidated EBITDA for the nine months ended September 30, 2019 and 2018:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Consolidated net income	**16,036**	16,326
Add (deduct) adjustments:		
Depreciation and amortization	**28,613**	27,500
Provision for income tax	**6,579**	4,923
Financing costs	**6,532**	5,292
Equity share in net losses (earnings) of associates and joint ventures	**1,111**	(199)
Amortization of intangible assets	**582**	641
Losses (gains) on derivative financial instruments – net	**190**	(1,053)
Impairment of investments (Note 11)	**34**	60
Foreign exchange losses (gains) – net	**(10)**	891
Interest income	**(1,405)**	(1,396)
Other income – net	**(327)**	(3,286)
Total adjustments	**41,899**	33,373
Consolidated EBITDA	**57,935**	49,699

The following table shows the reconciliation of our consolidated net income to our consolidated core income for the nine months ended September 30, 2019 and 2018:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Consolidated net income	**16,036**	16,326
Add (deduct) adjustments:		
Manpower rightsizing program, or MRP	**2,399**	408
Unrealized losses (gains) in fair value of investments	**265**	(1,089)
Losses (gains) on derivative financial instruments – net, excluding hedge costs (Note 29)	**150**	(1,091)
Core income adjustment on equity share in net losses of associates and joint ventures	**49**	45
Impairment of investments (Note 11)	**34**	60
Foreign exchange losses (gains) – net	**(10)**	891
Net income attributable to noncontrolling interests	**(40)**	(57)
Depreciation due to shortened life of property and equipment	**—**	4,511
Investment written-off	**—**	362
Net tax effect of aforementioned adjustments	**(715)**	(1,186)
Total adjustments	**2,132**	2,854
Consolidated core income	**18,168**	19,180

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 nine months ended September 30, 2019 and 2018:

	September 30,			
	2019		2018	
	Basic	**Diluted**	Basic	Diluted
	(Unaudited)			
Consolidated core EPS	**83.88**	**83.88**	88.57	88.57
Add (deduct) adjustments:				
Foreign exchange losses – net	**(0.09)**	**(0.09)**	(4.34)	(4.34)
Impairment of investments	**(0.16)**	**(0.16)**	(0.28)	(0.28)
Core income adjustment on equity share in net losses of associates and joint ventures	**(0.23)**	**(0.23)**	(0.21)	(0.21)
Gains (losses) on derivative financial instruments – net, excluding hedge costs	**(0.48)**	**(0.48)**	3.92	3.92
Unrealized gains (losses) in fair value of investments	**(1.23)**	**(1.23)**	5.04	5.04
MRP	**(7.86)**	**(7.86)**	(1.32)	(1.32)
Investment written-off	**—**	**—**	(1.67)	(1.67)
Depreciation due to shortened life of property and equipment	**—**	**—**	(14.62)	(14.62)
Total adjustments	**(10.05)**	**(10.05)**	(13.48)	(13.48)
Consolidated EPS attributable to common equity holders of PLDT	**73.83**	**73.83**	75.09	75.09

The following table presents our revenues from external customers by category of products and services for the nine months ended September 30, 2019 and 2018:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Wireless services		
Service revenues:		
Mobile	**64,166**	59,595
Home broadband	**69**	124
MVNO and others	**263**	137
	64,498	59,856
Non-service revenues:		
Sale of mobile handsets and broadband data modems	**4,279**	5,395
Total wireless revenues	**68,777**	65,251
Fixed line services		
Service revenues:		
Voice	**15,093**	15,863
Data	**39,109**	36,695
Miscellaneous	**308**	309
	54,510	52,867
Non-service revenues:		
Sale of computers, phone units and SIM cards	**874**	2,427
Point-product-sales	**275**	417
	1,149	2,844
Total fixed line revenues	**55,659**	55,711
Other services	**—**	914
Total revenues	**124,436**	121,876

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.

There is no revenue transaction with a single external customer that accounted for 10% or more of our consolidated revenues from external customers for the nine months ended September 30, 2019 and 2018.

5. Income and Expenses

Revenue from Contracts with Customers

Disaggregation of Revenue

We derived our revenue from the transfer of goods and services over time and at a point in time in the following major product lines. This is consistent with the revenue information that is disclosed for each reportable segments under PFRS 8, *Operating Segments*. See *Note 4 – Operating Segment Information*.

Set out is the disaggregation of PLDT Group's revenue from contracts with customers for the nine months ended September 30, 2019 and 2018:

	September 30, 2019 (Unaudited)				
Revenue Streams	**Wireless**	**Fixed Line**	**Others**	**Inter-segment Transactions**	**Consolidated**
	(in million pesos)				
Type of good or service					
Service revenue	**66,356**	**65,319**	**—**	**(12,667)**	**119,008**
Non-service revenue	**4,279**	**1,149**	**—**	**—**	**5,428**
Total revenue from contracts with customers	**70,635**	**66,468**	**—**	**(12,667)**	**124,436**
Timing of revenue recognition					
Transferred over time	**66,356**	**65,319**	**—**	**(12,667)**	**119,008**
Transferred at a point time	**4,279**	**1,149**	**—**	**—**	**5,428**
Total revenue from contracts with customers	**70,635**	**66,468**	**—**	**(12,667)**	**124,436**

	September 30, 2018 (Unaudited)				
Revenue Streams	**Wireless**	**Fixed Line**	**Others**	**Inter-segment Transactions**	**Consolidated**
	(in million pesos)				
Type of good or service					
Service revenue	61,968	60,491	886	(9,744)	113,601
Non-service revenue	5,395	2,845	36	(1)	8,275
Total revenue from contracts with customers	**67,363**	**63,336**	**922**	**(9,745)**	**121,876**
Timing of revenue recognition					
Transferred over time	61,968	60,491	886	(9,744)	113,601
Transferred at a point time	5,395	2,845	36	(1)	8,275
Total revenue from contracts with customers	**67,363**	**63,336**	**922**	**(9,745)**	**121,876**

Contract Balances

Contract balances as at September 30, 2019 and December 31, 2018 consists of the following:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Trade and other receivables (Note 17)	**39,879**	40,559
Contract assets	**2,832**	3,399
Contract liabilities and unearned revenues (Notes 23 and 25)	**8,344**	7,182

The decrease in trade and other receivables of Php680 million as at September 30, 2019 was primarily due to decline in wireless postpaid subscriber base.

The decrease of Php567 million in contract assets as at September 30, 2019 is the result of fewer postpaid new connections during the period.

The increase of Php1,162 million in contract liabilities and unearned revenues as at September 30, 2019 is due to lower realized revenues.

Set out below is the movement in the allowance for expected credit losses of contracts assets for the nine months ended September 30, 2019 and for the year ended December 31, 2018.

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of the period	**131**	114
Reclassification	**(70)**	—
Provisions	**—**	17
Balance at end of the period	**61**	131

Changes in the contract liabilities and unearned revenues accounts for the nine months ended September 30, 2019 and for the year ended December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Balances as at beginning of the period	**7,182**	8,541
Deferred during the period	**81,404**	102,288
Recognized as revenue during the period	**(80,242)**	(103,647)
Balance at end of the period	**8,344**	7,182

The contract liabilities and unearned revenues accounts as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Unearned revenues from prepaid contracts	**5,354**	4,059
Advance monthly service fees	**1,744**	2,386
Short-term advances for installation services	**724**	558
Leased facilities	**442**	34
Long-term advances from postpaid subscribers	**80**	145
Total contract liabilities and unearned revenues	**8,344**	7,182
Contract liabilities:		
Noncurrent (Note 23)	**19**	58
Current (Note 25)	**60**	87
Unearned revenues:		
Noncurrent (Note 23)	**582**	474
Current (Note 25)	**7,683**	6,563

Contract liabilities and unearned revenues account pertains to long-term advances for equipment included in certain postpaid bundled plans. As at September 30, 2019, the noncurrent and current portion of contract liabilities and unearned revenues amounted to Php601 million and Php7,743 million, respectively, while as at December 31, 2018, the noncurrent and current portion of contract liabilities and unearned revenues amounted to Php532 million and Php6,650 million, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the nine months ended September 30, 2019 and 2018 consist of the following:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Compensation and employee benefits	**19,284**	16,712
Repairs and maintenance (Notes 14, 18 and 26)	**11,509**	10,280
Professional and other contracted services (Note 26)	**8,476**	10,312
Selling and promotions (Note 26)	**4,553**	4,297
Taxes and licenses (Note 28)	**2,967**	2,679
Insurance and security services (Note 26)	**1,266**	1,144
Communication, training and travel (Note 26)	**887**	779
Rent (Note 26)	**768**	5,302
Amortization of intangible assets (Note 15)	**582**	641
Other expenses	**735**	864
Total selling, general and administrative expenses	**51,027**	53,010

Compensation and Employee Benefits

Compensation and employee benefits for the nine months ended September 30, 2019 and 2018 consist of the following:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Salaries and other employee benefits	**15,294**	14,825
MRP	**2,399**	408
Pension benefit costs (Note 27)	**1,140**	1,352
Incentive plan (Note 27)	**451**	127
Total compensation and employee benefits	**19,284**	16,712

Over the past several years, we have been implementing the 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 and Services

Cost of sales and services for the nine months ended September 30, 2019 and 2018 consist of the following:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Cost of computers, mobile handsets and broadband data modems (Note 18)	**6,331**	8,134
Cost of services (Note 18)	**2,895**	2,549
Cost of point-product-sales (Note 18)	**238**	387
Total cost of sales and services	**9,464**	11,070

Asset Impairment

Asset impairment for the nine months ended September 30, 2019 and 2018 consist of the following:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Trade and other receivables (Note 17)	**3,231**	3,230
Inventories and supplies (Note 18)	**399**	934
Contract assets	**222**	—
Total asset impairment	**3,852**	4,164

Other Expenses – Net

Other expenses – net for the nine months ended September 30, 2019 and 2018 consist of the following:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Interest income	**1,405**	1,396
Foreign exchange gains (losses) – net (Note 9)	**10**	(891)
Gains (losses) on derivative financial instruments – net (Note 29)	**(190)**	1,053
Equity share in net earnings (losses) of associates and joint ventures (Note 11)	**(1,111)**	199
Financing costs – net	**(6,532)**	(5,292)
Others – net (Notes 11, 12 and 14)	**293**	3,226
Total other expenses – net	**(6,125)**	(309)

Interest Income

Interest income for the nine months ended September 30, 2019 and 2018 consist of the following:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Interest income on cash and cash equivalents (Note 16)	**838**	648
Interest income arising from revenue contracts with customers	**322**	201
Interest income on financial instruments at FVOCI	**203**	332
Interest income on financial instruments at amortized cost (Note 13)	**34**	38
Interest income on short-term investments	**8**	177
Total interest income	**1,405**	1,396

Financing Costs – Net

Financing costs for the nine months ended September 30, 2019 and 2018 consist of the following:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Interest on loans and other related items (Notes 21 and 29)	**6,412**	6,169
Accretion on lease liabilities (Note 22)	**1,149**	—
Accretion on financial liabilities (Note 21)	**91**	108
Financing charges	**32**	135
Capitalized interest (Note 9)	**(1,152)**	(1,120)
Total financing costs – net	**6,532**	5,292

6. Components of Other Comprehensive Loss

Changes in other comprehensive loss under equity of our consolidated statements of financial position for the nine months ended September 30, 2019 and 2018 are as follows:

	Foreign currency translation differences of subsidiaries	Net loss on available -for-sale financial investments – net of tax	Net transactions on cash flow hedges – net of tax	Revaluation increment on investment properties – net of tax	Actuarial losses on defined benefit plans – net of tax	Share in the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method	Financial instrument at FVOCI	Total other comprehensive loss attributable to equity holders of PLDT	Share of noncontrolling interests	Total other comprehensive loss – net of tax
	(in million pesos)									
Balances as at January 1, 2019	**695**	**(9)**	**(640)**	**618**	**(25,689)**	**—**	**(165)**	**(25,190)**	**19**	**(25,171)**
Effect of adoption of PFRS 9	**—**	**(3)**	**—**	**—**	**—**	**—**	**—**	**(3)**	**—**	**(3)**
Balances as at January 1, 2019, as restated	**695**	**(12)**	**(640)**	**618**	**(25,689)**	**—**	**(165)**	**(25,193)**	**19**	**(25,174)**
Other comprehensive income (loss)	**114**	**—**	**(230)**	**(1)**	**(1,354)**	**1**	**122**	**(1,348)**	**(1)**	**(1,349)**
Balances as at September 30, 2019 (Unaudited)	**809**	**(12)**	**(870)**	**617**	**(27,043)**	**1**	**(43)**	**(26,541)**	**18**	**(26,523)**
Balances as at January 1, 2018	583	4,300	(369)	620	(24,467)	182	—	(19,151)	14	(19,137)
Other comprehensive income (loss)	291	10	(146)	(2)	(2,062)	—	(128)	(2,037)	8	(2,029)
PFRS 9 Adjustments (Note 2)	—	(4,318)	—	—	—	(182)	—	(4,500)	—	(4,500)
Balances as at September 30, 2018 (Unaudited)	**874**	**(8)**	**(515)**	**618**	**(26,529)**	**—**	**(128)**	**(25,688)**	**22**	**(25,666)**

Revaluation increment on investment properties pertains to the difference between the carrying value and fair value of property 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 and liabilities recognized in our consolidated statements of financial position as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax assets	**24,666**	27,697
Net deferred income tax liabilities	**2,692**	2,981

The components of our consolidated net deferred income tax assets and liabilities as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax assets:		
Unamortized past service pension costs	**5,634**	5,252
Lease liabilities	**5,488**	—
Accumulated provision for expected credit losses	**4,441**	3,709
Customer list and trademark	**4,095**	4,670
Pension and other employee benefits	**3,671**	4,296
Unearned revenues	**2,108**	1,776
Fixed asset impairment/depreciation due to shortened life of property and equipment	**2,024**	1,870
Provision for other assets	**1,759**	1,595
Accumulated provision for inventory obsolescence and write-down	**795**	916
Unrealized foreign exchange losses	**705**	1,092
NOLCO	**153**	3,231
Derivative financial instruments	**7**	(58)
Right-of-use assets	**(4,633)**	—
MCIT	**—**	905
Others	**(1,581)**	(1,557)
Total deferred income tax assets – net	**24,666**	27,697

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax liabilities:		
Intangible assets and fair value adjustment on assets acquired – net of amortization	**2,017**	2,175
Unrealized foreign exchange gains	**289**	366
Investment property	**278**	277
Undepreciated capitalized interest charges	**7**	7
Others	**101**	156
Total deferred income tax liabilities	**2,692**	2,981

Changes in our consolidated net deferred income tax assets (liabilities) as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax assets – balance at beginning of the period	**27,697**	30,466
Net deferred income tax liabilities – balance at beginning of the period	**(2,981)**	(3,366)
Net balance at beginning of the period	**24,716**	27,100
Movement charged directly to other comprehensive income	**659**	591
Adjustments due to adoption of PFRS 16	**653**	—
Excess MCIT deducted against RCIT due	**(905)**	(370)
Provision for deferred income tax	**(3,976)**	(1,375)
Adjustments due to adoption of PFRS 15	**—**	(1,166)
Others	**827**	(64)
Net balance at end of the period	**21,974**	24,716
Net deferred income tax assets – balance at end of the period	**24,666**	27,697
Net deferred income tax liabilities – balance at end of the period	**(2,692)**	(2,981)

The analysis of our consolidated net deferred income tax assets as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	**17,727**	25,163
Deferred income tax assets to be recovered within 12 months	**8,518**	4,872
	26,245	30,035
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(1,482)**	(1,992)
Deferred income tax liabilities to be settled within 12 months	**(97)**	(346)
	(1,579)	(2,338)
Net deferred income tax assets	**24,666**	27,697

The analysis of our consolidated net deferred income tax liabilities as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(2,439)**	(2,743)
Deferred income tax liabilities to be settled within 12 months	**(253)**	(238)
Net deferred income tax liabilities	**(2,692)**	(2,981)

Provision for income tax for the nine months ended September 30, 2019 and 2018 consist of:

	September 30, 2019	2018
	(Unaudited)	
	(in million pesos)	
Current	**2,603**	3,249
Deferred (Note 3)	**3,976**	1,674
	6,579	4,923

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for corporate income tax for the nine months ended September 30, 2019 and 2018 are as follows:

	September 30, 2019	2018
	(Unaudited)	
	(in million pesos)	
Provision for income tax at the applicable statutory tax rate	**6,785**	6,374
Tax effects of:		
Nondeductible expenses	**556**	611
Equity share in net losses (earnings) of associates and joint ventures	**334**	(60)
Income not subject to income tax	**(8)**	(557)
Difference between Optional Standard Deduction, or OSD, and itemized deductions	**(17)**	(15)
Income subject to final tax	**(241)**	(257)
Income subject to lower tax rate	**(1,007)**	(732)
Net movement in unrecognized deferred income tax assets and other adjustments	**177**	(441)
Actual provision for income tax	**6,579**	4,923

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 September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
NOLCO	**4,074**	4,289
Accumulated provision for doubtful accounts	**3,180**	3,144
Fixed asset impairment	**1,147**	1,148
Gain on disposal of asset	**105**	106
Pension and other employee benefits	**46**	13
Unrealized foreign exchange losses	**39**	49
MCIT	**35**	27
Accumulated write-down of inventories to net realizable values	**11**	11
Unearned revenues	**7**	25
Operating lease	**1**	—
Provisions for other assets	**(348)**	1,881
	8,297	10,693
Unrecognized deferred income tax assets	**2,514**	3,227

DMPI recognized deferred income tax assets to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Digitel's unrecognized deferred income tax assets amounted to Php1,442 million and Php1,421 million as at September 30, 2019 and December 31, 2018, 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 shown in 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 September 30, 2019 (unaudited) are as follows:

Date Incurred	Expiry Date	MCIT	NOLCO
		(in million pesos)	
December 31, 2016	December 31, 2019	10	1,040
December 31, 2017	December 31, 2020	6	2,196
December 31, 2018	December 31, 2021	11	1,279
September 30, 2019	December 31, 2022	8	69
		35	4,584
Consolidated tax benefits		35	1,375
Consolidated unrecognized deferred income tax assets		(35)	(1,222)
Consolidated recognized deferred income tax assets		—	153

The excess MCIT totaling Php35 million as at September 30, 2019 can be deducted against future RCIT liability. The excess MCIT that was deducted against RCIT amounted to Php905 million and Php370 million for the nine months ended September 30, 2019 and 2018, respectively. No excess MCIT expired for the nine months ended September 30, 2019 and 2018.

NOLCO totaling Php4,584 million as at September 30, 2019 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php10,533 million and Php902 million for the nine months ended September 30, 2019 and 2018, respectively. The amount of expired NOLCO amounted to Php11 million and Php10 million for the nine months ended September 30, 2019 and 2018, respectively.

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

SubicTel and Clarktel are registered with Subic Bay Freeport Enterprise and Clark Special Economic Zone Enterprise, or Economic Zones, respectively, under 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.

Our consolidated income derived from non-registered activities within the Economic Zones is subject to the RCIT rate at the end of the reporting period.

8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the nine months ended September 30, 2019 and 2018:

	September 30,			
	2019		2018	
	Basic	**Diluted**	Basic	Diluted
	(Unaudited)			
	(in million pesos)			
Consolidated net income attributable to equity holders of PLDT	**15,996**	**15,996**	16,269	16,269
Dividends on preferred shares	**(44)**	**(44)**	(44)	(44)
Consolidated net income attributable to common equity holders of PLDT	**15,952**	**15,952**	16,225	16,225
	(in thousands, except per share amounts which are in pesos)			
Weighted average number of common shares	**216,056**	**216,056**	216,056	216,056
EPS attributable to common equity holders of PLDT	**73.83**	**73.83**	75.09	75.09

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 year, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to our 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 and Equipment

Changes in property and equipment account for the nine months ended September 30, 2019 and for the year ended December 31, 2018 are as follows:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, aircraft, furniture and other network equipment	Information origination and termination equipment	Land and land improvements	Property under construction	Total
					(in million pesos)				
As at December 31, 2017 (Audited)									
Cost	207,220	119,642	209,504	27,076	58,964	17,595	3,458	50,585	694,044
Accumulated depreciation, impairment and amortization	(159,765)	(101,680)	(159,323)	(18,022)	(51,083)	(13,473)	(267)	(3,524)	(507,137)
Net book value	**47,455**	**17,962**	**50,181**	**9,054**	**7,881**	**4,122**	**3,191**	**47,061**	**186,907**
Year ended December 31, 2018 (Audited)									
Net book value at beginning of the year	47,455	17,962	50,181	9,054	7,881	4,122	3,191	47,061	186,907
Additions (Note 4)	1,278	565	758	120	1,158	2,107	—	52,504	58,490
Disposals/Retirements	(10)	(27)	(60)	(140)	(95)	—	—	(9)	(341)
Reclassifications (Note 14)	19	(1)	—	127	(23)	—	1,117	—	1,239
Transfers and others	10,409	8,237	37,881	265	1,465	1,176	—	(59,433)	—
Translation differences charged directly to cumulative translation adjustments	—	3	—	1	(3)	—	—	—	1
Deconsolidation of a subsidiary	—	—	(65)	(794)	(273)	—	—	—	(1,132)
Impairment losses recognized during the year (Note 5)	(299)	(292)	(858)	(480)	(29)	—	—	—	(1,958)
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	—	—	—	(2)	—	—	—	—	(2)
Depreciation and amortization	(11,381)	(10,480)	(17,499)	(2,162)	(3,382)	(2,334)	(2)	—	(47,240)
Net book value at end of the year	**47,471**	**15,967**	**70,338**	**5,989**	**6,699**	**5,071**	**4,306**	**40,123**	**195,964**
As at December 31, 2018 (Audited)									
Cost	217,773	128,321	217,164	26,546	58,711	20,823	4,576	40,123	714,037
Accumulated depreciation, impairment and amortization	(170,302)	(112,354)	(146,826)	(20,557)	(52,012)	(15,752)	(270)	—	(518,073)
Net book value	**47,471**	**15,967**	**70,338**	**5,989**	**6,699**	**5,071**	**4,306**	**40,123**	**195,964**
Period ended September 30, 2019 (Unaudited)									
Net book value at beginning of the period	**47,471**	**15,967**	**70,338**	**5,989**	**6,699**	**5,071**	**4,306**	**40,123**	**195,964**
Additions (Note 4)	**1,369**	**609**	**543**	**80**	**2,969**	**2,362**	**3**	**45,475**	**53,410**
Disposals/Retirements	**(11)**	**—**	**(69)**	**(2)**	**(86)**	**—**	**—**	**(22)**	**(190)**
Reclassifications (Note 14)	**4**	**(8)**	**30**	**(54)**	**20**	**—**	**—**	**(1)**	**(9)**
Transfers and others	**7,979**	**6,406**	**26,991**	**371**	**1,195**	**1,665**	**16**	**(44,623)**	**—**
Translation differences charged directly to cumulative translation adjustments	**—**	**(1)**	**—**	**(4)**	**4**	**—**	**—**	**—**	**(1)**
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	**—**	**—**	**—**	**(2)**	**—**	**—**	**—**	**—**	**(2)**
Depreciation and amortization (Note 3)	**(5,314)**	**(2,959)**	**(11,365)**	**(831)**	**(2,516)**	**(2,164)**	**(2)**	**—**	**(25,151)**
Net book value at end of the period	**51,498**	**20,014**	**86,468**	**5,547**	**8,285**	**6,934**	**4,323**	**40,952**	**224,021**
As at September 30, 2019 (Unaudited)									
Cost	**224,735**	**133,786**	**219,552**	**26,649**	**61,581**	**24,566**	**4,592**	**40,952**	**736,413**
Accumulated depreciation, impairment and amortization	**(173,237)**	**(113,772)**	**(133,084)**	**(21,102)**	**(53,296)**	**(17,632)**	**(269)**	**—**	**(512,392)**
Net book value	**51,498**	**20,014**	**86,468**	**5,547**	**8,285**	**6,934**	**4,323**	**40,952**	**224,021**

Interest capitalized to property and equipment that qualified as borrowing costs amounted to Php1,152 million and Php1,120 million for the nine months ended September 30, 2019 and 2018, respectively. See *Note 5 – Income and Expenses – Financing Costs*. The average interest capitalization rate used was approximately 7% and 4% for the nine months ended September 30, 2019 and 2018, respectively.

Our net foreign exchange differences, which qualified as borrowing costs, amounted to Php1 million and Php247 million for the nine months ended September 30, 2019 and 2018, respectively.

The cost of fully depreciated property and equipment that are still being used in the Group's operations amounted to Php147,251 million and Php171,867 million as at September 30, 2019 and December 31, 2018, respectively.

As at September 30, 2019 and December 31, 2018, the estimated useful lives of our property and equipment are estimated as follows:

Cable and wire facilities	10 – 15 years
Central office equipment	2 – 15 years
Cellular facilities	3 – 10 years
Buildings	25 – 50 years
Vehicles, aircraft, furniture and other network equipment	3 – 10 years
Information origination and termination equipment	3 – 5 years
Leasehold improvements	3 – 10 years or the term of the lease, whichever is shorter
Land improvements	10 years

Impairment of Certain Wireless Network Equipment and Facilities

In 2018, Digitel and DMPI recognized an impairment loss amounting to Php1,096 million and Php862 million, respectively, as a result of the full migration of fixed line subscribers to PLDT network for Digitel and continued network convergence strategy for DMPI.

See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets and Estimating useful lives of Property and equipment*.

10. Right-of-Use Assets

Changes in the right-of-use assets for the nine months ended September 30, 2019 (unaudited) are as follows:

	Site	International Leased Circuits	Poles	Domestic Leased Circuits	Office Buildings	Co-located Sites	Total
	(in million pesos)						
Balance at beginning of the period (Note 2)	**12,567**	**5,024**	**1,237**	**848**	**369**	**2**	**20,047**
Additions during the period	**1,906**	**35**	**99**	**3**	**208**	**—**	**2,251**
Depreciation	**(2,003)**	**(846)**	**(232)**	**(150)**	**(230)**	**(1)**	**(3,462)**
Balance at end of the period	**12,470**	**4,213**	**1,104**	**701**	**347**	**1**	**18,836**

As at September 30, 2019, the estimated useful life of our right-of-use assets are estimated as follows:

Site	2 – 25 years
International leased circuits	7 years
Poles	3 –10 years
Domestic leased circuits	7 –10 years
Office buidlings	1 – 15 years
Co-located sites	7 years

11. Investments in Associates and Joint Ventures

As at September 30, 2019 and December 31, 2018, this account consists of:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Carrying value of investments in associates:		
MediaQuest PDRs	**9,372**	9,262
VIH	**9,160**	10,487
Digitel Crossing, Inc., or DCI	**645**	591
Appcard, Inc.	**122**	122
Asia Outsourcing Beta Limited, or Beta	**35**	36
AF Payments, Inc., or AFPI	**—**	—
ACeS International Limited, or AIL	**—**	—
Asia Netcom Philippines Corp., or ANPC	**—**	—
	19,334	20,498
Carrying value of investments in joint ventures:		
VTI, Bow Arken and Brightshare	**32,517**	32,541
Multisys	**2,466**	2,388
Philippines Internet Holding S.à.r.l., or PHIH	**—**	—
Beacon	**—**	—
	34,983	34,929
Total carrying value of investments in associates and joint ventures	**54,317**	55,427

Changes in the cost of investments for the nine months ended September 30, 2019 and for the year ended December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of the period	**59,519**	51,487
Additions during the period	**—**	13,247
Disposals	**—**	(5,230)
Translation and other adjustments	**30**	15
Balance at end of the period	**59,549**	59,519

Changes in the accumulated impairment losses for the nine months ended September 30, 2019 and for the year ended December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of the period	**2,509**	4,118
Additional impairment (Note 4)	**34**	172
Translation and other adjustments	**—**	(1,781)
Balance at end of the period	**2,543**	2,509

Changes in the accumulated equity share in net earnings (losses) of associates and joint ventures for the nine months ended September 30, 2019 and for the year ended December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of the period	**(1,583)**	(1,239)
Equity share in net earnings (losses) of associates and joint ventures:	**(1,111)**	(87)
MediaQuest PDRs	**110**	90
Multisys	**78**	—
DCI	**54**	81
VTI, Bow Arken and Brightshare	**(24)**	(60)
VIH	**(1,329)**	(260)
AFPI	**—**	62
Share in the other comprehensive gain (loss) of associates and joint ventures accounted for using the equity method	**1**	(1)
Disposals	**—**	(187)
Translation and other adjustments	**4**	(69)
Balance at end of the period	**(2,689)**	(1,583)

Investments in Associates

Investment of ePLDT in MediaQuest PDRs

In 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the PLDT Beneficial Trust Fund, 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 incorporated in the Philippines. 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.

In June 2013, ePLDT's Board of Directors approved additional investments in 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 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, a wholly-owned subsidiary of MediaQuest incorporated in the Philippines. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest. 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, Philippine Daily Inquirer, and Business World. See *Note 27 – 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 provided ePLDT an aggregate of 64% economic interest in Cignal TV.

On February 19, 2014, ePLDT's Board of Directors approved an additional investment of up to Php500 million in Hastings PDRs to be issued by MediaQuest. On March 11, 2014, MediaQuest received from ePLDT an amount aggregating to Php300 million representing additional deposits for future PDRs subscription. As at December 31, 2014, total deposit for PDRs subscription amounted to Php2,250 million.

On May 21, 2015, ePLDT's Board of Directors approved an additional Php800 million investment in Hastings PDRs and settlement of the Php200 million balance of the Php500 million Hastings PDR investment in 2014. Subsequently, on June 1, 2015, the Board of Trustees of the PLDT Beneficial Trust Fund and the Board of Directors of MediaQuest approved the issuance of Php3,250 million Hastings PDRs.

This provided ePLDT with 70% economic interest in Hastings. See *Note 27 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest*.

In 2017, an impairment test was carried out for ePLDT's investment in MediaQuest PDRs where it showed that an impairment provision must be recognized. In determining the provision, the recoverable amount of the Print business and Pay TV were determined based on VIU calculations. The VIU calculations were derived from cash flow projections over a period of three to five years based on the 2018 financial budgets approved by the Board of Directors and calculated terminal value.

Using the detailed projections of Print business for five years and applying a terminal value thereafter, ePLDT calculated a recoverable amount of Php1,664 million. Consequently, ePLDT recognized a provision for impairment of its investment in MediaQuest PDRs in relation to its Print business amounting to Php1,784 million for the year ended December 31, 2017, representing the difference between the recoverable amount and the carrying value of the Print business as at December 31, 2017. No impairment provision was recognized for the Pay TV business.

Transfer of Hastings PDRs to PLDT Beneficial Trust Fund

On January 22, 2018, ePLDT's Board of Directors approved the assignment of the Hastings PDRs, representing a 70% economic interest in Hastings to the PLDT Beneficial Trust Fund for a total consideration of Php1,664 million. The assignment was completed on February 15, 2018 and subsequently ePLDT ceased to have any economic interest in Hastings. See *Note 27 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest.*

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 PLDT Group's ability to deliver multimedia content to its customers across the PLDT Group's broadband and mobile networks.

ePLDT's aggregate value of investment in MediaQuest PDRs amounted to Php9,372 million and Php9,262 million as at September 30, 2019 and December 31, 2018, respectively. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Accounting for investment in MediaQuest through PDRs*.

The table below presents the summarized financial information of Satventures as at September 30, 2019 and December 31, 2018, and for the nine months ended September 30, 2019 and 2018:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**20,698**	20,712
Current assets	**2,612**	2,606
Noncurrent liabilities	**2,973**	3,297
Current liabilities	**5,693**	5,549
Equity	**14,644**	14,472
Carrying amount of interest in Satventures	**9,372**	9,262
Additional Information:		
Cash and cash equivalents	**447**	611
Current financial liabilities*	**554**	487
Noncurrent financial liabilities*	**1,970**	2,239

* *Excluding trade, other payables and provisions.*

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	**5,477**	5,436
Depreciation and amortization	**673**	664
Interest income	**3**	7
Interest expense	**180**	204
Provision for income tax	**108**	88
Net income	**172**	140
Other comprehensive income	**—**	—
Total comprehensive income	**172**	140
Equity share in net income of Satventures	**110**	90

Investment of PCEV in VIH

Consolidation of the Digital Investments of Smart under PCEV

On February 27, 2018, the Board of Directors of PCEV approved the consolidation of the various Digital Investments under PCEV, which was carried out through the following transactions:

(i) PCEV entered into a Share Purchase Agreement with Voyager Innovations, Inc., or Voyager, to purchase 53 million ordinary shares of Voyager Innovations Holdings Pte. Ltd., or VIH, representing 100% of the issued and outstanding ordinary shares of VIH, for a total consideration of Php465 million. The total consideration was settled on March 15, 2018, while the transfer of shares to PCEV was completed on April 6, 2018;

(ii) VIH entered into a Share Purchase Agreement with Smart to purchase all of its 170 million common shares of Voyager for a total consideration of Php3,527 million. The total consideration was settled on April 16, 2018; and

(iii) PCEV entered into a Subscription Agreement with VIH to subscribe to additional 96 million ordinary shares of VIH, with a par value of SG$1.00 per ordinary share, for a total subscription price of SG$96 million, or Php3,806 million, which was settled on April 13, 2018.

Loss of Control of PCEV over VIH

On October 4, 2018, PLDT, as the ultimate Parent Company of PCEV, VIH, Vision Investment Holdings Pte. Ltd., or Vision, an entity indirectly controlled by KKR and Cerulean Investment Limited, or Cerulean, an entity indirectly owned and controlled by Tencent, entered into subscription agreements under which Vision and Cerulean, or the Lead Investors, will separately subscribe to and VIH will allot and issue to the Lead Investors a total of up to US$175 million Convertible Class A Preferred Shares of VIH, with an option for VIH to allot and issue up to US$50 million Convertible Class A Preferred Shares to such follower investors as may be agreed among VIH, PLDT and the Lead Investors, or the upsize option.

On November 26, 2018, PLDT, IFC and IFC EAF, a fund managed by IFC Asset Management Company, entered into subscription agreements under which IFC and IFC EAF, the follower investors, will separately subscribe to and VIH will allot and issue to the follower investors a total of up to US$40 million Convertible Class A Preferred Shares of VIH pursuant to the upsize option.

The foregoing investment in VIH is not subject to the compulsory merger notification regime under the Philippine Competition Act and its implementing Rules and Regulations. In addition, the Bangko Sentral ng Pilipinas confirmed that it interposes no objection to the investment.

On November 28, 2018, VIH received the US$175 million funding from KRR and Tencent. Subsequently, VIH received the US$40 million funding from IFC and IFC EAF. As a result, PCEV's ownership was reduced to 48.74% and retained only two out of the five Board seats in VIH, which resulted in the loss of control over VIH. Consequently, VIH was deconsolidated and the fair market value of the investment amounting to Php10,748 million was recorded as an investment in associate and PCEV recognized gain on deconsolidation amounting to Php12,054 million, which was presented as part of other income (expenses) – net account in our consolidated income statement.

The summarized financial information of VIH as at September 30, 2019 and December 31, 2018, and for the nine months ended September 30, 2019 and for the year ended December 31, 2018 is shown below:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**1,223**	1,318
Current assets	**8,280**	11,152
Noncurrent liabilities	**35**	42
Current liabilities	**2,690**	2,926
Equity	**6,778**	9,502
Income Statement:[(1)]		
Revenues	**989**	136
Depreciation and amortization	**122**	19
Interest income	**127**	14
Benefit from income tax	**3**	(1)
Net loss	**(2,649)**	(535)
Other comprehensive loss	**(119)**	(2)
Total comprehensive loss	**(2,768)**	(537)
Equity share in net loss of VIH	**(1,329)**	(262)

[(1)] *Income Statement figures in 2018 pertains to the month of December.*

The carrying value of PCEV's investment in VIH amounted to Php9,160 million and Php10,487 million as at September 30, 2019 and December 31, 2018, respectively.

Investment of Digitel in DCI and ANPC

Digitel has 60% and 40% interest in ANPC and DCI, respectively. DCI is involved in the business of cable system linking the 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, 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 and 2017, Digitel recorded a reversal of impairment loss amounting to Php92 million and Php201 million, respectively, following improvement in DCI's operations.

Though Digitel owns more than half of the voting interest in ANPC, management has assessed that Digitel only has significant influence, and not control, due to certain governance matters.

Digitel's investment in DCI does not qualify as investment in joint venture as there is no provision for joint control in the JVA 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 November 7, 2019, Digitel is ready to conclude the transfer of its investment in DCI and ANPC, subject to PNPI's ability to meet certain regulatory and valuation requirements. This investment is not classified as noncurrent asset held-for-sale as the transfer is assessed as not highly probable because certain aspects of the sale such as pricing are still subject for approval by both Digitel and PNPI.

Investment of PGIC in Beta

On February 5, 2013, PLDT entered into a Subscription and Shareholders' Agreement with Asia Outsourcing Alpha Limited, or Alpha, wherein PLDT, through its indirect subsidiary PGIC, acquired from Alpha approximately 20% 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. On various dates in 2013 and 2014, PGIC has bought and transferred-in a net in total of 27 ordinary shares and 9,643 preferred shares to certain employees of Beta for a total net payment of US$51 thousand. In 2014, Beta has divested its healthcare BPO business. PGIC received a total cash distribution of US$41.8 million from Beta through redemption of 35.3 million preferred shares and repayment of loan from PGIC. The equity interest of PGIC in Beta remained at 20% after the transfer with economic interest of 18.32%.

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

On July 22, 2016, Asia Outsourcing Gamma Limited, or AOGL, entered into a SPA with Relia, Inc., one of the largest BPO companies in Japan, relating to the acquisition of AOGL's Customer Relationship Management, or CRM, business under the legal entity SPi CRM, Inc. and Infocom Technologies, Inc., wholly-owned subsidiaries of SPi Technologies, Inc., for a total purchase consideration of US$190.9 million. AOGL is a wholly-owned subsidiary of Beta and the direct holding company of SPi Technologies, Inc. and Subsidiaries. The transaction was completed on September 30, 2016. As a result of the sale, PGIC received a cash distribution of US$11.2 million from Beta through redemption of its preferred shares and portion of its ordinary shares.

On May 19, 2017, AOGL entered into a SPA with Partners Group, a global private markets investment manager, relating to the acquisition of SPi Global, a wholly-owned subsidiary of AOGL, for an enterprise value of US$330 million. The transaction was completed on August 25, 2017. As a result of the sale, PGIC received a total cash distribution of US$57.05 million from Beta on various dates in 2017 and 2018 through redemption of a portion of its ordinary shares. The remaining balance of US$2.29 million is held in escrow and will be released in 2020 subject to indemnity claims of the buyer.

The carrying value of investment in common shares in Beta amounted to Php35 million and Php36 million as at September 30, 2019 and December 31, 2018, respectively. The economic interests of PGIC in Beta remained at 18.32% as at September 30, 2019 and December 31, 2018.

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

Investment of Smart in AFPI

In 2013, Smart, along with other conglomerates MPIC and Ayala Corporation, or Ayala, embarked on a venture to bid for the Automated Fare Collection System, or AFCS, a project of the Department of Transportation and Communications, or DOTC, and Light Rail Transit Authority, to upgrade the Light Rail Transit 1 and 2, and Metro Rail Transit ticketing systems.

In 2014, AFPI, the joint venture company, was incorporated in the Philippines and registered with the Philippine SEC. Smart subscribed to Php503 million equivalent to 503 million shares at a subscription price of Php1.00 per share representing 20% equity interest. MPIC and Ayala Group signed a ten-year concession agreement with the DOTC to build and implement the AFCS project.

Smart made the following investments in AFPI as at September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in millions)	
Common shares	**625.7**	625.7
Preferred shares	**194.3**	124.3

In March 2019, Smart infused additional capital of Php70 million as additional subscription of preferred shares. Unrecognized share in net losses of AFPI amounted to Php70 million and Php94 million for the nine months ended September 30, 2019 and 2018, respectively. Accumulated share in net losses amounting to Php344 million and Php274 million as at September 30, 2019 and December 31, 2018, respectively, were not recognized as the Company does not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AFPI.

Smart's investment in AFPI of Php533 million has been fully impaired as at September 30, 2019.

Investment of ACeS Philippines in AIL

As at September 30, 2019, ACeS Philippines held a 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. In December 2014, AIL suffered a failure of the propulsion system on board the Garuda I Satellite, thus, AIL decided to decommission the operation of Garuda I Satellite in January 2015.

AIL has incurred 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.

Share in net cumulative losses 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.

Summarized financial information of individually immaterial associates

The following tables present the summarized financial information of our individually immaterial investments in associates for the nine months ended September 30, 2019 and 2018:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	**66**	87
Net income (loss)	**54**	(33)
Other comprehensive loss	**—**	—
Total comprehensive income (loss)	**54**	(33)

We did not receive any dividends from our associates for the nine months ended September 30, 2019 and 2018.

We have no outstanding contingent liabilities or capital commitments with our associates as at September 30, 2019 and December 31, 2018.

Investments in Joint Ventures

Investments of PLDT in VTI, Bow Arken and Brightshare

On May 30, 2016, the PLDT Board approved the Company's acquisition of 50% equity interest, including outstanding advances and assumed liabilities, in the telecommunications business of San Miguel Corporation, or SMC, with Globe acquiring the other 50% interest. On the same date, PLDT and Globe executed: (i) an SPA with SMC to acquire the entire outstanding capital, including outstanding advances and assumed liabilities, in VTI (and the other subsidiaries of VTI), which holds SMC's telecommunications assets through its subsidiaries, or the VTI Transaction; and (ii) separate SPAs with the owners of two other entities, Bow Arken (the parent company of New Century Telecoms, Inc.) and Brightshare (the parent company of eTelco, Inc.), which separately hold additional spectrum frequencies through their respective subsidiaries, or the Bow Arken Transaction and Brightshare Transaction, respectively. We refer to the VTI Transaction, Bow Arken Transaction and Brightshare Transaction collectively as the SMC Transactions.

The consideration in the amount of Php52.8 billion representing the purchase price for the equity interest and assigned advances of previous owners to VTI, Bow Arken and Brightshare was paid in three tranches: 50% upon signing of the SPAs on May 30, 2016, 25% on December 1, 2016 and the final 25% on May 30, 2017. The SPAs also provide that PLDT and Globe, through VTI, Bow Arken and Brightshare, would assume liabilities amounting to Php17.2 billion from May 30, 2016. In addition, the SPAs contain a price adjustment mechanism based on the variance in these assumed liabilities to be agreed among PLDT, Globe and previous owners on the results of the confirmatory due diligence procedures jointly performed by PLDT and Globe. On May 29, 2017, PLDT and Globe paid the previous owners the net amount of Php2.6 billion in relation to the aforementioned price adjustment based on the result of the confirmatory due diligence. See *Note 29 – Financial Assets and Liabilities – Commercial Commitments*.

As part of the SMC Transactions, PLDT and Globe acquired certain outstanding advances made by the former owners of VTI, Bow Arken and Brightshare to VTI, Bow Arken and Brightshare or their respective subsidiaries. The amounts of the advances outstanding to PLDT since the date of assignment to PLDT amounted to Php11,359 million: (i) Php11,038 million from VTI and its subsidiaries; (ii) Php238 million from Bow Arken and its subsidiaries; and (iii) Php83 million from Brightshare and its subsidiaries.

On February 28, 2017, PLDT and Globe each subscribed to 2.8 million new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of VTI, at a subscription price of Php4 thousand per subscribed share (inclusive of a premium over par of Php3 thousand per subscribed share) or a total subscription price for each of Php11,040 million (inclusive of a premium over par of Php8,280 million). PLDT and Globe's assigned advances from SMC which were subsequently reclassified to deposit for future subscription of each amounting to Php11,040 million were applied as full subscription payment for the subscribed shares.

Also, on the same date, PLDT and Globe each subscribed to 800 thousand new preferred shares of the authorized capital stock of VTI, at a subscription price of Php4 thousand per subscribed share (inclusive of a premium over par of Php3 thousand per subscribed share), or a total subscription price for each Php3,200 million (inclusive of a premium over par of Php2,400 million). PLDT and Globe each paid Php148 million in cash for the subscribed shares. The remaining balance of the subscription price of PLDT and Globe were fully paid as at December 29, 2017.

On December 15, 2017, PLDT and Globe each subscribed to 600 thousand new preferred shares of the authorized capital stock of VTI, at a subscription price of Php5 thousand per subscribed share (inclusive of a premium over par of Php4 thousand per subscribed share), for a total subscription price of Php3,000 million (inclusive of a premium over par of Php2,400 million). PLDT and Globe each paid Php10 million in cash for the subscribed shares upon execution of the agreement. The remaining balance of the subscription price was paid via conversion of advances amounting to Php2,990 million as at December 31, 2017.

The amount of the advances outstanding to PLDT, to cover for the assumed liabilities and working capital requirements of the acquired companies, amounted to Php51 million each as at September 30, 2019 and December 31, 2018.

Purchase Price Allocation

PLDT has engaged an independent valuer to determine the fair value adjustments relating to the acquisition. As at May 30, 2016, our share in the fair value of the intangible assets, which includes spectrum, amounted to Php18,885 million and goodwill of Php17,824 million has been determined based on the final results of an independent valuation. Goodwill arising from this acquisition and carrying amount of the identifiable assets and liabilities, including deferred tax liability, and the related amortization through equity in net earnings were retrospectively adjusted accordingly.

The table below presents the summarized financial information of VTI, Bow Arken and Brightshare as at September 30, 2019 and December 31, 2018, and for the nine months ended September 30, 2019 and 2018:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**78,024**	77,261
Current assets	**3,253**	3,070
Noncurrent liabilities	**11,092**	11,193
Current liabilities	**2,897**	2,678
Equity	**67,288**	66,460
Carrying amount of interest in VTI, Bow Arken and Brightshare	**32,517**	32,541
Additional Information:		
Cash and cash equivalents	**2,474**	2,191
Current financial liabilities*	**667**	607
Noncurrent financial liabilities*	**—**	—

* *Excluding trade, other payables and provisions.*

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	**2,417**	2,002
Depreciation and amortization	**987**	902
Interest income	**50**	33
Provision for income tax	**95**	130
Net loss	**(48)**	(30)
Other comprehensive income	**—**	—
Total comprehensive loss	**(48)**	(30)
Equity share in net loss of VTI, Bow Arken and Brightshare	**(24)**	(15)

Notice of Transaction filed with the Philippine Competition Commission, or PCC

On May 30, 2016, prior to closing the transaction, each of PLDT, Globe and SMC submitted notices of the VTI, Bow Arken and Brightshare Transaction (respectively, the VTI Notice, the Bow Arken Notice and the Brightshare Notice and collectively, the Notices) to the PCC pursuant to the Philippine Competition Act, or PCA, and Circular No. 16-001 and Circular No. 16-002 issued by the PCC, or the Circulars. As stated in the Circulars, upon receipt by the PCC of the requisite notices, each of the said transactions shall be deemed approved in accordance with the Circulars.

Subsequently, on June 7, 2016, PLDT and the other parties to the said transactions received separate letters dated June 6 and 7, 2016 from the PCC which essentially stated, that: (a) with respect to VTI Transaction, the VTI Notice is deficient and defective in form and substance, therefore, the VTI Transaction is not "deemed approved" by the PCC, and that the missing key terms of the transaction are critical since the PCC considers certain agreements as prohibited and illegal; and (b) with respect to the Bow Arken and Brightshare Transactions, the compulsory notification under the Circulars does not apply and that even assuming the Circulars apply, the Bow Arken Notice and the Brightshare Notice are deficient and defective in form and substance.

On June 10, 2016, PLDT submitted its response to the PCC's letter articulating its position that the VTI Notice is adequate, complete and sufficient and compliant with the requirement under the Circulars, and does not contain false material information; as such, the VTI Transaction enjoys the benefit of Section 23 of the PCA. Therefore, the VTI Transaction is deemed approved and cannot be subject to retroactive review by the PCC. Moreover, the parties have taken all necessary steps, including the relinquishment/return of certain frequencies and co-use of the remaining frequencies by Smart and Belltel and Globe and Belltel as discussed above, to ensure that the VTI Transaction will not substantially prevent, restrict or lessen competition to violate the PCA. Nevertheless, in the spirit of cooperation and for transparency, the parties voluntarily submitted to the PCC, among others, copies of the SPAs for the PCC's information and reference.

In a letter dated June 17, 2016, the PCC required the parties to further submit additional documents relevant to the co-use arrangement and the frequencies subject thereto, as well as other definitive agreements relating to the VTI Transaction. It also disregarded the deemed approved status of the VTI Transaction in violation of the Circulars which the PCC itself issued, and insisted that it will conduct a full review, if not investigation of the said transaction under the different operative provisions of the PCA.

In the Matter of the Petition against the PCC

On July 12, 2016, PLDT filed before the Court of Appeals, or CA, a Petition for Certiorari and Prohibition (With Urgent Application for the Issuance of a Temporary Restraining Order, or TRO, and/or Writ of Preliminary Injunction), or the Petition, against the PCC. The Petition seeks to enjoin the PCC from proceeding with the review of the acquisition by PLDT and Globe of equity interest, including outstanding advances and assumed liabilities, in the telecommunications business of SMC, or the SMC Transactions, and performing any act which challenges or assails the "deemed approved" status of the SMC Transactions. On July 19, 2016, the 12th Division of the CA, issued a Resolution directing the PCC through the Office of the Solicitor General, or the OSG, to file its Comment within a non-extendible period of 10 days from notice and show cause why the Petition should not be granted. On August 11, 2016, the PCC through the OSG, filed its Comment to the Petition (With Opposition to Petitioner's Application for a Writ of Preliminary Injunction). On August 19, 2016, PLDT filed its Reply to Respondent PCC's Comment.

On August 26, 2016, the CA issued a Writ of Preliminary Injunction enjoining and directing the respondent PCC, their officials and agents, or persons acting for and in their behalf, to cease and desist from conducting further proceedings for the pre-acquisition review and/or investigation of the SMC Transactions based on its Letters dated June 7, 2016 and June 17, 2016 during the pendency of the case and until further orders are issued by the CA. On September 14, 2016, the PCC filed a Motion for Reconsideration of the CA's Resolution. During this time, Globe moved to have its Petition consolidated with the PLDT Petition. In a Resolution promulgated on October 19, 2016, the CA: (i) accepted the consolidation of Globe's petition versus the PCC (CA G.R. SP No. 146538) into PLDT's petition versus the PCC (CA G.R. SP No. 146528) with the right of replacement; (ii) admitted the Comment dated October 4, 2016 filed by the PCC; (iii) referred to the PCC for Comment (within 10 days from receipt of notice) PLDT's Urgent Motion for the Issuance of a Gag Order dated September 30, 2016 and to cite the PCC for indirect contempt; and (iv) ordered all parties to submit simultaneous memoranda within a non-extendible period of 15 days from notice. On November 11, 2016, PLDT filed its Memorandum in compliance with the CA's Resolution.

On February 17, 2017, the CA issued a Resolution denying PCC's Motion for Reconsideration dated September 14, 2016, for lack of merit. The CA denied PLDT's Motion to Cite the PCC for indirect Contempt for being premature. In the same Resolution, as well as in a separate Gag Order attached to the Resolution, the CA granted PLDT's Urgent Motion for the Issuance of a Gag Order and directed PCC to remove immediately from its website its preliminary statement of concern and submit its compliance within five days from receipt thereof. All the parties were ordered to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to Intervene and to Admit the Petition-in-Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.

On April 18, 2017, the PCC filed before the Supreme Court a Petition to Annul the Writ of Preliminary Injunction issued by the CA's 12th Division on August 26, 2016 restraining PCC's review of the SMC Transactions. In compliance with the Supreme Court's Resolution issued on April 25, 2017, PLDT on July 3, 2017 filed its Comment dated July 1, 2017 to the PCC's Petition. The Supreme Court issued a Resolution dated July 18, 2017 noting PLDT's Comment and requiring the PCC to file its Consolidated Reply. The PCC filed a Motion for Extension of Time and prayed that it be granted until October 23, 2017 to file its Consolidated Reply. The PCC filed its Consolidated Reply to the: (1) Comment filed by PLDT; and (2) Motion to Dismiss filed by Globe on November 7, 2017. The same was noted by Supreme Court in a Resolution dated November 28, 2017.

During the intervening period, the CA rendered its Decision in October 18, 2017, granting the Petitions filed by PLDT and Globe. In its Decision, the CA: (i) permanently enjoined the PCC from conducting further proceedings for the pre-acquisition review and/or investigation of the SMC Transactions based on its Letters dated June 7, 2016 and June 17, 2016; (ii) annulled and set aside the Letters dated June 7, 2016 and June 17, 2016; (iii) precluded the PCC from conducting a full review and/or investigation of the SMC Transactions; (iv) compelled the PCC to recognize the SMC Transactions as deemed approved by operation of law; and (v) denied the PCC's Motion for Partial Reconsideration dated March 6, 2017, and directed the PCC to permanently comply with the CA's Resolution dated February 17, 2017 requiring PCC to remove its preliminary statement of concern from its website. The CA clarified that the deemed approved status of the SMC Transactions does not, however, remove the power of PCC to conduct post-acquisition review to ensure that no anti-competitive conduct is committed by the parties.

On November 7, 2017, PCC timely filed a Motion for Additional Time to file a Petition for Review on Certiorari before the Supreme Court. The Supreme Court granted PCC's motion in its Resolution dated November 28, 2017.

On December 13, 2017, PLDT, through counsel, received the PCC's Petition for Review on Certiorari filed before the Supreme Court assailing the CA's Decision dated October 18, 2017. In this Petition, the PCC raised procedural and substantive issues for resolution. Particularly, the PCC assailed the issuance of the writs of certiorari, prohibition, and mandamus considering that the determination of the sufficiency of the Notice pursuant to the Transitory Rules involves the exercise of administrative and discretionary prerogatives of the PCC. On the substantive aspect, the PCC argued that the CA committed grave abuse of discretion in ruling that the SMC Transactions should be accorded the deemed approved status under the Transitory Rules. The PCC maintained that the Notice of the SMC Transaction was defective because it failed to provide the key terms thereof.

In the Supreme Court Resolution dated November 28, 2017, which was received by PLDT, through counsel, on December 27, 2017, the Supreme Court decided to consolidate the PCC's Petition to Annul the Writ of Preliminary Injunction issued by the CA's 12th Division with that of its Petition for Review on Certiorari assailing the decision of the CA on the merits.

On February 13, 2018, PLDT, through counsel, received Globe's Motion for Leave to File and Admit the Attached Rejoinder, which was denied by the Supreme Court in a Resolution dated March 13, 2018.

On February 27, 2018, PLDT, through counsel, received notice of the Supreme Court's Resolution dated January 30, 2018 directing PLDT and Globe to file their respective Comments to the Petition for Review on Certiorari without giving due course to the same.

On April 5, 2018, PLDT filed its Comment on the Petition for Review on Certiorari. On April 11, 2018, PLDT received Globe's Comment/Opposition [Re: Petition for Review on Certiorari dated December 11, 2017] dated March 4, 2018.

On April 24, 2018, PCC's Motion to Expunge [Respondent PLDT's Comment on the Petition for Review on Certiorari] dated April 18, 2018 was received. On May 9, 2018, PLDT, through counsel, filed a Motion for Leave to File and Admit the Attached Comment on the Petition for Review on Certiorari dated May 9, 2018.

On June 5, 2018, PLDT, through counsel, received the Supreme Court's Resolution dated April 24, 2018 granting the motion for extension of PLDT and noting its Comment on the Petition for Review on Certiorari filed in compliance with the Supreme Court's Resolution dated January 30, 2018 and requiring the PCC to file a Consolidated Reply to the comments within ten days of notice. On June 20, 2018, PLDT, through counsel, received PCC's Urgent Omnibus Motion for: (1) Partial Reconsideration of the Resolution dated April 24, 2018; and (2) Additional Time dated June 11, 2018.

PCC filed its Consolidated Reply Ad Cautelam dated July 16, 2018, which was received on July 19, 2018.

On July 26, 2018, PLDT, through counsel, received a Resolution dated June 19, 2018 where the Supreme Court resolved to grant PLDT's Motion for Leave to File and Admit the Attached Comment, and PCC's Motion for Extension to file a Comment/Opposition on/to PLDT's Motion for Leave to File and Admit the Attached Comment.

On August 14, 2018, PLDT, through counsel, received a Resolution dated July 3, 2018 where the Supreme Court resolved to deny the PCC's motion to reconsider the Resolution dated April 24, 2018 and grant its motion for extension of time to file its reply to PLDT's and Globe's Comments, with a warning that no further extension will be given.

On August 16, 2018, PLDT, through counsel, received a Resolution dated June 5, 2018 where the Supreme Court noted without action the Motion to Expunge by PCC in view of the Resolution dated April 24, 2018 granting the motion for extension of time to file a comment on the petition in G.R. No. 234969.

On October 4, 2018, PLDT, through counsel, received a Resolution dated August 7, 2018 where the Supreme Court noted the PCC's Consolidated Reply Ad Cautelam.

The consolidated petitions remain pending as of the date of this report.

VTI's Tender Offer for the Minority Stockholders' Shares in Liberty Telecom Holdings, Inc., or LIB

On August 18, 2016, the Board of Directors of VTI approved the voluntary tender offer to acquire the common shares of LIB, a subsidiary of VTI, which are held by the remaining minority shareholders, and the intention to delist the shares of LIB from the PSE.

On August 24, 2016, VTI, owner of 87.12% of the outstanding common shares of LIB, undertook the tender offer to purchase up to 165.88 million common shares owned by the remaining minority shareholders, representing 12.82% of LIB's common stock, at a price of Php2.20 per share. The tender offer period ended on October 20, 2016, the extended expiration date, with over 107 million shares tendered, representing approximately 8.3% of LIB's issued and outstanding common shares. The tendered shares were crossed at the PSE on November 4, 2016, with the settlement on November 9, 2016.

Following the conclusion of the tender offer, VTI now owns more than 95% of the issued and outstanding common shares, and 99.1% of the total issued and outstanding capital stock, of LIB.

The tender offer was undertaken in compliance with the PSE's requirements for the voluntary delisting of LIB common shares from the PSE. The voluntary delisting of LIB was approved by the PSE effective November 21, 2016.

Investment of PGIH in Multisys

On November 8, 2018, the PLDT Board of Directors approved the investment of Php2,150 million in Multisys for a 45.73% equity interest through its wholly-owned subsidiary, PGIH. Multisys is a Philippine software development and IT solutions provider engaged in designing, developing, implementing business system solutions and services covering courseware, webpage development and designing user-defined system programming. PGIH's investment involves the acquisition of new and existing shares.

On December 3, 2018, PGIH completed the closing of its investment in Multisys. Out of the Php550 million total consideration for the acquisition of existing shares, PGIH paid Php523 million to the owners of Multisys. Further, PGIH invested Php800 million into Multisys as a deposit for future stock subscription pending the approval by the Philippine SEC of the capital increase of Multisys. On February 1, 2019, the Philippine SEC approved the capital increase of Multisys.

On June 3, 2019, the balance of the acquisition consideration amounting to Php27 million was fully paid.

The carrying value of the investment in Multisys amounted to Php2,466 million and Php2,388 million, including subscription payable of Php800 million and contingent consideration of Php230 million as at September 30, 2019 and December 31, 2018, respectively.

Investment of iCommerce in PHIH

On January 20, 2015, PLDT and Rocket Internet entered into a JVA designed to foster the development of internet-based businesses in the Philippines. PLDT, through its subsidiary, Voyager, and Asia Internet Holding S.à r.l., or AIH, which is 50%-owned by Rocket Internet, were the initial shareholders of the joint venture company PHIH. iCommerce, former subsidiary of VIH, replaced Voyager in agreement as shareholder of PHIH on October 14, 2015 and held a 33.33% equity interest in PHIH.

The objective of PHIH was the creation and development of online businesses in the Philippines, the leveraging of local market and business model insights, the facilitation of commercial, strategic and investment partnerships, and the acceleration of the rollout of online startups in the Philippines. In accordance with the underlying agreements, iCommerce paid approximately €7.4 million to PHIH as contribution to capital. Payment of another contribution by iCommerce to the PHIH capital of approximately €2.6 million was requested in 2016 and remained outstanding.

On September 15, 2017, AIH initiated arbitral proceedings via the German Arbitration Institute (DIS), or DIS, against iCommerce for not settling the €2.6 million contribution. AIH required the payment of €2.6 million plus interest and all costs of the arbitral proceedings.

On December 14, 2017, VIH and PLDT Online entered into a Sale and Purchase Agreement whereby VIH sold all of its 10 thousand shares in iCommerce to PLDT Online for a total purchase price of SG$1.00. On the same date, VIH assigned its loans receivables from iCommerce to PLDT Online amounting to US$8.6 million. In consideration, a total of US$8.9 million, inclusive of interest, was fully paid by PLDT Online to VIH on November 30, 2017.

On April 19, 2018, iCommerce, together with PLDT and Voyager, executed a Settlement Agreement with AIH to terminate the arbitral proceedings and to settle disputes over rights and obligations in connection with the PHIH agreements. On the same date, iCommerce executed a Share Transfer Agreement with AIH to transfer its PHIH shares to AIH. As a result, iCommerce gave up its 33.33% equity interest for zero value and its claims over the remaining cash of PHIH. iCommerce, AIH and PHIH waived all other claims in connection with PHIH, including any claims against iCommerce.

On separate letters dated April 26, 2018, iCommerce and AIH informed the DIS that both parties have concluded an out-of-court settlement with AIH requesting for the termination of the arbitral proceedings.

On May 7, 2018, iCommerce received the order of the DIS for the termination of the arbitral proceedings and the administrative fees to be paid in relation to the arbitral proceedings. With the foregoing, iCommerce has completed the exit from the joint venture.

As a result, iCommerce recognized a loss on investment written-off amounting to Php362 million for the difference between the book value of investment in PHIH and the subscription payable. Such loss is recorded as part of "Other income (expenses) – Others – net" in our consolidated income statement.

Investment of PCEV in Beacon

On March 1, 2010, PCEV, MPIC and Beacon, entered into an Omnibus Agreement, or OA, where 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 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.

PCEV accounted for its investment in Beacon as investment in joint venture since the OA established joint control over Beacon until its full divestment on June 27, 2017.

PCEV's Investment in Beacon Shares

PCEV made the following investments in Beacon:

Date	Transaction	Number of Shares (in millions)	Total Consideration (Php) (in millions)
March 30, 2010	PCEV subscription to Beacon Common Shares[1]	1,157 Beacon Common Shares	23,130
October 25, 2011	PCEV transfer of remaining Meralco Common Shares to Beacon[2]	69 Meralco Common Shares	15,136
	PCEV subscription to Beacon Preferred Shares	1,199 Beacon Class "A" Preferred Shares	15,136
January 20, 2012	PCEV subscription to Beacon Common Shares	135 Beacon Common Shares	2,700
May 30, 2016	PCEV subscription to Beacon Class "B" Preferred Shares	277 Beacon Class "B" Preferred Shares	3,500
September 9, 2016	Beacon redemption of Class "B" Preferred Shares held by PCEV	198 Beacon Class "B" Preferred Shares	2,500
April 20, 2017	Beacon redemption of Class "B" Preferred Shares held by PCEV	79 Beacon Class "B" Preferred Shares	1,000

(1) *PCEV transferred 154 million Meralco shares at a price of Php150.00 per share or an aggregate amount of Php23,130 million on May 12, 2010.*

(2) *The transfer of the Meralco shares were implemented through a special block sale/cross sale in the PSE.*

Sale of Beacon's Meralco Shares to MPIC

Beacon has entered into the following Share Purchase Agreements with MPIC:

Date	Number of Shares Sold (in millions)	% of Meralco Shareholdings Sold	Price Per Share (Php)	Total Price (Php)	Deferred Gain Realized[1] (Php) (in million pesos)
June 24, 2014	56.35	5%	235.00	13,243	1,418
April 14, 2015	112.71	10%	235.00	26,487	2,838

(1) *Since Beacon sold the shares to an entity not included in the PLDT Group, PCEV realized portion of the deferred gain which was recognized when the Meralco shares were transferred to Beacon.*

Sale of PCEV's Beacon Common and Preferred Shares to MPIC

PCEV has entered into the following Share Purchase Agreements with MPIC:

Date	Number of Shares Sold	Selling Price (Php)	Deferred Gain Realized (Php)
		(in millions)	
June 6, 2012	282 Preferred Shares	3,563	2,012
May 30, 2016	646 Common shares and 458 Preferred Shares	26, 200	4,962
June 13, 2017	646 Common shares and 458 Preferred Shares	21,800	4,962

On May 30, 2016, MPIC settled a portion of the consideration amounting to Php17,000 million immediately upon signing of the Share Purchase Agreement dated May 30, 2016 and the balance of Php9,200 million will be paid in annual installments until June 2020.

On June 27, 2017, MPIC settled a portion of the consideration amounting to Php12,000 million upon closing of the sale under the Share Purchase Agreement dated June 13, 2017 and the balance of Php9,800 million will be paid in annual installments from June 2018 to June 2021.

Subsequent to its full divestment in June 2017, PCEV continued to hold its representation in the Board of Directors of Beacon and participate in the decision making. As set forth in the Share Purchase Agreement dated June 30, 2017: (i) PCEV shall be entitled to nominate one director to the Board of Directors of Beacon ("Seller's Director") and MPIC agrees to vote its shares in Beacon in favor of such Seller's Director; and (ii) MPIC shall cede to PCEV the right to vote all of the shares. The parties agreed that with respect to decisions or policies affecting dividend payouts to be made by Beacon, PCEV shall exercise its voting rights, and shall vote, in accordance with the recommendation of MPIC on such matter. Based on the foregoing, PCEV's previously joint control over Beacon has become a significant influence.

Beginning January 1, 2018, the unpaid balance from MPIC is measured at FVOCI using discounted cash flow valuation method in accordance with the new classification under PFRS 9 with interest income to be accreted over the term of the receivable.

Sale of PCEV's Receivables from MPIC

On December 5, 2017, the Board of Directors of PCEV approved the proposed sale of 50% of PCEV's receivable from MPIC, with an option on the part of PCEV to upsize to 75%, consisting of the proceeds from the sale of its shares in Beacon, which are due in 2019 to 2021.

On March 2, 2018, PCEV entered into a Receivables Purchase Agreement, or RPA, with various financial institutions, or the Purchasers, to sell a portion of its receivables from MPIC due in 2019 to 2021 amounting to Php5,550 million for a total consideration of Php4,852 million, which was settled on March 5, 2018. Under the terms of the RPA, the Purchasers will have exclusive ownership of the purchased receivables and all of its rights, title, and interest.

On March 23, 2018, PCEV entered into another RPA with a financial institution to sell a portion of its receivables from MPIC due in 2019 amounting to Php2,230 million for a total consideration of Php2,124 million, which was settled on April 2, 2018.

PCEV's remaining receivables from MPIC amounted to Php2,879 million, net of Php2 million allowance for ECL, and Php4,353 million, net of Php2 million allowance for ECL as at September 30, 2019 and December 31, 2018, respectively.

The following table explains the changes in the allowance for ECLs between the beginning and the end of the period.

	September 30, 2019 (Unaudited)			
	Stage 1	**Stage 2**	**Stage 3**	
	12-Month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
	(in million pesos)			
Balance as at beginning of the period	2	—	—	2
Financial assets derecognized during the period	—	—	—	—
Balance at end of the period	**2**	**—**	**—**	**2**

	December 31, 2018 (Audited)			
	Stage 1	**Stage 2**	**Stage 3**	
	12-Month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
	(in million pesos)			
Balance as at beginning of the year	4	—	—	4
Financial assets derecognized during the year	(2)	—	—	(2)
Balance at end of the year	**2**	**—**	**—**	**2**

Summarized financial information of individually immaterial joint ventures

Total net gain and comprehensive income of our individually immaterial joint ventures amounted to Php64 thousand as at September 30, 2019.

Total revenues, expenses, other income, net income and other comprehensive income of our individually immaterial joint ventures amounted to Php143 million, Php96 million, Php16 million, Php64 million and Php64 million, respectively, for the nine months ended September 30, 2019.

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at September 30, 2019 and December 31, 2018.

12. Financial Assets at FVPL

As at September 30, 2019 and December 31, 2018, this account consists of:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Rocket Internet	**2,530**	3,128
iflix Limited, or iflix	**844**	844
Club shares and others	**318**	294
Phunware, Inc., or Phunware	**75**	497
Matrixx Software, Inc., or Matrixx	**—**	—
	3,767	4,763

Investment of PLDT Online in Rocket Internet

On August 7, 2014, PLDT and Rocket Internet entered into a global strategic partnership to drive the development of online and mobile payment solutions in emerging markets. Rocket Internet provides a platform for the rapid creation and scaling of consumer internet businesses outside the U.S. and China. Rocket Internet's prominent brands include the leading Southeast Asian e-Commerce businesses Zalora and Lazada, as well as fast growing brands with strong positions in their markets such as Dafiti, Linio, Jumia, Namshi, Lamoda, Jabong, Westwing, Home24 and HelloFresh in Latin America, Africa, Middle East, Russia, India and Europe. Financial technology and payments comprise Rocket Internet's third sector where it anticipates numerous and significant growth opportunities.

Pursuant to the terms of the investment agreement, PLDT invested €333 million, or Php19,577 million, in cash, for new shares equivalent to a 10% stake in Rocket Internet as at August 2014. These new shares are of the same class and bear the same rights as the Rocket Internet shares held by the investors as at the date of the agreement namely, Investment AB Kinnevik and Access Industries, in addition to Global Founders GmbH (formerly European Founders Fund GmbH). PLDT made the €333 million investment in two payments (on September 8 and September 15, 2014), which it funded from available cash and new debt.

On August 21, 2014, PLDT assigned all its rights, title and interests as well as all of its obligations related to its investment in Rocket Internet, to PLDT Online, an indirectly wholly-owned subsidiary of PLDT.

On October 1, 2014, Rocket Internet announced the pricing of its initial public offering, or IPO, at €42.50 per share. On October 2, 2014, Rocket Internet listed its shares on Entry Standard of the Frankfurt Stock Exchange under the ticker symbol "RKET." Our ownership stake in Rocket Internet after the IPO was reduced to 6.6%. In February 2015, due to additional issuances of shares by Rocket Internet, our ownership percentage in Rocket Internet was further reduced to 6.1%, and remained as such as at December 31, 2017.

On September 26, 2016, Rocket Internet applied for admission to trading under the regulated market (Prime Standard) of the Frankfurt Stock Exchange. RKET has been admitted to the Prime Standard and is part of the Frankfurt Stock Exchange's SDAX.

On April 16, 2018, Rocket Internet announced the buyback of up to 15 million shares through a public share purchase offer, or the Offer, against payment of an offer price in the amount of €24 per share. PLDT Online committed to accept the Offer of Rocket Internet for at least 7 million shares, or approximately 67.4% of the total number of shares directly held by PLDT Online.

On May 4, 2018, Rocket Internet accepted the tender of PLDT Online of 7 million shares and paid the total consideration of €163 million, or Php10,059 million, which was settled on May 9, 2018, reducing the equity ownership in Rocket Internet from 6.1% to 2.0%.

On May 23, 2018, Rocket Internet redeemed 10.8 million shares reducing its share capital to €154 million. As a result of the redemption of shares, PLDT Online's equity ownership in Rocket Internet increased from 2.0% to 2.1%.

On various dates in the third quarter of 2018, PLDT Online sold 0.7 million Rocket Internet shares for an aggregate amount of €22 million, or Php1,346 million, reducing equity ownership in Rocket Internet from 2.1% to 1.7%.

On various dates in 2019, PLDT Online sold 0.7 million Rocket internet shares for an aggregate amount of €18 million, or Php1,021 million, reducing equity ownership in Rocket Internet from 1.7% to 1.3%.

Further details on investment in Rocket Internet for the nine months ended September 30, 2019 and 2018, and as at September 30, 2019 and December 31, 2018 are as follows:

	September 30,	
	2019	2018
	(Unaudited)	
Total market value as at beginning of the period (in million pesos)	**3,128**	12,848
Closing price per share at end of the period (in Euros)	**23.70**	26.96
Total market value as at end of the period (in million Euros)	**45**	70
Total market value as at end of the period (in million pesos)	**2,530**	4,373
Net gains recognized during the period (in million pesos)	**238**	1,089

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of the period	**3,128**	12,848
Fair value adjustment in profit or loss	**238**	(157)
Disposal of investments	**(836)**	(9,563)
Balance at end of the period	**2,530**	3,128

As at November 6, 2019, closing price of Rocket Internet is €23.92.

Investment of PLDT Online in iflix

On April 23, 2015, PLDT Online subscribed to a convertible note of iflix, an internet TV service provider in Southeast Asia, for US$15 million, or Php686 million. The convertible note was issued and paid on August 11, 2015. iflix will use the funds to continue roll out of the iflix subscription video-on-demand services across the Southeast Asian region, acquire rights to new content, and produce original programming to market to potential customers.

This investment is in line with our strategy to develop new revenue streams and to complement our present business by participating in the digital world beyond providing access and connectivity.

On March 10, 2016, the US$15 million convertible note held by PLDT Online was converted into 20.7 million ordinary shares of iflix in connection with a new funding round led by Sky Plc, Europe's leading entertainment company, and the Indonesian company, Emtek Group. The conversion resulted on a valuation gain amounting to U$19 million, or Php898 million, increasing the fair value of PLDT Online's investment amounting to US$34 million, or Php1,584 million.

On August 4, 2017, PLDT Online subscribed to a convertible note of iflix for US$1.5 million, or Php75 million, in a new funding round led by Hearst Entertainment. The convertible note was paid on August 8, 2017. The note is zero coupon, senior and unsubordinated, non-redeemable, transferable and convertible into Series B Preferred Shares subject to occurrence of a conversion event. iflix will use the funds to invest in its local content strategy and for its regional and international expansion.

On December 15, 2018, the US$1.5 million convertible note held by PLDT Online was converted into 1.0 million Series B Preferred Shares of iflix upon the occurrence of the cut-off date. After the conversion of all outstanding convertible notes, PLDT Online's equity ownership in iflix was reduced from 7.3% to 5.3%.

The fair value of PLDT Online's investment amounted to Php844 million each as at September 30, 2019 and December 31, 2018.

Investment of PLDT Capital in Phunware

On September 3, 2015, PLDT Capital subscribed to an 8% US$5 million Convertible Promissory Note, or Note, issued by Phunware, a Delaware corporation. Phunware provides an expansive mobile delivery platform that creates, markets, and monetizes mobile application experiences across multiple screens. The US$5 million Note was issued to and paid for by PLDT Capital on September 4, 2015.

On December 18, 2015, PLDT Capital subscribed to Series F Preferred Shares of Phunware for a total consideration of US$3 million. On the same date, the Note and its related interest were converted to additional Phunware Series F Preferred Shares.

On February 27, 2018, Phunware entered into a definitive Agreement and Plan of Merger, or Merger Agreement, with Stellar Acquisition III, Inc., or Stellar, relating to a business combination transaction for an enterprise value of US$301 million, on a cash-free, debt-free basis. Pursuant to the Merger Agreement, the holders of Phunware common stock will be entitled to the right to receive the applicable portion of the merger consideration in the form of Stellar common shares, which are listed on the Nasdaq Stock Market. As a result, the holders of Phunware preferred stock have requested the automatic conversion of all outstanding preferred shares into common shares effective as of immediately prior to the closing of the transaction on a conversion ratio of one common share per one preferred share. In addition to the right to receive Stellar common shares, each holder of Phunware Stock is entitled to elect to receive its pro rata share of warrants to purchase Stellar common shares that are held by the affiliate companies of Stellar's co-Chief Executive Officers, or Stellar's Sponsors.

On November 28, 2018, PLDT Capital elected to receive its full pro rata share of the warrants to purchase Stellar common shares held by Stellar's Sponsors.

On December 26, 2018, Phunware announced the consummation of its business combination with Stellar. Stellar, the new Phunware holding company, changed its corporate name to "Phunware, Inc.," or PHUN, and Phunware changed its corporate name to "Phunware OpCo, Inc." Upon closing, PLDT Capital received the PHUN common shares equivalent to its portion of the merger consideration and its full pro rata share of warrants to purchase PHUN common shares.

On March 15, 2019, PLDT Capital exercised its warrants to purchase PHUN common shares for a total consideration of US$1.6 million.

The fair value amount of PLDT Capital's investment amounted to Php75 million and Php497 million as at September 30, 2019 and December 31, 2018, respectively.

Investment of PLDT Capital in Matrixx

On December 18, 2015, PLDT Capital entered into a Stock and Warrant Purchase Agreement with Matrixx, a Delaware corporation. Matrixx provides the IT foundation to move to an all-digital service environment with a new real-time technology platform designed to handle the surge in interactions without forcing the compromises of conventional technology. Under the terms of the agreement, PLDT Capital subscribed to convertible Series B Preferred Stock of Matrixx for a total consideration of US$5 million, or Php237 million, and was entitled to purchase additional Series B Preferred Stock upon occurrence of certain conditions on or before March 15, 2016. PLDT Capital did not exercise its right to purchase additional Series B Preferred Stock of Matrixx.

On December 20, 2018, Matrixx entered into a Repurchase Agreement with PLDT Capital to repurchase all of its capital stock held by PLDT Capital including a warrant to purchase capital stock for US$5 million. The transaction closed on the same day.

13. Debt Instruments at Amortized Cost

As at September 30, 2019 and December 31, 2018, this account consists of:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
GT Capital Bond	**150**	150
	150	150
Less current portion (Note 29)	**150**	–
Noncurrent portion (Note 29)	**–**	150

GT Capital Bond

In February 2013, Smart purchased at par a seven-year GT Capital Bond with face value of Php150 million maturing on February 27, 2020. The bond has a gross coupon rate of 4.84% payable on a quarterly basis, and was recognized as HTM investment. Starting January 1, 2018, the bond was classified as debt instrument at amortized cost under PFRS 9. Interest income, net of withholding tax, recognized on this investment amounted to Php4 million each for the nine months ended September 30, 2019 and 2018. The carrying value of this investment amounted to Php150 million each as at September 30, 2019 and December 31, 2018.

Security Bank Time Deposits

In May 2013, PLDT invested US$2.0 million in a five-year time deposit with Security Bank at a gross coupon rate of 3.5%, which matured on May 31, 2018. Interest income, net of withholding tax, recognized on this investment amounted to US$25 thousand, or Php1.3 million, for the nine months ended September 30, 2018.

14. Investment Properties

Changes in investment properties account for the nine months ended September 30, 2019 and for the year ended December 31, 2018 are as follows:

	Land	Land Improvements	Building	Total
		(in million pesos)		
September 30, 2019 (Unaudited)				
Balance at beginning of the period	**596**	**7**	**174**	**777**
Net gains (losses) from fair value adjustments charged to profit or loss	—	—	—	—
Transfers to property and equipment	—	—	—	—
Balance at end of the period	**596**	**7**	**174**	**777**
December 31, 2018 (Audited)				
Balance at beginning of the year	1,322	8	305	1,635
Net gains (losses) from fair value adjustments charged to profit or loss	389	(1)	(10)	378
Transfers to property and equipment	(1,115)	—	(121)	(1,236)
Balance at end of the year	**596**	**7**	**174**	**777**

Investment properties, which consist of land, land improvements and building, are stated at fair values, which have been determined based on appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties.

The valuation for land was based on a market approach valuation technique using price per square meter ranging from Php25 to Php30 thousand. The valuation for building and land improvements was based on a 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. The properties are not being used for strategic reasons.

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 Php56 million and Php28 million for the nine months ended September 30, 2019 and 2018, respectively.

Rental income relating to investment properties that are being leased and included as part of revenues amounted to Php183 million and Php181 million for the nine months ended September 30, 2019 and 2018, respectively.

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

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

15. Goodwill and Intangible Assets

Changes in goodwill and intangible assets account for the nine months ended September 30, 2019 and for the year ended December 31, 2018 are as follows:

	Intangible Assets with Indefinite Life	Intangible Assets with Finite Life								
	Trademark	Franchise	Customer List	Licenses	Spectrum	Others	Total Intangible Assets with Finite Life	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
					(in million pesos)					
September 30, 2019 (Unaudited)										
Costs:										
Balance at beginning and end of the period	**4,505**	**3,016**	**4,726**	**1,079**	**1,205**	**775**	**10,801**	**15,306**	**62,033**	**77,339**
Balance at end of the period	**4,505**	**3,016**	**4,726**	**1,079**	**1,205**	**775**	**10,801**	**15,306**	**62,033**	**77,339**
Accumulated amortization and impairment:										
Balance at beginning of the period	**—**	**1,334**	**3,790**	**1,051**	**1,152**	**775**	**8,102**	**8,102**	**654**	**8,756**
Amortization during the period (Notes 4 and 5)	**—**	**140**	**383**	**6**	**53**	**—**	**582**	**582**	**—**	**582**
Balance at end of the period	**—**	**1,474**	**4,173**	**1,057**	**1,205**	**775**	**8,684**	**8,684**	**654**	**9,338**
Net balance at end of the period	**4,505**	**1,542**	**553**	**22**	**—**	**—**	**2,117**	**6,622**	**61,379**	**68,001**
Estimated useful lives (in years)	**—**	**16**	**2 – 9**	**18**	**15**	**1 – 10**	**—**	**—**	**—**	**—**
Remaining useful lives (in years)	**—**	**8**	**1**	**3**	**—**	**—**	**—**	**—**	**—**	**—**
December 31, 2018 (Audited)										
Costs:										
Balance at beginning of the year	4,505	3,016	4,726	1,079	1,205	1,562	11,588	16,093	63,058	79,151
Additions	—	—	—	—	—	21	21	21	—	21
Disposals	—	—	—	—	—	(372)	(372)	(372)	—	(372)
Deconsolidation	—	—	—	—	—	(460)	(460)	(460)	(1,025)	(1,485)
Translation and other adjustments	—	—	—	—	—	24	24	24	—	24
Balance at end of the year	**4,505**	**3,016**	**4,726**	**1,079**	**1,205**	**775**	**10,801**	**15,306**	**62,033**	**77,339**
Accumulated amortization and impairment:										
Balance at beginning of the year	—	1,147	3,280	1,044	1,071	1,347	7,889	7,889	1,679	9,568
Disposals	—	—	—	—	—	(372)	(372)	(372)	—	(372)
Amortization during the year (Notes 4 and 5)	—	187	510	7	81	107	892	892	—	892
Deconsolidation	—	—	—	—	—	(331)	(331)	(331)	(1,025)	(1,356)
Translation and other adjustments	—	—	—	—	—	24	24	24	—	24
Balance at end of the year	**—**	**1,334**	**3,790**	**1,051**	**1,152**	**775**	**8,102**	**8,102**	**654**	**8,756**
Net balance at end of the year	**4,505**	**1,682**	**936**	**28**	**53**	**—**	**2,699**	**7,204**	**61,379**	**68,583**
Estimated useful lives (in years)	—	16	2 – 9	18	15	1 – 10	—	—	—	—
Remaining useful lives (in years)	—	9	1 – 2	4	1	—	—	—	—	—

The consolidated goodwill and intangible assets of our reportable segments as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019 (Unaudited)			December 31, 2018 (Audited)		
	Wireless	**Fixed Line**	**Total**	Wireless	Fixed Line	Total
			(in million pesos)			
Trademark	**4,505**	**—**	**4,505**	4,505	—	4,505
Franchise	**1,542**	**—**	**1,542**	1,682	—	1,682
Customer list	**553**	**—**	**553**	936	—	936
Licenses	**22**	**—**	**22**	28	—	28
Spectrum	**—**	**—**	**—**	53	—	53
Total intangible assets	**6,622**	**—**	**6,622**	7,204	—	7,204
Goodwill	**56,571**	**4,808**	**61,379**	56,571	4,808	61,379
Total goodwill and intangible assets	**63,193**	**4,808**	**68,001**	63,775	4,808	68,583

Intangible Assets

Intangible asset with indefinite life pertains to the "*Sun Cellular*" trademark of DMPI, resulting from PLDT's acquisition of Digitel in 2011. PLDT intends to continue using the "*Sun Cellular*" brand to cater to a specific market segment. As such, the "*Sun Cellular*" trademark is viewed to have an indefinite useful life.

VIH's subsidiaries PayMaya, Voyager and FINTQ continuously improve their existing products and services through regular technological development and upgrades of their platforms. Accumulated costs related to such technical activities are capitalized as intangible assets. VIH was deconsolidated in PCEV Group as at November 30, 2018. Thus, the related intangible assets of VIH was also deconsolidated.

The consolidated future amortization of intangible assets as at September 30, 2019 is as follows:

Year	(in million pesos)
2019[(1)]	176
2020	619
2021	194
2022	191
2023 and onwards	937
	2,117

[(1)] *October 1, 2019 through December 31, 2019.*

Impairment Testing of Goodwill and Intangible Asset with Indefinite Useful 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 September 30, 2019, the PLDT Group's goodwill comprised of goodwill resulting from acquisition of PLDT's additional investment in 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, SBI's acquisition of Airborne Access Corporation in 2008, and Smart's acquisition of SBI in 2004.

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. 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.

Because of the significant common use of network facilities among fixed line and wireless companies within the Group, management deems that the Wireless and Fixed Line units are considered the lowest CGUs for impairment test of goodwill until 2014.

In 2015, subsequent to the decision of Management to consolidate the various digital businesses under Voyager and assign a separate management from wireless business, the Voyager unit has been considered as a CGU separate from the Wireless unit. As a result, additional goodwill amounting to Php980 million was allocated to Voyager CGU.

In December 2016, based on the assessment of the Voyager CGU's recoverable amount compared with the carrying amount of the Voyager CGU's net assets, we have recognized total impairment loss amounting to Php980 million and, consequently, any adverse change in a key assumption would result in a further impairment loss.

In 2018, the Wireless and Fixed Line units are the lowest CGUs to which goodwill is to be allocated given that the Fixed Line and Wireless operations generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of the Wireless and Fixed Line CGUs 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. The post-tax discount rates applied to cash flow projections are 9.3% for the Wireless and Fixed Line CGUs. Cash flows beyond the projection period are determined using a 3.0% growth rate for the Wireless and Fixed Line CGUs, which is the same as the long-term average growth rate for the telecommunications industry. Other key assumptions used in the cash flow projections include revenue growth and capital expenditures.

Based on the assessment of the VIU of the Wireless and Fixed Line CGUs, the recoverable amount of the Wireless and Fixed Line CGUs exceeded their carrying amounts, hence, no impairment was recognized in relation to goodwill and intangible assets with indefinite useful life as at September 30, 2019 and December 31, 2018.

With regard to the assessment of VIU for Wireless and Fixed Line CGUs, management believes that no reasonable changes in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

16. Cash and Cash Equivalents

As at September 30, 2019 and December 31, 2018, this account consists of:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Cash on hand and in banks (Note 29)	**5,080**	5,982
Temporary cash investments (Note 29)	**22,058**	45,672
	27,138	51,654

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 29 – Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php838 million and Php648 million for the nine months ended September 30, 2019 and 2018, respectively.

17. Trade and Other Receivables

As at September 30, 2019 and December 31, 2018, this account consists of receivables from:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Retail subscribers (Note 29)	**19,608**	19,444
Corporate subscribers (Note 29)	**11,812**	11,073
Foreign administrations (Note 29)	**2,652**	4,225
Domestic carriers (Note 29)	**721**	270
Dealers, agents and others (Note 29)	**5,086**	5,547
	39,879	40,559
Less allowance for expected credit losses (Notes 5 and 29)	**19,257**	16,503
	20,622	24,056

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 payables 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, dividend receivables and advances to affiliates.

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

For terms and conditions relating to related party receivables, see *Note 26 – Related Party Transactions*.

See *Note 26 – Related Party Transactions* for the summary of transactions with related parties and *Note 29 – 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.

The following table explains the changes in the allowance for expected credit losses as at September 30, 2019 and December 31, 2018:

	September 30, 2019 (Unaudited)												
	Retail Subscribers		Corporate Subscribers		Foreign Administrations		Domestic Carriers		Dealers, Agents and Others		Total		
	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	
	Lifetime ECL		Lifetime ECL		Lifetime ECL		Lifetime ECL		Lifetime ECL		Lifetime ECL		Total
	(in million pesos)												
Balances as at beginning of the period	**893**	**8,931**	**603**	**3,906**	**5**	**914**	**3**	**74**	**91**	**1,083**	**1,595**	**14,908**	**16,503**
Provisions (Note 5)	**142**	**2,320**	**345**	**367**	**(1)**	**52**	**—**	**3**	**3**	**—**	**489**	**2,742**	**3,231**
Reclassifications and reversals	**(193)**	**614**	**(22)**	**122**	**—**	**(567)**	**—**	**(2)**	**(4)**	**(6)**	**(219)**	**161**	**(58)**
Write-offs	**—**	**(418)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(418)**	**(418)**
Translation adjustments	**—**	**—**	**—**	**(1)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1)**	**(1)**
Balance at end of the period	**842**	**11,447**	**926**	**4,394**	**4**	**399**	**3**	**75**	**90**	**1,077**	**1,865**	**17,392**	**19,257**

	December 31, 2018 (Audited)												
	Retail Subscribers		Corporate Subscribers		Foreign Administrations		Domestic Carriers		Dealers, Agents and Others		Total		
	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	
	Lifetime ECL		Lifetime ECL		Lifetime ECL		Lifetime ECL		Lifetime ECL		Lifetime ECL		Total
	(in million pesos)												
Balances as at beginning of the year, as restated	787	7,925	474	3,212	7	925	1	75	147	1,206	1,416	13,343	14,759
Reclassifications and reversals	86	6	(48)	201	(46)	2	—	(3)	(5)	(146)	(13)	60	47
Provisions	20	3,109	172	820	44	(13)	2	2	9	27	247	3,945	4,192
Business combination/dissolution	—	—	—	—	—	—	—	—	(57)	—	(57)	—	(57)
Write-offs	—	(2,109)	—	(328)	—	—	—	—	(3)	(4)	(3)	(2,441)	(2,444)
Translation adjustments	—	—	5	1	—	—	—	—	—	—	5	1	6
Balance at end of the year	**893**	**8,931**	**603**	**3,906**	**5**	**914**	**3**	**74**	**91**	**1,083**	**1,595**	**14,908**	**16,503**

The significant changes in the balances of trade and other receivables and contract assets are disclosed in *Note 5 – Income and Expenses*, while the information about the credit exposures are disclosed in *Note 29 – Financial Assets and Liabilities*.

18. Inventories and Supplies

As at September 30, 2019 and December 31, 2018, this account consists of:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Terminal and cellular phone units:		
At net realizable value[(1)]	**2,728**	2,093
At cost	**3,648**	3,423
Spare parts and supplies:		
At net realizable value[(1)]	**257**	173
At cost	**1,481**	1,673
Others:		
At net realizable value[(1)]	**194**	612
At cost	**634**	994
Total inventories and supplies at the lower of cost or net realizable value	**3,179**	2,878

[(1)] *Amounts are net of allowance for inventory obsolescence and write-downs.*

The cost of inventories and supplies recognized as expense for the nine months ended September 30, 2019 and 2018 are as follows:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Cost of sales and services	**6,875**	8,619
Repairs and maintenance	**534**	511
Provisions (Note 5)	**399**	934
	7,808	10,064

Changes in the allowance for inventory obsolescence and write-down for the nine months ended September 30, 2019 and for the year ended December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of the period	**3,212**	2,492
Provisions (Note 5)	**399**	1,528
Write-off and others	**(1,027)**	(808)
Balance at end of the period	**2,584**	3,212

19. Prepayments

As at September 30, 2019 and December 31, 2018, this account consists of:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Advances to suppliers and contractors (Note 26)	**31,536**	17,703
Prepaid taxes	**12,716**	11,466
Prepaid fees and licenses	**1,647**	915
Prepaid repairs and maintenance	**609**	204
Prepaid rent	**373**	672
Prepaid benefit costs (Note 27)	**237**	393
Prepaid insurance (Note 26)	**194**	63
Prepaid selling and promotions (Note 26)	**27**	6
Other prepayments (Note 26)	**804**	296
	48,143	31,718
Less current portion of prepayments	**10,551**	8,380
Noncurrent portion of prepayments	**37,592**	23,338

Prepaid taxes include creditable withholding taxes and input VAT.

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 27 – Employee Benefits*.

20. Equity

PLDT's number of shares of subscribed and outstanding capital stock as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in millions)	
Authorized		
Non-Voting Serial Preferred Stock	**388**	388
Voting Preferred Stock	**150**	150
Common Stock	**234**	234
Subscribed		
Non-Voting Serial Preferred Stock[(1)]	**300**	300
Voting Preferred Stock	**150**	150
Common Stock	**219**	219
Outstanding		
Non-Voting Serial Preferred Stock[(1)]	**300**	300
Voting Preferred Stock	**150**	150
Common Stock	**216**	216
Treasury Stock		
Common Stock	**3**	3

[(1)] *Includes 300 million shares of Series IV Cumulative Non-Convertible Redeemable Preferred Stock subscribed for Php3 billion, of which Php360 million has been paid.*

There were no changes in PLDT's capital account for the nine months ended September 30, 2019 and 2018.

Preferred Stock

Non-Voting Serial Preferred Stock

On November 5, 2013, the Board of Directors designated 50,000 shares of Non-Voting Serial Preferred Stock as Series JJ 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2013 to December 31, 2015, pursuant to the PLDT Subscriber Investment Plan, or SIP. On June 8, 2015, PLDT issued 870 shares of Series JJ 10% Cumulative Convertible Preferred Stock.

On January 26, 2016, the Board of Directors designated 20,000 shares of Non-Voting Serial Preferred Stock as Series KK 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2016 to December 31, 2020, pursuant to the SIP.

The Series JJ and KK 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 of PLDT 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 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 par value per share of Common Stock. 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 JJ and KK 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 of PLDT, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement between BTFHI and PLDT dated October 15, 2012. 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 September 30, 2019. See *Note 1 – Corporate Information* and *Note 28 – 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 Series A to FF Shares, from holders of record as of October 10, 2011, and all such shares were redeemed and retired effective on January 19, 2012. In accordance with the terms and conditions of the Series A to FF Shares, the holders of Series A to FF Shares as at January 19, 2012 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 January 19, 2012, or the Redemption Price of Series A to FF Shares.

PLDT has set aside Php4,029 million (the amount required to fund the redemption price for the Series A to FF Shares) in addition to Php4,143 million for unclaimed dividends on Series A to FF Shares, or a total amount of Php8,172 million, to fund the redemption of the Series A to FF 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 Series A to FF Shares, for a period of ten years from January 19, 2012 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, or the Series GG Shares, from the holders of record as of May 22, 2012, and all such shares were redeemed and retired effective August 30, 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 Php236 thousand (the amount required to fund the redemption price for the Series GG Shares) in addition to Php74 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 Series GG Shares. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series GG Shares or any balance thereof, in trust, for the benefit of holders of Series GG Shares, for a period of ten years from August 30, 2012, or until August 30, 2022. After the said date, any and all remaining balance in the Redemption Trust Fund for Series GG Shares shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series GG Shares shall accrue for the benefit of, and be paid from time to time, to PLDT.

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, or Series HH Shares issued in 2007, from the holders of record as of February 14, 2013 and all such shares were redeemed and retired effective May 16, 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, 2013, or the Redemption Price of Series HH Shares issued in 2007.

PLDT has set aside Php24 thousand (the amount required to fund the redemption price for the Series HH Shares issued in 2007) in addition to Php6 thousand for unclaimed dividends on Series HH Shares issued in 2007, or a total amount of Php30 thousand, to fund the redemption price of Series HH Shares issued in 2007, or the Redemption Trust Fund for Series HH Shares issued in 2007, which forms an integral part of the Redemption Trust Funds previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series HH Shares issued in 2007. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series HH Shares issued in 2007 or any balance thereof, in trust, for the benefit of holders of Series HH Shares issued in 2007, for a period of ten years from May 16, 2013, or until May 16, 2023. After the said date, any and all remaining balance in the Redemption Trust Fund for Series HH Shares issued in 2007 shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series HH Shares issued in 2007 shall accrue for the benefit of, and be paid from time to time, to PLDT.

On January 28, 2014, 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 2008, or the Series HH Shares issued in 2008, from the holders of record as of February 14, 2014 and all such shares were redeemed and retired effective May 16, 2014. In accordance with the terms and conditions of Series HH Shares issued in 2008, the holders of Series HH Shares issued in 2008 as at February 14, 2014 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, 2014, or the Redemption Price of Series HH Shares issued in 2008.

PLDT has set aside Php2 thousand (the amount required to fund the redemption price of Series HH Shares issued in 2008) in addition to Php1 thousand for unclaimed dividends on Series HH Shares issued in 2008, or a total amount of Php3 thousand, to fund the redemption price of Series HH Shares issued in 2008, or the Redemption Trust Fund for Series HH Shares issued in 2008, which forms an integral part of the Redemption Trust Funds previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series HH Shares issued in 2008. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series HH Shares issued in 2008 or any balance thereof, in trust, for the benefit of holders of Series HH Shares issued in 2008, for a period of ten years from May 16, 2014, or until May 16, 2024. After the said date, any and all remaining balance in the Redemption Trust Fund for Series HH Shares issued in 2008 shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series HH Shares issued in 2008 shall accrue for the benefit of, and be paid from time to time, to PLDT.

On January 26, 2016, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series II 10% Cumulative Convertible Preferred Stock, or the Series II Shares, from the holder of record as of February 10, 2016, and all such shares were redeemed and retired effective on May 11, 2016. In accordance with the terms and conditions of Series II Shares, the holders of Series II Shares as at February 10, 2016 is 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 11, 2016, or the Redemption Price of Series II Shares.

PLDT has set aside Php4 thousand to fund the redemption price of Series II Shares, or the Redemption Trust Fund for Series II Shares, which forms an integral part of the Redemption Trust Funds previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series II Shares. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series II Shares or any balance thereof, in trust, for the benefit of holder of Series II Shares, for a period of ten years from May 11, 2016, or until May 11, 2026. After the said date, any and all remaining balance in the Redemption Trust Fund for Series II Shares shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series II Shares shall accrue for the benefit of, and be paid from time to time, to PLDT.

As at January 19, 2012, August 30, 2012, May 16, 2013, May 16, 2014 and May 11, 2016, notwithstanding that any stock certificate representing the Series A to FF Shares, Series GG Shares, Series HH Shares issued in 2007, Series HH Shares issued in 2008 and Series II Shares, respectively, were not surrendered for cancellation, the Series A to II Shares 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.

Total amounts of Php9 million and Php7 million were withdrawn from the Trust Account, representing total payments on redemption for the nine months ended September 30, 2019 and 2018, respectively. The balance of the Trust Account of Php7,853 million and Php7,862 million were presented as part of "Current portion of other financial assets" as at September 30, 2019 and December 31, 2018, respectively, and the related redemption liability were presented as part of "Accrued expenses and other current liabilities" in our consolidated statements of financial position. See related disclosures below under Perpetual Notes, *Note 25 – Accrued Expenses and Other Current Liabilities* and *Note 29 – Financial Assets and Liabilities*.

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

Common Stock/Treasury 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. 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.

As at November 2010, 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. There were no further buyback transactions subsequent to November 2010.

Dividends Declared

Our dividends declared for the nine months ended September 30, 2019 and 2018 are detailed as follows:

September 30, 2019 (Unaudited)

	Date			Amount	
Class	Approved	Record	Payable	Per Share	Total
				(in million pesos, except per share amounts)	
Cumulative Convertible Preferred Stock					
Series JJ*	**May 9, 2019**	**May 31, 2019**	**June 28, 2019**	**1.00**	**–**
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	**January 29, 2019**	**February 22, 2019**	**March 15, 2019**	**–**	**12**
	May 9, 2019	**May 24, 2019**	**June 15, 2019**	**–**	**12**
	August 8, 2019	**August 27, 2019**	**September 15, 2019**	**–**	**12**
					36
Voting Preferred Stock	**March 7, 2019**	**March 27, 2019**	**April 15, 2019**	**–**	**3**
	June 11, 2019	**June 28, 2019**	**July 15, 2019**	**–**	**2**
	September 24, 2019	**October 8, 2019**	**October 15, 2019**	**–**	**2**
					7
Common Stock					
Regular Dividend	**March 21, 2019**	**April 4, 2019**	**April 23, 2019**	**36.00**	**7,778**
	August 8, 2019	**August 27, 2019**	**September 10, 2019**	**36.00**	**7,778**
					15,556
Charged to retained earnings					**15,599**

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

September 30, 2018 (Unaudited)

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
				(in million pesos, except per share amounts)	
Cumulative Convertible Preferred Stock					
Series JJ	June 13, 2018	June 28, 2018	June 29, 2018	1.00	–
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 22, 2018	February 21, 2018	March 15, 2018	–	12
	May 10, 2018	May 25, 2018	June 15, 2018	–	12
	August 9, 2018	August 28, 2018	September 15, 2018	–	13
					37
Voting Preferred Stock	March 8, 2018	March 28, 2018	April 15, 2018	–	3
	June 13, 2018	June 29, 2018	July 15, 2018	–	2
	September 25, 2018	October 9, 2018	October 15, 2018	–	2
					7
Common Stock					
Regular Dividend	March 27, 2018	April 13, 2018	April 27, 2018	28.00	6,050
	August 9, 2018	August 28, 2018	September 11, 2018	36.00	7,778
					13,828
Charged to retained earnings					**13,872**

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

Our dividends declared after September 30, 2019 are detailed as follows:

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
				(in million pesos, except per share amounts)	
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	November 7, 2019	November 22, 2019	December 15, 2019	–	12
Charged to retained earnings					**12**

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

Perpetual Notes

Smart issued Php2,610 million and Php1,590 million perpetual notes on March 3, 2017 and March 6, 2017, respectively, under two Notes Facility Agreements dated March 1, 2017 and March 2, 2017, respectively. The transaction costs amounting to Php35 million were accounted as a deduction from the perpetual notes. Smart paid distributions amounting to Php177 million and Php236 million as at September 30, 2019 and December 31, 2018, respectively.

On July 18, 2017, Smart issued Php1,100 million perpetual notes, to RCBC, Trustee of PLDT's Redemption Trust Fund, under the Notes Facility Agreement dated July 18, 2017. The transaction costs amounting to Php5 million were accounted as a deduction from the perpetual notes. Smart paid distributions amounting to Php43 million and Php57 million as at September 30, 2019 and December 31, 2018, respectively. This transaction was eliminated in our consolidated financial statements.

On September 19, 2019, Smart issued Php4,700 million perpetual notes to DMPI under the Notes Facility Agreement dated September 16, 2019. The transaction cost amounting to Php35 million was accounted as a deduction from the perpetual notes. Smart will pay distributions quarterly starting December 2019. This transaction was eliminated in our consolidated financial statements.

Proceeds from the issuance of these notes are intended to finance capital expenditures. The notes have no fixed redemption dates however, Smart may, at its sole option, redeem the notes. In accordance with PAS 32, the notes are classified as part of equity in the financial statements. The notes are subordinated to and rank junior to all senior loans of Smart.

21. Interest-bearing Financial Liabilities

As at September 30, 2019 and December 31, 2018, this account consists of the following:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Long-term portion of interest-bearing financial liabilities:		
Long-term debt (Notes 29 and 30)	**161,238**	155,835
Obligations under finance leases (Note 30)	**6**	—
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year (Notes 29 and 30)	**17,138**	20,441
Obligations under finance leases maturing within one year (Note 30)	**2**	—
	178,384	176,276

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in our financial liabilities amounted to Php379 million and Php418 million as at September 30, 2019 and December 31, 2018, respectively. See *Note 29 – Financial Assets and Liabilities*.

The following table describes all changes to unamortized debt discount for the nine months ended September 30, 2019 and the year ended December 31, 2018:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Unamortized debt discount at beginning of the period	**418**	525
Additions during the period	**51**	38
Accretion during the period included as part of Financing costs (Note 5)	**(90)**	(145)
Unamortized debt discount at end of the period	**379**	418

Long-term Debt

As at September 30, 2019 and December 31, 2018, long-term debt consists of:

Description	Interest Rates	September 30, 2019 (Unaudited) U.S. Dollar	September 30, 2019 (Unaudited) Php	December 31, 2018 (Audited) U.S. Dollar	December 31, 2018 (Audited) Php
			(in millions)		
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Exportkreditnamnden, or EKN	1.4100% in 2019 and 2018	**—**	**—**	2	103
Term Loans:					
Others	2.8850% and US$ LIBOR + 0.7900% to 1.4500% in 2019 and 2.8850% and US$ LIBOR + 0.7900% to 1.6000% in 2018	**343**	**17,751**	442	23,249
		343	**17,751**	444	23,352
Philippine Peso Debts:					
Fixed Rate Corporate Notes	5.3938% to 5.9058% in 2019 and 2018		**6,176**		15,511
Fixed Rate Retail Bonds	5.2250% to 5.2813% in 2019 and 2018		**14,960**		14,943
Term Loans:					
Unsecured Term Loans	3.9000% to 6.7339%; PHP BVAL + 1.0000% and PDST-R2 + 0.5000% to 0.6000% in 2019 and 3.9000% to 6.7339%; PDST-R2/[1] PHP BVAL + 0.5000% to 1.0000% in 2018		**139,489**		122,470
			160,625		152,924
Total long-term debt (Notes 29 and 30)			**178,376**		176,276
Less portion maturing within one year (Note 29)			**17,138**		20,441
Noncurrent portion of long-term debt (Note 29)			**161,238**		155,835

[1] *Effective October 29, 2018, PHP BVAL Reference Rates replaced PDST Reference Rates (PDST-R1 and PDST-R2).*

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at September 30, 2019 are as follows:

Year	U.S. Dollar Debt U.S. Dollar	U.S. Dollar Debt Php	Php Debt Php	Total Php
		(in millions)		
2019[1]	**8**	**398**	**4,476**	**4,874**
2020	**210**	**10,895**	**9,073**	**19,968**
2021	**45**	**2,351**	**20,228**	**22,579**
2022	**31**	**1,574**	**14,572**	**16,146**
2023	**25**	**1,295**	**24,278**	**25,573**
2024 and onwards	**25**	**1,295**	**88,320**	**89,615**
(Note 29)	**344**	**17,808**	**160,947**	**178,755**

[1] *October 1, 2019 through December 31, 2019.*

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 as at September 30, 2019 and December 31, 2018:

Loan Amount	Date of Loan Agreement	Lender(s)	Terms: Installments	Terms: Final Installment	Dates Drawn	Drawn Amount (U.S. Dollar, in millions)	Cancelled Undrawn Amount (U.S. Dollar, in millions)	Paid in full on	September 30, 2019 (Unaudited) U.S. Dollar (in millions)	September 30, 2019 (Unaudited) Php (in millions)	December 31, 2018 (Audited) U.S. Dollar (in millions)	December 31, 2018 (Audited) Php (in millions)
U.S. Dollar Debts												
EKN, the Export-Credit Agency of Sweden												
Smart												
US$45.6M[1] Tranche A1: US$25M; Tranche A2: US$19M; Tranche B1: US$0.9M; Tranche B2: US$0.7M	February 22, 2013	Nordea Bank, subsequently assigned to SEK on July 3, 2013	10 equal semi-annual, commencing 6 months after the applicable mean delivery date	Tranche A1 and B1: July 16, 2018; Tranche A2 and B2: April 15, 2019	Various dates in 2013-2014	45.6	—	July 16, 2018 and April 15, 2019	—	—	2 (*)	103 (*)
									—	—	2	103

(*) *Amounts are net of unamortized discount and/or debt issuance cost.*

(1) *The purpose of this loan is to finance the supply and services contracts for the modernization and expansion project.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount (U.S. Dollar, in millions)	Cancelled Undrawn Amount (U.S. Dollar, in millions)	Paid in full on	September 30, 2019 (Unaudited) U.S. Dollar (in millions)	September 30, 2019 (Unaudited) Php (in millions)	December 31, 2018 (Audited) U.S. Dollar (in millions)	December 31, 2018 (Audited) Php (in millions)
U.S. Dollar Debts											
Other Term Loans[1]											
PLDT											
US$300M	January 16, 2013	Syndicate of Banks with MUFG Bank, Ltd. as Facility Agent	9 equal semi-annual installment, commencing on the date which falls 12 months after the date of the loan agreement, with final installment on January 16, 2018	Various dates in 2013	300	—	January 16, 2018	—	—	—	—
Smart											
US$50M	March 25, 2013	FEC	9 equal semi-annual installment, commencing six months after drawdown date, with final installment on March 23, 2018	Various dates in 2013 and 2014	32	18	March 23, 2018	—	—	—	—
Smart											
US$80M	May 31, 2013	China Banking Corporation, or CBC	10 equal semi-annual installment, commencing six months after drawdown date, with final installment on May 31, 2018	September 25, 2013	80	—	May 31, 2018	—	—	—	—
Smart											
US$120M	June 20, 2013	Mizuho Bank Ltd. and Sumitomo Mitsui Banking Corporation, or Sumitomo, with Sumitomo as Facility Agent	8 equal semi-annual installment, commencing six months after drawdown date, with final installment on June 20, 2018	September 25, 2013	120	—	June 20, 2018	—	—	—	—
								—	—	—	—

(1) *The purpose of this loan is to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement programs.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts: September 30, 2019 (Unaudited) U.S. Dollar	Outstanding Amounts: September 30, 2019 (Unaudited) Php	Outstanding Amounts: December 31, 2018 (Audited) U.S. Dollar	Outstanding Amounts: December 31, 2018 (Audited) Php
					U.S. Dollar (in millions)			(in millions)			
Smart											
US$100M	March 7, 2014	MUFG Bank, Ltd.	9 equal semi-annual installment, commencing 12 months after drawdown date, with final installment on March 7, 2019	Various dates in 2014 March 2, 2015	90 10	—	March 7, 2019	**—**	**—**	11 (*)	583 (*)
Smart											
US$50M	May 14, 2014	Mizuho Bank Ltd.	9 equal semi-annual installment, commencing 11 months after drawdown date, with final installment on May 14, 2019	July 1, 2014	50	—	May 14, 2019	**—**	**—**	6 (*)	291 (*)
PLDT											
US$100M	August 5, 2014	Philippine National Bank, or PNB	Annual amortization rate of 1% of the issue price on the first-year up to the fifth-year from the initial drawdown date, with final installment on August 11, 2020	Various dates in 2014	100	—	—	**95**	**4,920**	96	5,046
PLDT											
US$50M	August 29, 2014	Metrobank	Semi-annual amortization rate of 1% of the issue price on the first-year up to the fifth-year from the initial drawdown date and the balance payable upon maturity on September 2, 2020	September 2, 2014	50	—	—	**48**	**2,473**	48	2,536
PLDT											
US$200M Tranche A: US$150M; Tranche B: US$50M	February 26, 2015	MUFG Bank, Ltd.	Commencing 36 months after loan date, with semi-annual amortization of 23.75% of the loan amount on the first and second repayment dates and seven semi-annual amortizations of 7.5% starting on the third repayment date, with final installment on February 25, 2022	Various dates in 2015	200	—	—	**75** (*)	**3,869** (*)	104 (*)	5,492 (*)
Smart											
US$200M	March 4, 2015	Mizuho Bank Ltd.	9 equal semi-annual installments commencing on the date which falls 12 months after the loan date, with final installment on March 4, 2020	Various dates in 2015	200	—	—	**22** (*)	**1,148** (*)	66 (*)	3,490 (*)
Smart											
US$100M	December 7, 2015	Mizuho Bank Ltd.	13 equal semi-annual installments commencing on the date which falls 12 months after the loan date, with final installment on December 7, 2022	Various dates in 2016	100	—	—	**53** (*)	**2,765** (*)	61 (*)	3,198 (*)
PLDT											
US$25M	March 22, 2016	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 30, 2023	March 30, 2016	25	—	—	**25** (*)	**1,289** (*)	25 (*)	1,307 (*)
PLDT											
US$25M	January 31, 2017	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 27, 2024	March 30, 2017	25	—	—	**25** (*)	**1,287** (*)	25 (*)	1,306 (*)
								343	**17,751**	442	23,249

(*) *Amounts are net of unamortized debt discount and/or debt issuance cost.*

Loan Amount	Date of Loan Agreement	Facility Agent	Installments	Date of Issuance/ Drawdown	Payments Amount Php (in millions)	Payments Date	Outstanding Amounts September 30, 2019 (Unaudited) Php (in millions)	Outstanding Amounts December 31, 2018 (Audited) Php (in millions)
Philippine Peso Debts								
Fixed Rate Corporate Notes[(1)]								
PLDT								
Php1,500M	July 25, 2012	Metrobank	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	July 27, 2012	1,188 282	July 29, 2013 April 29, 2019	**—**	282
PLDT								
Php8,800M Series A: Php4,610M;	September 19, 2012	Metrobank	Series A: 1% annual amortization on the first up to sixth-year, with the balance payable on September 21, 2019;	September 21, 2012	2,055 2,741	June 21, 2013 September 23, 2019	**3,599**	6,340
Series B: Php4,190M			Series B: 1% annual amortization on the first up to ninth-year, with the balance payable on September 21, 2022					
PLDT								
Php6,200M Series A: 7-year notes Php3,775M;	November 20, 2012	BDO Unibank, Inc., or BDO	Series A: 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 22, 2019;	November 22, 2012	3,549	February 22, 2019	**2,279**	5,828
Series B: 10-year notes Php2,425M			Series B: 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					
PLDT								
Php2,055M Series A: Php1,735M;	June 14, 2013	Metrobank	Series A: Annual amortization rate of 1% of the issue price up to the fifth-year and the balance payable upon maturity on September 21, 2019;	June 21, 2013	1,644	September 23, 2019	**298**	1,932
Series B: Php320M			Series B: Annual amortization rate of 1% of the issue price up to the eighth-year and the balance payable upon maturity on September 21, 2022					
PLDT								
Php1,188M	July 19, 2013	Metrobank	Annual amortization rate of 1% of the issue on the first-year up to the fifth-year from the issue date and the balance payable upon maturity on July 27, 2019	July 29, 2013	1,129	April 29, 2019	**—**	1,129
							6,176	15,511

(1) *The purpose of this loan is to finance capital expenditures and/or refinance existing loan obligations which were utilized for network expansion and improvement programs.*

Loan Amount	Date of Loan Agreement	Paying Agent	Terms	Date of Issuance/ Drawdown	Payments Amount Php	Payments Date	Outstanding Amounts September 30, 2019 (Unaudited) Php	Outstanding Amounts December 31, 2018 (Audited) Php
					(in millions)		(in millions)	
Fixed Rate Retail Bonds [(1)]								
PLDT								
Php15,000M	January 22, 2014	Philippine Depositary Trust Corp.	Php12.4B – non-amortizing, payable in full upon maturity on February 6, 2021; Php2.6B – non-amortizing payable in full on February 6, 2024	February 6, 2014	—	—	**14,960** [(*)]	14,943 [(*)]

[(*)] *Amounts are net of unamortized debt discount and/or debt issuance cost.*
[(1)] *The purpose of this loan is to finance capital expenditures and/or refinance existing loan obligations which were utilized for network expansion and improvement programs.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts September 30, 2019 (Unaudited) Php	Outstanding Amounts December 31, 2018 (Audited) Php
					(in millions)			(in millions)	
Term Loans									
Unsecured Term Loans [(1)]									
PLDT									
Php2,000M	March 20, 2012	RCBC	Annual amortization rate of 1% on the fifth-year up to the ninth-year from the initial drawdown date and the balance payable upon maturity on April 12, 2022	April 12, 2012	2,000	—	—	**1,940**	1,960
PLDT									
Php200M	August 31, 2012	Manufacturers Life Insurance Co. (Phils.), Inc.	Payable in full upon maturity on October 9, 2019	October 9, 2012	200	—	April 10, 2019	**—**	200
PLDT									
Php1,000M	September 3, 2012	Union Bank of the Philippines, or Union Bank	Annual amortization rate of 1% on the first-year up to the sixth-year from the initial drawdown date and the balance payable upon maturity on January 13, 2020	January 11, 2013	1,000	—	—	**940**	950
PLDT									
Php1,000M	October 11, 2012	Philippine American Life and General Insurance Company, or Philam Life	Payable in full upon maturity on December 5, 2022	December 3, 2012	1,000	—	—	**1,000**	1,000
Smart									
Php3,000M	December 17, 2012	LBP	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on December 20, 2019	Various dates in 2012-2013	3,000	—	—	**2,820**	2,820
PLDT									
Php2,000M	November 13, 2013	Bank of the Philippine Islands, or BPI	Annual amortization rate of 1% on the first-year up to the sixth-year from the initial drawdown and the balance payable upon maturity on November 22, 2020	Various dates in 2013-2014	2,000	—	—	**1,900**	1,900
Smart									
Php3,000M	November 25, 2013	Metrobank	Annual amortization rate of 10% of the total amount drawn for six-years and the final installment is payable upon maturity on November 27, 2020	November 29, 2013	3,000	—	—	**1,498** [(*)]	1,497 [(*)]
								10,098	10,327

[(*)] *Amounts are net of unamortized debt discount and/or debt issuance cost.*
[(1)] *The purpose of this loan is to finance the capital expenditures and/or refinance existing loan obligations, which were utilized for service improvements and expansion programs.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts September 30, 2019 (Unaudited) Php	Outstanding Amounts December 31, 2018 (Audited) Php
					(in millions)			(in millions)	
Smart									
Php3,000M	December 3, 2013	BPI	Annual amortization rate of 1% of the total amount drawn for the first six-years and the final installment is payable upon maturity on December 10, 2020	December 10, 2013	3,000	—	—	**2,847** (*)	2,846 (*)
Smart									
Php3,000M	January 29, 2014	LBP	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021	February 5, 2014	3,000	—	—	**2,847** (*)	2,875 (*)
Smart									
Php500M	February 3, 2014	LBP	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021	February 7, 2014	500	—	—	**475**	480
Smart									
Php2,000M	March 26, 2014	Union Bank	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on March 29, 2021	March 28, 2014	2,000	—	—	**1,900**	1,920
PLDT									
Php1,500M	April 2, 2014	Philam Life	Payable in full upon maturity on April 4, 2024	April 4, 2014	1,500	—	—	**1,500**	1,500
Smart									
Php500M	April 2, 2014	BDO	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on April 2, 2021	April 4, 2014	500	—	—	**475**	480
PLDT									
Php1,000M	May 23, 2014	Philam Life	Payable in full upon maturity on May 28, 2024	May 28, 2014	1,000	—	—	**1,000**	1,000
PLDT									
Php1,000M	June 9, 2014	LBP	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	June 13, 2014	1,000	—	—	**950**	960
PLDT									
Php1,500M	July 28, 2014	Union Bank	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 July 31, 2024	July 31, 2014	1,500	—	—	**1,425**	1,440
PLDT									
Php2,000M	February 25, 2015	BPI	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 March 24, 2025	March 24, 2015	2,000	—	—	**1,920**	1,940
PLDT									
Php3,000M	June 26, 2015	BPI	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 30, 2025	June 30, 2015	3,000	—	—	**2,880**	2,910
								18,219	18,351

(*) *Amounts are net of unamortized debt discount and/or debt issuance cost.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts September 30, 2019 (Unaudited) Php		Outstanding Amounts December 31, 2018 (Audited) Php	
					(in millions)			(in millions)			
PLDT											
Php5,000M	August 3, 2015	Metrobank	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 September 23, 2025	Various dates in 2015	5,000	—	—	**4,800**		4,850	
Smart											
Php5,000M	August 11, 2015	Metrobank	Annual amortization rate of 1% of the principal amount on the first-year up to the ninth-year commencing on the first-year anniversary of the initial drawdown date and the balance payable upon maturity on September 1, 2025	September 1, 2015	5,000	—	—	**4,784**	(*)	4,833	(*)
Smart											
Php5,000M	December 11, 2015	BPI	Annual amortization rate of 1% of the principal amount on the first-year up to the ninth-year commencing on the first-year anniversary of the initial drawdown date and the balance payable upon maturity on December 21, 2025	December 21, 2015	5,000	—	—	**4,834**	(*)	4,832	(*)
Smart											
Php5,000M	December 16, 2015	Metrobank	Annual amortization rate of 1% of the principal amount up to the tenth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on June 29, 2026	December 28, 2015	5,000	—	—	**4,833**	(*)	4,831	(*)
Smart											
Php7,000M	December 18, 2015	CBC	Annual amortization rate of 1% of the principal amount on the third-year up to the sixth-year from the initial drawdown date, with balance payable upon maturity on December 28, 2022	December 28, 2015 and February 24, 2016	7,000	—	—	**6,292**	(*)	6,289	(*)
PLDT											
Php3,000M	July 1, 2016	Metrobank	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 February 22, 2027	February 20, 2017	3,000	—	—	**2,929**	(*)	2,957	(*)
PLDT											
Php6,000M	July 1, 2016	Metrobank	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 August 30, 2023	August 30, 2016 and November 10, 2016	6,000	—	—	**5,802**	(*)	5,859	(*)
PLDT											
Php8,000M	July 14, 2016	Security Bank	Semi-annual amortization rate of 1% of the total amount drawn starting from the end of the first-year after the initial drawdown date until the ninth-year and the balance payable on maturity on March 1, 2027	February 27, 2017	8,000	—	—	**7,650**	(*)	7,807	(*)
PLDT											
Php6,500M	September 20, 2016	BPI	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 2, 2023	November 2, 2016 and December 19, 2016	6,500	—	—	**6,350**	(*)	6,346	(*)
								48,274		48,604	

(*) *Amounts are net of unamortized debt discount and/or debt issuance cost.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts September 30, 2019 (Unaudited) Php	Outstanding Amounts December 31, 2018 (Audited) Php
					(in millions)			(in millions)	
Smart									
Php3,000M	September 28, 2016	BDO	Annual amortization rate of 1% of the principal amount on the first-year up to the ninth-year commencing on the first-year anniversary of the initial drawdown date and the balance payable upon maturity on October 5, 2026	October 5, 2016	3,000	—	—	**2,940**	2,940
Smart									
Php5,400M	September 28, 2016	Union Bank	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown date and the balance payable upon maturity on October 24, 2023	October 24, 2016 and November 21, 2016	5,400	—	—	**5,283** (*)	5,281 (*)
PLDT									
Php5,300M	October 14, 2016	BPI	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 December 19, 2023	December 19, 2016	5,300	—	—	**5,177** (*)	5,175 (*)
Smart									
Php2,500M	October 27, 2016	CBC	Annual amortization rate of 10% of the amount drawn starting on the third-year up to the sixth-year, with balance payable upon maturity on December 8, 2023	December 8, 2016	2,500	—	—	**2,500**	2,500
Smart									
Php4,000M(1)	October 28, 2016	Security Bank	Semi-annual amortization rate of 1% of the total amount drawn from first-year up to the ninth-year and the balance payable upon maturity on April 5, 2027	April 5, 2017	4,000	—	—	**1,944** (*)	1,953 (*)
Smart									
Php1,000M	December 16, 2016	PNB	Annual amortization rate of 1% of the amount drawn starting on the first anniversary of the advance up to the ninth anniversary of the advance and the balance payable upon maturity on December 7, 2027	December 7, 2017	1,000	—	—	**990**	990
Smart									
Php2,000M	December 22, 2016	LBP	Annual amortization rate of 1% of the amount drawn starting on the first anniversary of the advance up to the ninth anniversary of the advance and the balance payable upon maturity on January 21, 2028	January 22, 2018	2,000	—	—	**1,980**	2,000
PLDT									
Php3,500M	December 23, 2016	LBP	Annual amortization rate of 1% on the first- year up to the ninth-year after the drawdown date and the balance payable upon maturity on April 5, 2027	April 5, 2017	3,500	—	—	**3,416** (*)	3,450 (*)
Smart									
Php1,500M	April 18, 2017	PNB	Annual amortization rate of 1% of the amount drawn starting on the first anniversary of the advance up to the sixth- year anniversary of the advance and the balance payable upon maturity on January 3, 2025	January 3, 2018	1,500	—	—	**1,485**	1,500
								25,715	25,789

(*) *Amounts are net of unamortized debt discount and/or debt issuance cost.*

(1) *The amount of Php2,000 million was prepaid on May 29, 2017.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts September 30, 2019 (Unaudited) Php	Outstanding Amounts December 31, 2018 (Audited) Php
					(in millions)			(in millions)	
PLDT									
Php2,000M	May 24, 2017	Security Bank	Semi-annual amortization rate of Php10 million starting on October 5, 2017 and every six months thereafter with the balance payable upon maturity on April 5, 2027	May 29, 2017	2,000	—	—	**1,960**	1,970
PLDT									
Php3,500 M	July 5, 2017	LBP	Annual amortization rate of 1% on the first- year up to the ninth-year after the drawdown date and the balance payable upon maturity on July 12, 2027	July 10, 2017	3,500	—	—	**3,430**	3,465
PLDT									
Php1,500M	August 29, 2017	LBP	Annual amortization rate equivalent to 1% of the total loan payable on the first-year up to the ninth-year after the drawdown date and the balance payable upon maturity on April 3, 2028	April 2, 2018	1,500	—	—	**1,485**	1,500
Smart									
Php1,000M	September 28, 2017	Union Bank	Annual amortization rate of 1% of the amount drawn starting on the first-year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on February 21, 2028	February 19, 2018	1,000	—	—	**990**	1,000
PLDT									
Php2,000M	April 19, 2018	LBP	Annual amortization rate equivalent to 1% of the total loan payable on the first-year up to the ninth-year after the drawdown date and the balance payable upon maturity on April 25, 2028	April 25, 2018	2,000	—	—	**1,980**	2,000
PLDT									
Php1,000M	April 20, 2018	LBP	Annual amortization rate equivalent to 1% of the total loan payable on the first-year up to the ninth-year after the drawdown date and the balance payable upon maturity on May 3, 2028	May 3, 2018	1,000	—	—	**990**	1,000
PLDT									
Php2,000M	May 9, 2018	BPI	Annual amortization rate equivalent to 1% of the amount drawn starting on the first- year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on May 10, 2028	May 10, 2018	2,000	—	—	**1,980**	2,000
PLDT									
Php3,000M	May 9, 2018	BPI	Annual amortization rate equivalent to 1% of the amount drawn starting on the first- year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on May 10, 2028	May 10, 2018	3,000	—	August 10, 2018	**—**	—
								12,815	12,935

(*) *Amounts are net of unamortized debt discount and/or debt issuance cost.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts September 30, 2019 (Unaudited) Php	Outstanding Amounts December 31, 2018 (Audited) Php
					(in millions)			(in millions)	
Smart									
Php2,000M	May 25, 2018	BPI	Annual amortization rate equivalent to 1% of the amount drawn starting on the first- year anniversary of the advance up to the fifth-year anniversary of the advance and the balance payable upon maturity on May 28, 2024	May 28, 2018	2,000	—	—	**1,968** (*)	1,986 (*)
Smart									
Php1,500M	June 27, 2018	Development Bank of the Philippines, or DBP	Annual amortization rate equivalent to 1% of the amount drawn starting on the third-year anniversary of the advance up to the fifth-year anniversary of the advance and the balance payable upon maturity on June 28, 2024	June 28, 2018	1,500	—	—	**1,500**	1,500
Smart									
Php3,000M	July 31, 2018	BPI	Annual amortization rate equivalent to 1% of the amount drawn starting on the first-year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on May 10, 2028	August 10, 2018	3,000	—	—	**2,950** (*)	2,978 (*)
Smart									
Php5,000M	January 11, 2019	DBP	Annual amortization rate equivalent to 1% of the amount drawn starting on the third-year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on May 7, 2029	May 6, 2019 September 2, 2019	2,000 3,000	—	—	**5,000**	—
PLDT									
Php8,000M	February 18, 2019	Union Bank	Annual amortization rate equivalent to 1% of the amount drawn starting on the first-year anniversary up to the ninth-year anniversary of the initial drawdown date and the balance payable upon maturity on July 11, 2029	July 11, 2019 September 6, 2019 October 1, 2019 November 5, 2019	3,000 2,000 1,000 2,000	—	—	**4,978**	—
Smart									
Php4,000M	February 21, 2019	PNB	Annual amortization rate equivalent to 1% of the amount drawn starting on the first-year anniversary up to the seventh-year anniversary of the initial drawdown date and the balance payable upon maturity on March 11, 2027	March 11, 2019	4,000	—	—	**3,972** (*)	—
PLDT									
Php2,000M	April 11, 2019	Bank of China Limited, Manila Branch	Annual amortization rate equivalent to 1% of the amount of loan payable on the first-year anniversary up to the sixth-year anniversary of the initial drawdown date and the balance payable upon maturity on September 7, 2026	September 6, 2019	2,000	—	—	**2,000**	—
PLDT									
Php2,000M	July 1, 2019	PNB	Annual amortization rate equivalent to 1% of the total amount drawn from the facility on the first-year anniversary up to the sixth-year anniversary of the initial drawdown date and the balance payable upon maturity on September 7, 2026	September 6, 2019	2,000	—	—	**2,000**	—
Smart									
Php8,000M	September 25, 2019	CBC	Annual amortization rate equivalent to 10% of the total amount drawn starting on the third-year anniversary up to the ninth-year anniversary of the initial drawdown date and the balance payable upon maturity on October 2, 2029	October 2, 2019	8,000	—	—	**—**	—
								24,368	6,464
								139,489	122,470

(*) *Amounts are net of unamortized debt discount and/or debt issuance cost.*

Compliance with Debt Covenants

PLDT's debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios tests, such as total debt to EBITDA and interest cover ratio, 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 could negatively affect our ability to comply with these financial ratio covenants and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its 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 relative to the U.S. dollar, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Of our total consolidated debts, approximately 10% and 13% were denominated in U.S. dollars as at September 30, 2019 and December 31, 2018, respectively. Therefore, the financial ratio and other tests are expected to be negatively affected by any weakening of the Philippine peso relative to the U.S. dollar. See *Note 29 – 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) selling, leasing, transferring or 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.

PLDT's debt instruments 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 Smart's consolidated debt to consolidated EBITDA, debt service coverage ratio and interest coverage ratio. 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.

The loan agreements with 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 long-term indebtedness or guarantees and creation of property encumbrances.

As at September 30, 2019 and December 31, 2018, we were in compliance with all of our debt covenants. See *Note 29 – Financial Assets and Liabilities – Derivative Financial Instruments*.

Consent Solicitation Exercise of PLDT

On October 11, 2019, PLDT announced its undertaking of a consent solicitation exercise relating to the 5.2250% 7-Year Fixed Rate Bonds due 2021 and 5.2813% 10-Year Fixed Rate Bonds due 2024, to amend PLDT's maximum stand-alone Total Debt to EBITDA Ratio stipulated in the Trust Indenture from 3.0:1 to 4.0:1. The proposed amendment seeks to provide PLDT with greater flexibility to support, if necessary, higher levels of capital expenditures and general corporate requirements. Moreover, it will align the covenant ratio of PLDT's outstanding debt capital market issuances with that of the existing bilateral facilities of both PLDT and Smart.

On October 30, 2019, PLDT announced the early closing of the consent solicitation exercise from its original schedule of November 15, 2019 when the Company received the required consents to effect the proposed amendment.

Obligations under Finance Leases

The consolidated future minimum payments for finance leases and the long-term portion of obligations under finance leases (which covers leasehold improvements and various office equipment and vehicles) amounted to Php8 million and Php514 thousand as at September 30, 2019 and December 31, 2018, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Leases* and *Note 9 – Property 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.

22. Lease Liabilities

The following table summarizes all changes to lease liabilities for the nine months ended September 30, 2019 (unaudited):

	(in million pesos)
Lease liabilities at beginning of the period (Note 2)	**22,569**
Additions during the period	**2,222**
Accretion expenses (Note 5)	**1,149**
Settlement of obligations and others (Note 30)	**(4,363)**
Lease liabilities at end of the period (Note 30)	**21,577**
Less current portion of lease liabilities	**4,476**
Noncurrent portion of lease liabilities	**17,101**

23. Deferred Credits and Other Noncurrent Liabilities

As at September 30, 2019 and December 31, 2018, this account consists of:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Accrual of capital expenditures under long-term financing	**3,296**	2,965
Provision for asset retirement obligations	**1,745**	1,656
Contract liabilities and unearned revenues	**601**	532
Others	**115**	131
	5,757	5,284

Accrual of capital expenditures under long-term financing represents 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. See *Note 21 – Interest-bearing Financial Liabilities*.

The following table summarizes all changes to asset retirement obligations for the nine months ended September 30, 2019 and for the year ended December 31, 2018:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Provision for asset retirement obligations at beginning of the period	**1,656**	1,630
Additional liability recognized during the period	**115**	161
Accretion expenses	**61**	47
Settlement of obligations and others	**(87)**	(182)
Provision for asset retirement obligations at end of the period	**1,745**	1,656

24. Accounts Payable

As at September 30, 2019 and December 31, 2018, this account consists of:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Suppliers and contractors (Note 29)	**73,956**	69,099
Taxes (Note 28)	**1,823**	1,789
Carriers and other customers (Note 29)	**1,336**	1,815
Related parties (Notes 26 and 29)	**613**	684
Others	**1,702**	1,223
	79,430	74,610

Accounts payable are non-interest-bearing and are normally settled within 180 days.

For terms and conditions pertaining to the payables to related parties, see *Note 26 – Related Party Transactions*.

For detailed discussion on the PLDT Group's liquidity risk management processes, see *Note 29 – Financial Assets and Liabilities – Liquidity Risk*.

25. Accrued Expenses and Other Current Liabilities

As at September 30, 2019 and December 31, 2018, this account consists of:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Accrued utilities and related expenses (Notes 26 and 29)	**59,780**	57,748
Accrued taxes and related expenses (Note 28)	**11,425**	11,885
Accrued employee benefits and other provisions (Notes 26, 27 and 29)	**8,648**	7,980
Liability from redemption of preferred shares (Notes 20 and 29)	**7,853**	7,862
Contract liabilities and unearned revenues	**7,743**	6,650
Accrued interests and other related costs (Note 30)	**1,409**	1,347
Others	**2,192**	2,252
	99,050	95,724

Accrued utilities and related expenses pertain to costs incurred for electricity and water consumption, repairs and maintenance, selling and promotions, professional and other contracted services, rent, insurance and security services. These liabilities are non-interest bearing and are normally settled within a year.

Accrued taxes and related expenses pertain to licenses, permits and other related business taxes, which are normally settled within a year.

Unearned revenues represent advance payments for leased lines, installation fees, monthly service fees and unused and/or unexpired portion of prepaid loads.

Other accrued expenses and other current liabilities are non-interest-bearing and are normally settled within a year. This pertains to other costs incurred for operations-related expenses pending receipt of invoice and statement of accounts from suppliers.

26. 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. Transactions with related parties are on an arm's length basis, similar to transactions with third parties.

Settlement of outstanding balances of related party transactions at year-end are expected to be settled with cash.

The following table provides the summary of outstanding balances as at September 30, 2019 and December 31, 2018 transactions that have been entered into with related parties:

	Classifications	Terms	Conditions	**September 30, 2019 (Unaudited)**	December 31, 2018 (Audited)
				(in million pesos)	
Indirect investment in joint ventures through PCEV:					
Meralco	Accrued expenses and other current liabilities (Note 25)	Electricity charges – immediately upon receipt of invoice	Unsecured	**427**	518
	Accrued expenses and other current liabilities (Note 25)	Pole rental – 45 days upon receipt of billing	Unsecured	**—**	209
Meralco Industrial Engineering Services Corporation, or MIESCOR	Accrued expenses and other current liabilities (Note 25)	30 days upon receipt of invoice	Unsecured	**3**	3
MPIC	Financial assets at FVOCI - net of current portion (Note 11)	Due on April 2020 to June 2021 for 2019 and due on January 2020 to June 2021 for 2018; non-interest-bearing	Unsecured	**161**	2,749
	Current portion of financial assets at FVOCI (Note 11)	Due on March 2020 for 2019 and due on December 2019 for 2018; non-interest-bearing	Unsecured	**2,718**	1,604
Transactions with major stockholders, directors and officers:					
NTT Finance Corporation	Interest-bearing financial liabilities (Note 21)	Non-amortizing, payable upon maturity on March 30, 2023 and March 27, 2024	Unsecured	**2,590**	2,628
NTT World Engineering Marine Corporation	Accrued expenses and other current liabilities (Note 25)	1st month of each quarter; non-interest-bearing	Unsecured	**98**	84
NTT Communications	Accrued expenses and other current liabilities (Note 25)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**11**	20
NTT Worldwide Telecommunications Corporation	Accrued expenses and other current liabilities (Note 25)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**1**	3
NTT DOCOMO	Accrued expenses and other current liabilities (Note 25)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**6**	12
JGSHI and Subsidiaries	Accounts payable and accrued expenses and other current liabilities (Notes 24 and 25)	Immediately upon receipt of invoice	Unsecured	**9**	13
Malayan Insurance Co., Inc. or Malayan	Prepayments (Note 19)	Immediately upon receipt of invoice	Unsecured	**38**	19
	Accrued expenses and other current liabilities (Note 25)	Immediately upon receipt of invoice	Unsecured	**89**	6
Gotuaco del Rosario and Associates, or Gotuaco	Accrued expenses and other current liabilities (Note 25)	Immediately upon receipt of invoice	Unsecured	**4**	5
Others:					
Cignal Cable Corporation, or Cignal Cable (formerly Dakila Cable TV Corp.)	Prepayments (Note 19)	—	Unsecured	**—**	169
Various	Trade and other receivables (Note 17)	30 days upon receipt of invoice	Unsecured	**2,165**	2,094
	Accounts payable (Note 24)	Immediately upon receipt of billing	Unsecured	**727**	684
	Accrued expenses and other current liabilities (Note 25)	Immediately upon receipt of billing	Unsecured	**28**	9

The following table provides the summary of transactions that have been entered into with related parties for the nine months ended September 30, 2019 and 2018 in relation with the table above.

	Classifications	September 30, 2019	September 30, 2018
		(Unaudited)	
		(in million pesos)	
Indirect investment in joint ventures through PCEV:			
Meralco	Repairs and maintenance	**1,900**	1,704
	Depreciation and amortization	**164**	—
	Rent	**29**	444
MIESCOR	Repairs and maintenance	**—**	25
	Construction-in-progress	**—**	19
Transactions with major stockholders, directors and officers:			
NTT Finance Corporation	Financing costs	**80**	73
NTT World Engineering Marine Corporation	Repairs and maintenance	**48**	28
NTT Communications	Professional and other contracted services	**72**	71
	Rent	**—**	3
NTT Worldwide Telecommunications Corporation	Selling and promotions	**4**	4
NTT DOCOMO	Professional and other contracted services	**53**	72
JGSHI and Subsidiaries	Rent	**41**	158
	Repairs and maintenance	**26**	40
	Communication, training and travel	**8**	14
	Miscellaneous expenses	**13**	2
Malayan	Insurance and security services	**176**	148
Gotuaco	Insurance and security services	**113**	116
Asia Link B.V., or ALBV	Professional and other contracted services	**—**	34
First Pacific Investment Management Limited, or FPIML	Professional and other contracted services	**117**	94
Others:			
TV5	Selling and promotions	**23**	197
Cignal Cable	Cost of services	**224**	277
Various	Revenues	**1,715**	1,549
	Expenses	**1,139**	1,404

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. Total electricity costs, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php1,900 million and Php1,704 million for the nine months ended September 30, 2019 and 2018, 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 Php427 million and Php518 million as at September 30, 2019 and December 31, 2018, respectively.

PLDT and Smart have 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 depreciation and amortization in our consolidated income statements, amounted to Php164 million and nil for the nine months ended September 30, 2019 and 2018, respectively. Total fees under these contracts, which were presented as part of rent in our consolidated income statements, amounted to Php29 million and Php444 million for the nine months ended September 30, 2019 and 2018, 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 Php277 thousand and Php209 million as at September 30, 2019 and December 31, 2018, respectively.

b. *Agreements between PLDT and MIESCOR*

PLDT has an existing Outside and Inside Plant Contracted Services Agreement with MIESCOR, a subsidiary of Meralco, which expired on December 31, 2018. Under the agreement, MIESCOR assumes full and overall responsibility for the implementation and completion of any assigned project such as cable and civil works 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 nil and Php96 thousand for the nine months ended September 30, 2019 and 2018, respectively. Total amounts capitalized to property and equipment amounted to nil and Php2 million for the nine months ended September 30, 2019 and 2018, 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 Php185 thousand each as at September 30, 2019 and December 31, 2018.

PLDT also has an existing Customer Line Installation, Repair, Rehabilitation and Maintenance Activities (formerly One Area One Partner for Outside Plant Subscriber Line Rehabilitation, Repair, Installation and Related Activities) agreement with MIESCOR, which expired on December 31, 2018. Under the agreement, MIESCOR is responsible for the subscriber main station installation, repairs and maintenance of outside and inside plant network facilities in the areas awarded to them.

Total fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to nil and Php25 million for the nine months ended September 30, 2019 and 2018, respectively. Total amounts capitalized to property and equipment amounted to nil and Php17 million for the nine months ended September 30, 2019 and 2018, 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 Php3 million each as at September 30, 2019 and December 31, 2018.

c. *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 September 30, 2019 and December 31, 2018, and for the nine months ended September 30, 2019 and 2018 are as follows:

1. *Term Loan Facility Agreements with NTT Finance Corporation*

On March 22, 2016, PLDT signed a US$25 million term loan facility agreement with NTT Finance Corporation to finance its capital expenditure requirements for network expansion and service improvement and/or refinancing existing indebtedness. The loan is payable upon maturity on March 30, 2023. The loan was fully drawn on March 30, 2016. Total interest under this agreement, which were presented as part of financing costs in our consolidated income statements, amounted to Php40 million and Php36.5 million for the nine months ended September 30, 2019 and 2018, respectively. The amounts of US$25 million, or Php1,295 million, and US$25 million, or Php1,314 million, remained outstanding as at September 30, 2019 and December 31, 2018, respectively.

Another US$25 million term loan facility was signed with NTT Finance Corporation on January 31, 2017 to finance its capital expenditure requirements for network expansion and service improvement and/or refinancing existing indebtedness. The loan is payable upon maturity on March 27, 2024. The loan was fully drawn on March 30, 2017. Total interest under this agreement, which were presented as part of financing costs in our consolidated income statements, amounted to Php40 million and Php36.5 million for the nine months ended September 30, 2019 and 2018, respectively. The amount of US$25 million, or Php1,295 million, and US$25 million, or Php1,314 million, remained outstanding as at September 30, 2019 and December 31, 2018, respectively.

2. *Various 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 Php48 million and Php28 million for the nine months ended September 30, 2019 and 2018, 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 Php98 million and Php84 million as at September 30, 2019 and December 31, 2018, 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 Php72 million and Php71 million for the nine months ended September 30, 2019 and 2018, 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 Php8 million and Php16 million as at September 30, 2019 and December 31, 2018, 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 nil and Php3 million for the nine months ended September 30, 2019 and 2018, 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 Php3 million and Php4 million as at September 30, 2019 and December 31, 2018, 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 Php4 million each for the nine months ended September 30, 2019 and 2018. 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 Php1 million and Php3 million as at September 30, 2019 and December 31, 2018, respectively.

3. *Advisory Services Agreement between NTT DOCOMO and PLDT*

On June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006, an Advisory Services Agreement was entered into by NTT DOCOMO and PLDT. 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 Php53 million and Php72 million for the nine months ended September 30, 2019 and 2018, 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 Php6 million and Php12 million as at September 30, 2019 and December 31, 2018, respectively.

4. *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 Php41 million and Php158 million for the nine months ended September 30, 2019 and 2018, 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 Php6 million and Php10 million as at September 30, 2019 and December 31, 2018, respectively.

There were also other transactions such as communication, training and travel, repairs and maintenance and miscellaneous expenses in our consolidated income statements, amounting to Php47 million and Php56 million for the nine months ended September 30, 2019 and 2018, respectively. Under these agreements, the outstanding obligations for these transactions, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php3 million each as at September 30, 2019 and December 31, 2018.

5. *Transactions with Malayan*

PLDT and certain of its subsidiaries have insurance policies with Malayan covering directors, officers, liability to employees 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 Php176 million and Php148 million for the nine months ended September 30, 2019 and 2018, respectively. Under this agreement, outstanding prepayments, which were presented as part of prepayments in our consolidated statements of financial position, amounted to Php38 million and Php19 million as at September 30, 2019 and December 31, 2018, 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 Php89 million and Php6 million as at September 30, 2019 and December 31, 2018, respectively.

6. *Transactions with Gotuaco*

Gotuaco acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. Total fees under these contracts, which were presented as part of insurance and security services in our consolidated income statement, amounted to Php113 million and Php116 million for the nine months ended September 30, 2019 and 2018, respectively. Under this agreement, the outstanding prepayments, which were presented as part of prepayments in our consolidated statements of financial position, amounted to nil as at September 30, 2019 and December 31, 2018. 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 Php4 million and Php5 million as at September 30, 2019 and December 31, 2018, respectively.

7. *Agreement between Smart and ALBV*

Smart had a 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 which 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. The agreement expired on February 23, 2018. 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 nil and Php34 million for the nine months ended September 30, 2019 and 2018, respectively. There were no outstanding obligations under this agreement as at September 30, 2019 and December 31, 2018.

8. *Agreement between Smart and FPIML*

On March 1, 2018, Smart entered into an Advisory Services Agreement with FPIML, a subsidiary of the First Pacific Group and its Philippine affiliates. The agreement shall be effective for a period of one-year subject to a 12-month automatic renewal unless either party notifies the other party of its intent not to renew the agreement. FPIML provides advisory and related services in connection with the operation of Smart's business of providing mobile communications services, high-speed internet connectivity, and access to digital services and content. The agreement provides that Smart shall pay monthly service fee of $250 thousand and any additional fee shall be mutually agreed upon by both parties on a monthly basis. Total professional fees under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php117 million and Php94 million for the nine months ended September 30, 2019 and 2018, respectively. There were no outstanding payable under this agreement as at September 30, 2019 and December 31, 2018.

9. *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 the SPA 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 September 30, 2019 and December 31, 2018.

- *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.

d. Others

1. Agreement of PLDT and Smart with 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 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. In June 2014, Smart and TV5 agreed to amend the liquidation schedule under the original advertising placement agreement by extending the term of expiry from 2015 to 2018. Total selling and promotions under the advertising placement agreements amounted to Php23 million and Php197 million for the nine months ended September 30, 2019 and 2018, respectively. There were no prepayments under this advertising placement agreements as at September 30, 2019 and December 31, 2018.

2. *Agreement of PLDT, Smart and DMPI with Cignal Cable*

   In May 2015, PLDT, Smart and DMPI entered into a four-year agreement with Cignal Cable commencing with the launch of the OTT video-on-demand service, or *iflix* service, in the Philippines on June 18, 2015. *iflix* service is provided by iFlix Sdn Bhd and Cignal Cable is the authorized reseller of the *iflix* service in the Philippines. Under the agreement, PLDT, Smart and DMPI were appointed by Cignal Cable to act as its internet service providers with an authority to resell and distribute the *iflix* service to their respective subscribers on a monthly and annual basis. Content cost recognized for the nine months ended September 30, 2019 and 2018 amounted to Php224 million and Php277 million, respectively. Under this agreement, outstanding prepayments, which were presented as part of prepayments in our consolidated statements of financial position, amounted to nil and Php169 million as at September 30, 2019 and December 31, 2018, respectively. There were no outstanding obligations under this agreement as at September 30, 2019 and December 31, 2018.

3. *Telecommunications services provided by PLDT and certain of its subsidiaries and other transactions with various related parties*

   PLDT and certain of its subsidiaries provide telephone, data communication and other services to various related parties. The revenues under these services amounted to Php1,715 million and Php1,549 million for the nine months ended September 30, 2019 and 2018, respectively. The expenses under these services amounted to Php1,139 million and Php1,404 million for the nine months ended September 30, 2019 and 2018, 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 amounted to Php2,165 million and Php2,094 million as at September 30, 2019 and December 31, 2018, respectively. Under these agreements, the outstanding obligations, which were presented as part of accounts payable in our consolidated statements of financial position amounted to Php727 million and Php684 million as at September 30, 2019 and December 31, 2018, respectively, and accrued expenses and other current liabilities amounted to Php28 million and Php9 million as at September 30, 2019 and December 31, 2018, respectively.

   See *Note 11 – Investments in Associates and Joint Ventures – Investment in MediaQuest PDRs* and *Sale of PCEV's Beacon Preferred Shares to MPIC* 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 nine months ended September 30, 2019 and 2018 are as follows:

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Short-term employee benefits	**227**	281
Share-based payments (Note 27)	**123**	33
Post-employment benefits (Note 27)	**16**	22
Total compensation paid to key officers of the PLDT Group	**366**	336

The amounts disclosed in the table above are the amounts recognized as expenses during the period related to key management personnel.

Effective January 2014, each of the directors, including the members of the advisory board of PLDT, was entitled to a director's fee in the amount of Php250 thousand for each board meeting attended. Each of the members or advisors of the audit, executive compensation, governance and nomination, and technology strategy committees was entitled to a fee in the amount of Php125 thousand for each committee meeting attended.

Total fees paid for board meetings and board committee meetings amounted to Php55 million and Php43 million for the nine months ended September 30, 2019 and 2018, respectively.

Except for the fees mentioned above, the directors are not compensated, directly or indirectly, for their services as such.

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.

27. 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 Co." and covering 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.

PLDT's actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of accrued (prepaid) benefit costs for the nine months ended September 30, 2019 and for the year ended December 31, 2018, and net periodic benefit costs and average assumptions used in developing the valuation as at and for the nine months ended September 30, 2019 and 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Changes in the present value of defined benefit obligations:		
Present value of defined benefit obligations at beginning of the period	**20,683**	21,503
Interest costs on benefit obligation	**1,017**	1,227
Service costs	**686**	1,063
Actual benefits paid/settlements	**(4,088)**	(887)
Actuarial losses – experience	**—**	419
Actuarial gains – economic assumptions	**—**	(2,611)
Curtailments and others (Note 5)	**(30)**	(31)
Present value of defined benefit obligations at end of the period	**18,268**	20,683
Changes in fair value of plan assets:		
Fair value of plan assets at beginning of the period	**13,539**	12,534
Actual contributions	**5,275**	5,110
Interest income on plan assets	**733**	770
Return on plan assets (excluding amount included in net interest)	**(1,910)**	(3,988)
Actual benefits paid/settlements	**(4,088)**	(887)
Fair value of plan assets at end of the period	**13,549**	13,539
Unfunded status – net	**(4,719)**	(7,144)
Accrued benefit costs	**4,735**	7,159
Prepaid benefit costs (Note 19)	**16**	15

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Components of net periodic benefit costs:		
Service costs	**686**	772
Interest costs – net	**284**	343
Curtailment/settlement losses and other adjustments	**—**	—
Net periodic benefit costs (Note 5)	**970**	1,115

Actual net losses on plan assets amounted to Php1,177 million and Php2,408 million for the nine months ended September 30, 2019 and 2018, respectively.

Based on the latest actuarial valuation, our expected contribution to the defined benefit plan in 2019 will amount to Php1,217 million.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at September 30, 2019:

	(in million pesos)
2019[1]	368
2020	396
2021	566
2022	768
2023	1,102
2024 to 2064	105,007

[1] *October 1, 2019 through December 31, 2019.*

The average duration of the defined benefit obligation at the end of the reporting period is 6 to 19 years.

The weighted average assumptions used to determine pension benefits for the nine months ended September 30, 2019 and 2018 are as follows:

	September 30,	
	2019	2018
	(Unaudited)	
Rate of increase in compensation	**6.0%**	6.0%
Discount rate	**7.3%**	5.3%

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 September 30, 2019 and December 31, 2018, assuming if all other assumptions were held constant:

	Increase (Decrease)	
	(in million pesos)	
Discount rate	1%	(664)
	(1%)	1,011
Future salary increases	1%	1,015
	(1%)	(679)

PLDT's 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 nor 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 the Plan's 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.

The following table sets forth the fair values, which are equal to the carrying values, of PLDT's plan assets recognized as at September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Unlisted equity investments	**10,732**	10,707
Shares of stock	**2,092**	2,066
Corporate bonds	**142**	133
Government securities	**27**	31
Mutual funds	**12**	4
Total noncurrent financial assets	**13,005**	12,941
Current Financial Assets		
Cash and cash equivalents	**439**	499
Receivables	**11**	8
Total current financial assets	**450**	507
Total PLDT's Plan Assets	**13,455**	13,448
Subsidiaries Plan Assets	**93**	91
Total Plan Assets of Defined Benefit Pension Plans	**13,548**	13,539

Investment in shares of stocks is valued using the latest bid price at the reporting date. Investments in corporate bonds, mutual funds and government securities are valued using the market values at reporting date.

Unlisted Equity Investments

As at September 30, 2019 and December 31, 2018, this account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)	**September 30, 2019 (Unaudited)**	December 31, 2018 (Audited)
	% of Ownership		(in million pesos)	
MediaQuest	**100%**	100%	**10,022**	10,022
Tahanan Mutual Building and Loan Association, Inc., or TMBLA, (net of subscriptions payable of Php32 million)	**100%**	100%	**492**	474
BTFHI	**100%**	100%	**218**	211
Superior Multi Parañaque Homes, Inc., or SMPHI	**—**	—	**—**	—
Bancholders, Inc., or Bancholders	**—**	—	**—**	—
			10,732	10,707

Investments 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.

Investments in MediaQuest are carried at fair value. The VIU calculations were derived from cash flow projections over a period of three to five years based on the 2019 financial budgets approved by the MediaQuest's Board of Directors and calculated terminal value. Other key assumptions used in the cash flow projections include revenue growth rate, direct costs and capital expenditures. The pre-tax discount rates applied to cash flow projections range from 11.23% to 13.10%. Cash flows beyond the five-year period are determined using 0% to 5.8% growth rates.

On May 8, 2012, the Board of Trustees of the PLDT 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 through Satventures (Cignal TV PDRs). On the same date, MediaQuest Board of Directors approved the investment in Cignal TV PDRs by ePLDT, which gave 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.

On January 25, 2013, the Board of Trustees of the PLDT 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 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 and Cignal TV PDRs were subsequently issued on September 27, 2013, providing ePLDT an effective 64% economic interest in Cignal TV.

Also, on January 25, 2013, the Board of Trustees of the PLDT 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). 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, Philippine Daily Inquirer, and Business World. From June 2013 to October 2013, MediaQuest received from ePLDT an amount aggregating to Php1.95 billion representing deposits for future PDRs subscription.

On February 19, 2014, ePLDT's Board of Directors approved an additional Php500 million investment in Hastings PDRs. On March 11, 2014, MediaQuest received from ePLDT an amount aggregating to Php300 million representing deposits for future PDRs subscription. As at December 31, 2014, total deposit for PDRs subscription amounted to Php2,250 million.

On May 21, 2015, ePLDT's Board of Directors approved an additional Php800 million investment in Hastings PDRs and settlement of the Php200 million balance of the Php500 million Hastings PDR investment in 2014. Subsequently, on May 30, 2015, the Board of Trustees of the PLDT Beneficial Trust Fund and the Board of Directors of MediaQuest approved the issuance of Php3,250 million Hastings PDRs. This provided ePLDT with 70% economic interest in Hastings. In February 2018, ePLDT entered into a Deed of Assignment with the Board of Trustees of the PLDT Beneficial Trust Fund transferring the Hastings PDRs for Php1,664 million. See *Note 11 – Investments in Associates and Joint Ventures – Investment in MediaQuest PDRs*.

In 2016 and 2017, the Board of Trustees of the PLDT Beneficial Trust Fund approved additional investment in MediaQuest amounting to Php5,500 million and Php2,500 million, respectively, to fund MediaQuest's investment requirements. The full amount was fully drawn by MediaQuest during 2016 and 2017.

In 2018, the Board of Trustees of the PLDT Beneficial Trust Fund approved the additional investment in MediaQuest amounting to Php2,700 million to fund MediaQuest's investment requirements. The full amount was fully drawn by MediaQuest during 2018. Loss on changes in fair value of the investments for the years ended December 31, 2018 amounting to Php3,038 million was recognized in the statements of changes in net assets available for plan benefits under "Net fair value gain (loss) on investments."

In 2019, the Board of Trustees of the PLDT Beneficial Trust Fund approved the additional investment in MediaQuest amounting to Php1,650 million to fund MediaQuest's investment requirements. As at September 30, 2019, MediaQuest has already drawn a total amount of Php1,350 million. Loss on changes in fair value of the investment for the nine months ended September 30, 2019 amounting to Php1,350 million was recognized in the statements of changes in net assets available for plan benefits under "Net fair value gain (loss) on investments."

On October 31, 2019, the Board of Trustees of the PLDT Beneficial Trust Fund approved another Php1,450 million investment in MediaQuest to fund MediaQuest's additional investment requirements.

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. The cumulative change in the fair market values of this investment amounted to Php412 million and Php394 million as at September 30, 2019 and December 31, 2018, 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 Php7 million each for the nine months ended September 30, 2019 and 2018. Dividend receivables amounted to Php2 million each as at September 30, 2019 and December 31, 2018.

Investment in SMPHI

SMPHI was incorporated primarily to engage in the real estate business. As at December 31, 2017, its assets consist mainly of investment in land. SMPHI received short-term, non-interest-bearing advances from the beneficial trust fund mainly to finance expenses to maintain its investment property. On May 25, 2018, the shares of stocks of SMPHI was sold to a third party for Php142 million.

Investment in Bancholders

Bancholders was incorporated primarily to purchase, own, invest in or acquire shares of stock, bonds, bills, warrants and other negotiable instruments, securities or evidences of indebtedness of any other corporation and to own, hold and dispose the same, without engaging in the business of or acting as an investment company or as securities broker or dealer. The cumulative change in the fair market value of this investment amounted to losses of Php93 million as at December 31, 2017. On April 21, 2017, the Board of Directors of Bancholders approved the amendment of its Articles of Incorporation, shortening its corporate term, to end on June 30, 2018. This amendment was subsequently approved by the Philippine SEC on July 11, 2017. As at December 31, 2018, the investment account has been closed to receivables pending the completion of Bancholders's liquidation procedure.

Shares of Stocks

As at September 30, 2019 and December 31, 2018, this account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(in million pesos)	
Common shares		
PSE	**1,178**	1,185
PLDT	**30**	30
Others	**524**	491
Preferred shares	**360**	360
	2,092	2,066

Dividends earned on PLDT common shares amounted to Php2 million each for the nine months ended September 30, 2019 and 2018.

Preferred shares represent 300 million unlisted preferred shares of PLDT at Php10 par value, net of subscription payable of Php2,640 million as at September 30, 2019 and December 31, 2018, respectively. 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 Php37 million each for the nine months ended September 30, 2019 and 2018.

Corporate Bonds

Investment in corporate bonds includes various long-term peso and dollar denominated bonds with maturities ranging from February 2020 to May 2027 and fixed interest rates from 3.95% to 7.06% per annum. Total investment in corporate bonds amounted to Php142 million and Php133 million as at September 30, 2019 and December 31, 2018, respectively.

Government Securities

Investment in government securities includes Fixed Rate Treasury Notes bearing interest rate of 5.88% per annum and zero rated US Treasury Bills. These securities are fully guaranteed by the governments of the Republic of the Philippines and United States of America. Total investment in government securities amounted to Php27 million and Php31 million as at September 30, 2019 and December 31, 2018, respectively.

Mutual Funds

Investment in mutual funds includes a local equity funds, which aims to out-perform benchmarks in various indices as part of its investment strategy. Total investment in mutual funds amounted to Php12 million and Php4 million as at September 30, 2019 and December 31, 2018, respectively.

The allocation of the fair value of the assets for the PLDT pension plan as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Investments in listed and unlisted equity securities	**96%**	95%
Temporary cash investments	**3%**	4%
Debt and fixed income securities	**1%**	1%
	100%	100%

Defined Contribution Plans

Smart's 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 their compliance with R.A. 7641. As at September 30, 2019 and December 31, 2018, Smart and certain of its subsidiaries were in compliance with the requirements of R.A. 7641.

Smart's and certain of its subsidiaries' actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of prepaid benefit costs for the nine months ended September 30, 2019 and for the year ended December 31, 2018, and the net periodic benefit costs and average assumptions used in developing the valuation for the nine months ended September 30, 2019 and 2018 are as follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
	(in million pesos)	
Changes in the present value of defined benefit obligations:		
Present value of defined benefit obligations at beginning of the period	**2,804**	2,490
Service costs	**170**	314
Curtailment and others	**50**	—
Present value of defined benefit obligations at end of the period	**3,024**	2,804
Changes in fair value of plan assets:		
Fair value of plan assets at beginning of the period	**3,159**	2,862
Actual contributions	**86**	297
Fair value of plan assets at end of the period	**3,245**	3,159
Funded status – net	**221**	355
Accrued benefit costs	**—**	23
Prepaid benefit costs (Note 19)	**221**	378

	September 30,	
	2019	2018
	(Unaudited)	
	(in million pesos)	
Components of net periodic benefit costs:		
Service costs	**170**	237
Interest costs – net	**—**	—
Net periodic benefit costs (Note 5)	**170**	237

Smart's net consolidated pension benefit costs amounted to Php170 million and Php237 million for the nine months ended September 30, 2019 and 2018, respectively.

Actual net gains on plan assets amounted to nil for the nine months ended September 30, 2019 and 2018.

Based on the latest actuarial valuation, Smart and certain of its subsidiaries expect to contribute the amount of approximately Php260 million to the plan in 2019.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at September 30, 2019:

	(in million pesos)
2019[1]	37
2020	160
2021	87
2022	114
2023	147
2024 to 2060	1,360

[1] *October 1, 2019 through December 31, 2019.*

The average duration of the defined benefit obligation at the end of the reporting period is 12 to 20 years.

The weighted average assumptions used to determine pension benefits for the nine months ended September 30, 2019 and 2018 are as follows:

	September 30,	
	2019	2018
	(Unaudited)	
Rate of increase in compensation	**5.0%**	5.0%
Discount rate	**5.8%**	5.8%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at September 30, 2019, assuming if all other assumptions were held constant:

	Increase (Decrease)	
	(in million pesos)	
Discount rate	(1%)	11
	1%	(6)
Future salary increases	1%	11
	(1%)	(6)

Smart's Retirement Plan

The fund is being managed and invested by BPI Asset Management and Trust Corporation, 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 September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Domestic fixed income	**2,034**	1,854
International equities	**751**	550
Philippine foreign currency bonds	**627**	165
Domestic equities	**604**	333
International fixed income	**213**	—
Total noncurrent financial assets	**4,229**	2,902
Current Financial Assets		
Cash and cash equivalents	**52**	891
Receivables	**27**	1
Total current financial assets	**79**	892
Total plan assets	**4,308**	3,794
Employee's share, forfeitures and mandatory reserve account	**1,063**	635
Total Plan Assets of Defined Contribution Plans	**3,245**	3,159

Domestic Fixed Income

Investments in domestic fixed income include Philippine peso denominated bonds, such as government securities and corporate debt securities, with fixed interest rates from 2.8% to 12.0% per annum. Total investments in domestic fixed income amounted to Php2,034 million and Php1,854 million as at September 30, 2019 and December 31, 2018, respectively.

International Equities

Investments in international equities include mutual funds managed by Wellington Management Company, VanEck, BlackRock Fund Advisors, State Street Global Advisors and BPI Asset Management and Trust Corporation. Total investment in international equities amounted to Php751 million and Php550 million as at September 30, 2019 and December 31, 2018, respectively.

Philippine Foreign Currency Bonds

Investments in Philippine foreign currency bonds include U.S. dollar denominated fixed income instruments issued by the Philippine government and local corporations with fixed interest rates from 3.70% to 10.63% per annum. Total investment in Philippine foreign currency bonds amounted to Php627 million and Php165 million as at September 30, 2019 and December 31, 2018, respectively.

Domestic Equities

Investments in domestic equities include direct equity investments in common shares listed in the PSE. These investments earn on stock price appreciation and dividend payments. Total investment in domestic equities amounted to Php604 million and Php333 million as at September 30, 2019 and December 31, 2018, respectively. This includes investment in PLDT shares with fair value of Php15 million each as at September 30, 2019 and December 31, 2018.

International Fixed Income

Investments in international fixed income include mutual funds managed by BlackRock Fund Advisors. Total investments in international fixed income amounted to Php213 million and nil as at September 30, 2019 and December 31, 2018, respectively.

Cash and Cash Equivalents

This pertains to the fund's excess liquidity in Philippine peso and U.S. dollars including investments in time deposits, money market funds and other deposit products of banks with duration or tenor less than a 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 cash flows 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 invest 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 assess 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 September 30, 2019 and December 31, 2018 is as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Investments in debt and fixed income securities and others	**68%**	77%
Investments in listed and unlisted equity securities	**32%**	23%
	100%	100%

Other Long-term Employee Benefits

On September 26, 2017, the Board of Directors of PLDT approved the TIP, which intends to provide incentive compensation to key officers, executives and other eligible participants who are consistent performers and contributors to the Company's strategic and financial goals. The incentive compensation will be in the form of Performance Shares, PLDT common shares of stock, which will be released in three annual grants on the condition, among others, that pre-determined consolidated core net income targets are successfully achieved over three annual performance periods from January 1, 2017 to December 31, 2019. On September 26, 2017, the Board of Directors approved the acquisition of 860 thousand Performance Shares to be awarded under the TIP. On March 7, 2018, the ECC of the Board approved the acquisition of additional 54 thousand shares, increasing the total Performance Shares to 914 thousand. Metrobank, through its Trust Banking Group, is the appointed Trustee of the trust established for purposes of the TIP. The Trustee is designated to acquire the PLDT common shares in the open market through the facilities of the PSE, and administer their distribution to the eligible participants subject to the terms and conditions of the TIP.

On December 11, 2018, the Executive Compensation Committee, or ECC, of the Board approved Management's recommended modifications to the Plan, and partial equity and cash settled set-up will be implemented for the 2019 TIP Grant. The estimated fair value of remaining unpurchased shares will be given out as cash award. The fair value of the cash award relating to unpurchased shares is determined using the estimate of the fair value of the original award approved in 2017.

As at November 7, 2019, a total of 757 thousand PLDT common shares have been acquired by the Trustee, of which 302 thousand and 204 thousand PLDT common shares have been released to the eligible participants on March 28, 2019 for the 2018 annual grant and on April 5, 2018 for the 2017 annual grant, respectively. The TIP is administered by the ECC of the Board. The expense accrued for the TIP amounted to Php451 million and Php208 million as at September 30, 2019 and December 31, 2018, respectively, and is presented as equity reserves in our consolidated statements of financial position. 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*.

28. Provisions and Contingencies

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, or LGUs. As at September 30, 2019, PLDT has no contested LGU assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

Smart's Local Business and Franchise Tax Assessments

The Province of Cagayan issued a tax assessment against Smart for alleged local franchise tax. In 2011, Smart appealed the assessment to the Regional Trial Court, or RTC, of Makati 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). The RTC issued a TRO and a writ of preliminary injunction. On April 30, 2012, the RTC rendered a decision nullifying the tax assessment. The Province of Cagayan was also directed to cease and desist from imposing local franchise taxes on Smart's gross receipts. The Province of Cagayan then appealed to the Court of Tax Appeals, or CTA. In a Decision promulgated on July 25, 2013, the CTA ruled that the franchise tax assessment is null and void for lack of legal and factual justifications. Cagayan's Motion for Reconsideration was denied. Cagayan then appealed before the CTA En Banc. The CTA En Banc issued a Decision dated December 8, 2015 affirming the nullity of the tax assessment. On January 26, 2016, Province of Cagayan filed a Partial Motion for Reconsideration, praying among others, that the Court enter a new decision declaring as valid and legal the tax assessment issued by Province of Cagayan to Smart. The CTA En Banc then issued a Resolution dated June 22, 2016 denying the Partial Motion for Reconsideration filed by the Province of Cagayan for lack of merit. On July 31, 2016, the Decision dated December 8, 2015 became final and executory and recorded in the book of entries of judgement of the CTA.

In 2016, Cagayan issued another local franchise tax assessment against Smart covering years 2011-2015. Using the same grounds in the first case, Smart appealed the assessment with the RTC of Tuguegarao where the case is pending. The RTC then directed the parties to file their respective Memorandum within 30 days from date of receipt. Smart filed its Memorandum on November 7, 2018.

In 2015, the City of Manila issued assessments for alleged business tax deficiencies and cell sites regulatory fees and charges. Smart protested the assessments. After Manila denied the protest, Smart appealed to the RTC of the City of Manila, arguing that it is not liable for local business taxes on income realized from its telecommunications operations and that the assessments were a clear circumvention of Manila City Ordinance No. 8299 exempting Smart from the payment of local franchise tax. The assessment for regulatory fees was contested for being void, as they were made without a valid and legal basis. In the Decision promulgated on March 9, 2016, the RTC declared the local business tax and cell site regulatory fee assessments as invalid and void. The City of Manila filed a Petition for Review with the CTA seeking to reverse the Decision. Through a Decision dated December 18, 2017, the Court dismissed the Petition for lack of jurisdiction. On January 2018, Smart received a copy of the City of Manila's Motion for Reconsideration, which was denied by the CTA in a Resolution dated May 17, 2018. The City of Manila filed a Petition for Review dated June 1, 2018 before the CTA En Banc. Smart filed its Comment on October 23, 2018. Petition for review is submitted for decision pursuant to Resolution dated November 15, 2018.

Digitel's Franchise Tax Assessment and Real Property Tax Assessment

Digitel is discussing with various local government units as to settlement of its franchise tax and real property tax liabilities.

DMPI's Local Business and Real Property Taxes Assessments

In *DMPI vs. City of Cotabato*, DMPI filed a Petition in 2010 for Prohibition and Mandamus against the City of Cotabato due to their threats to close its cell sites brought about by the alleged real property tax delinquencies. The RTC denied the petition. DMPI appealed with the CTA. On December 29, 2017, the CTA dismissed DMPI's Petition for Review on the ground of lack of jurisdiction. On January 12, 2018, DMPI filed its Motion for Reconsideration. The CTA issued a resolution directing respondent City of Cotabato to file comment/opposition within 10 days and thereafter, the incident will be submitted for resolution. A Withdrawal of Counsel and Entry of Appearance were filed on May 7, 2018 and May 24, 2018, respectively. On May 7, 2018, the CTA promulgated a resolution denying DMPI's Motion for Reconsideration for lack of merit. A notice for Entry of Judgment was issued by the CTA on August 23, 2018. A dialogue between DMPI and the City of Cotabato was conducted for possible amicable settlement. On January 30, 2019, DMPI filed its Compliance, informing the CTA that it paid the real property tax amounting to Php3 million on December 20, 2018. The CTA noted DMPI's compliance in a Resolution dated February 12, 2019.

In the *DMPI vs. City Government of Malabon*, DMPI filed a Petition for Prohibition and Mandamus against the City of Malabon to prevent the auction sale of DMPI sites in its jurisdiction due to the alleged real property tax liabilities. DMPI was able to secure a TRO to defer the sale. Through a Compromise Judgment dated October 6, 2017, the RTC of Malabon approved the compromise agreement executed by the parties.

DMPI's Local Tower Fee Assessments

In *DMPI vs. Municipality of San Mateo*, DMPI filed in 2011 a petition for Prohibition and Mandamus with Preliminary Injunction and TRO against the Tower Fee Ordinance of the Municipality of San Mateo. In 2014, the RTC ruled in favor of DMPI and declared the ordinance void and without legal force and effect. The Municipality of San Mateo appealed the RTC Order before the CA. On April 14, 2015, the CA rendered a decision denying the Petition and affirming the Order dated May 8, 2014 of the RTC Cauayan, Isabela. The Municipality elevated to Supreme Court via petition for review on certiorari assailing the CA Decision and the Resolution dated April 14, 2015 and August 10, 2015, respectively. On December 2, 2015, the Supreme Court issued a Resolution denying the petition for failure to sufficiently show any reversible error in the challenged decision. The Supreme Court issued an Entry of Judgment of the resolution dated December 2, 2015 which became final and executory on August 9, 2016.

DMPI vs. City of Trece Martires

In 2010, DMPI petitioned to declare void the City of Trece Martires ordinance of imposing tower fee of Php150 thousand for each cell site every year. Application for the issuance of a preliminary injunction by DMPI is pending resolution as of date.

ACeS Philippines' Local Business and Franchise Tax Assessments

ACeS Philippines has a pending case with the Supreme Court (*ACeS Philippines Satellite Corporation vs. Commissioner of Internal Revenue* Supreme Court G.R. No. 226680) for alleged 2006 deficiency withholding tax. On July 23, 2014, the CTA Second Division affirmed the assessment of the Commissioner of Internal Revenue for deficiency basic withholding tax, surcharge plus deficiency interest and delinquency interest amounting to Php87 million. On November 18, 2014, ACeS Philippines filed a Petition for Review with the CTA En Banc. On August 16, 2016, the CTA En Banc also affirmed the assessment with finality. Hence, on October 19, 2016, ACeS Philippines filed a petition before the Supreme Court assailing the decision of the CTA. ACeS Philippines intends to file a formal request for compromise of tax liabilities before the BIR while the case is pending before the Supreme Court. On February 23, 2017 and March 15, 2017, respectively, the Company paid and filed a formal request for compromise of tax liabilities amounting to Php27 million before the BIR while the case is pending before the Supreme Court. No outstanding Letter of Authority for other years.

Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI

Since 1990 up to the present, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. Among PLDT's claims against ETPI are ETPI's alleged uncompensated bypass of PLDT's systems from July 1, 1998 to November 28, 2003; unpaid access charges from July 1, 1999 to November 28, 2003; and non-payment of applicable rates for Off-Net and On-Net traffic from January 1, 1999 to November 28, 2003 arising from ETPI's unilateral reduction of its rates for the Philippines-Hong Kong traffic stream through Hong Kong REACH-ETPI circuits. ETPI's claims against PLDT, on the other hand, involve an alleged Philippines-Hong Kong traffic shortfall for the period July 1, 1998 to November 28, 2003; unpaid share of revenues generated from PLDT's activation of additional growth circuits in the Philippines-Singapore traffic stream for the period July 1, 1999 to November 28, 2003; under reporting of ETPI share of revenues under the terms of a Compromise Agreement for the period January 1, 1999 to November 28, 2003 (which ETPI is seeking to retroact to February 6, 1990); lost revenues arising from PLDT's blocking of incoming traffic from Hong Kong from November 1, 2001 up to November 2003; and lost revenues arising from PLDT's circuit migration from January 1, 2001 up to December 31, 2001.

While the parties have entered into Compromise Agreements in the past (one in February 1990 and another in March 1999), said agreements have not put to rest the issues between them. To avoid protracted litigation and to preserve their business relationship, PLDT and ETPI agreed to submit their differences and issues to voluntary arbitration. On April 16, 2008, PLDT and ETPI signed an Arbitration Settlement Agreement and submitted their respective Statement of Claims and Answers. Subsequent to such submissions, PLDT and ETPI agreed to suspend the arbitration proceedings. ETPI's total claim against PLDT is about Php2.9 billion while PLDT's total claim against ETPI is about Php2.8 billion.

In an agreement, PLDT and Globe have agreed that they shall cause ETPI, within a reasonable time after May 30, 2016, to dismiss Civil Case No. 17694 entitled *Eastern Telecommunications Philippines, Inc. vs. Philippine Long Distance Telephone Company*, and all related or incidental proceedings (including the voluntary arbitration between ETPI and PLDT), and PLDT, in turn, simultaneously, shall withdraw its counterclaims against ETPI in the same entitled case, all with prejudice.

In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition

In *Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al. (G.R. No. 176579)* (the "Gamboa Case"), the Supreme 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)." It directed the Philippine SEC "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." On October 9, 2012, the Supreme Court issued a Resolution denying with finality all Motions for Reconsideration of the respondents. The Supreme Court decision became final and executory on October 18, 2012.

On May 20, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, Series of 2013 - 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, or MC No. 8, which provides that 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.

On June 10, 2013, Jose M. Roy III filed before the Supreme Court a Petition for Certiorari against the Philippine SEC, Philippine SEC Chairman and PLDT, or the Petition, claiming: (1) that MC No. 8 violates the decision of the Supreme Court in the Gamboa Case, which according to the Petitioner required that (a) the 60-40 ownership requirement be imposed on "each class 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 Beneficial Trust Fund is not a Filipino-owned entity and consequently, the corporations owned by PLDT Beneficial Trust Fund, including BTFHI, which owns 150 million voting preferred shares in PLDT, cannot be considered a Filipino-owned corporation. PLDT and Philippine SEC sought the dismissal of the Petition.

In July 16, 2013, Wilson C. Gamboa, Jr. et. al. filed a Motion for Leave to file a Petition-in-Intervention dated July 16, 2013, which the Supreme Court granted on August 6, 2013. The Petition-in-Intervention raised identical arguments and issues as those in the Petition.

The Supreme Court, in its November 22, 2016 decision, dismissed the Petition and Petition-In-Intervention and upheld the validity of MC No. 8. In the course of discussing the Petition, the Supreme Court expressly rejected petitioners' argument that the 60% Filipino ownership requirement for public utilities must be applied to each class of shares. According to the Court, the position is "simply beyond the literal text and contemplation of Section 11, Article XII of the 1987 Constitution" and that the petitioners' suggestion would "effectively and unwarrantedly amend or change" the Court's ruling in the Gamboa Case. In categorically rejecting the petitioners' claim, the Court declared and stressed that its ruling in the Gamboa Case "did NOT make any definitive ruling that the 60% Filipino ownership requirement was intended to apply to each class of shares." On the contrary, according to the Court, "nowhere in the discussion of the term "capital" in Section 11, Article XII of the 1987 Constitution in the Gamboa Decision did the Court mention the 60% Filipino equity requirement to be applied to each class of shares."

In respect of ensuring Filipino ownership and control of public utilities, the Court noted that this is already achieved by the requirements under MC No. 8. According to the Court, "since Filipinos own at least 60% of the outstanding shares of stock entitled to vote directors, which is what the Constitution precisely requires, then the Filipino stockholders control the corporation – i.e., they dictate corporate actions and decisions…"

The Court further noted that the application of the Filipino ownership requirement as proposed by petitioners "fails to understand and appreciate the nature and features of stocks and financial instruments" and would "greatly erode" a corporation's "access to capital – which a stock corporation may need for expansion, debt relief/repayment, working capital requirement and other corporate pursuits." The Court reaffirmed that "stock corporations are allowed to create shares of different classes with varying features" and that this "is a flexibility that is granted, among others, for the corporation to attract and generate capital (funds) from both local and foreign capital markets" and that "this access to capital – which a stock corporation may need for expansion, debt relief/repayment, working capital requirement and other corporate pursuits – will be greatly eroded with further unwarranted limitations that are not articulated in the Constitution." The Court added that "the intricacies and delicate balance between debt instruments (liabilities) and equity (capital) that stock corporations need to calibrate to fund their business requirements and achieve their financial targets are better left to the judgment of their boards and officers, whose bounden duty is to steer their companies to financial stability and profitability and who are ultimately answerable to their shareholders."

The Court went on to say that "a too restrictive definition of 'capital', one that was never contemplated in the Gamboa Decision, will surely have a dampening effect on the business milieu by eroding the flexibility inherent in the issuance of preferred shares with varying terms and conditions. Consequently, the rights and prerogatives of the owners of the corporation will be unwarrantedly stymied." Accordingly, the Court said that the petitioners' "restrictive interpretation of the term "capital" would have a tremendous adverse impact on the country as a whole – and to all Filipinos."

Petitioner Jose M. Roy III filed a Motion for Reconsideration of the Supreme Court Decision dated November 22, 2016. On April 18, 2017, the Supreme Court denied with finality Petitioner's Motion for Reconsideration. On August 5, 2017, PLDT received a copy of the Entry of Judgment.

Department of Labor and Employment, or DOLE, Compliance Order, or Order, to PLDT

The CA issued a Decision in this case on July 31, 2018.

In a series of orders including a Compliance Order issued by the DOLE Regional Office on July 3, 2017, which was partly affirmed by DOLE Secretary Silvestre Bello, III, or DOLE Secretary, in his resolutions dated January 10, 2018 and April 24, 2018, the DOLE had previously ordered PLDT to regularize 7,344 workers from 38 of PLDT's third party service contractors. PLDT questioned these "regularization orders" before the CA, which led to the July 31, 2018 Decision.

In sum, the CA: (i) GRANTED PLDT's prayer for an injunction against the regularization orders; (ii) SET ASIDE the regularization orders insofar as they declared that there was labor-only contracting of the following functions: (a) janitorial services, messengerial and clerical services; (b) information technology, or IT, firms and services; (c) IT support services, both hardware and software, and applications development; (d) back office support and office operations; (e) business process outsourcing or call centers; (f) sales; and (g) medical, dental engineering and other professional services; and (iii) REMANDED to the DOLE for further proceedings, the matters of: (a) determining which contractors, and which individuals deployed by these contractors, are performing installation, repair and maintenance of PLDT lines; and (b) properly computing monetary awards for benefits such as unpaid overtime or 13th month pay, which in the regularization orders amounted to Php51.8 million.

The CA agreed with PLDT's contention that the DOLE Secretary's regularization order was "tainted with grave abuse of discretion" because it did not meet the "substantial evidence" standards set out by the Supreme Court in landmark jurisprudence. The Court also said that the DOLE's appreciation of evidence leaned in favor of the contractor workers, and that the DOLE Secretary had "lost sight" of distinctions involving the labor law concepts of "control over means and methods," and "control over results."

On August 20, 2018, PLDT filed a motion seeking a partial reconsideration of that part of the CA decision, which ordered a remand to the Office of the Regional Director of the DOLE-National Capital Region of the matter of the regularization of individuals performing installation, repair and maintenance, or IRM, services. In its motion, PLDT argued that the fact-finding process contemplated by the Court's remand order is actually not part of the visitorial power of the DOLE (i.e., the evidence that will need to be assessed cannot be gleaned by in the 'normal course' of a labor inspection) and is therefore, outside the jurisdiction of the DOLE Secretary.

PLDT also questioned that part of the CA ruling which seems to conclude that all IRM jobs are "regular." It argued that the law recognizes that some work of this nature can be project-based or seasonal in nature. Instead of the DOLE, PLDT suggested that the National Labor Relations Commission – a tribunal with better fact-finding powers – take over from the DOLE to determine whether the jobs are in fact IRM, and if so, whether they are "regular" or can be considered project-based or seasonal.

Both adverse parties, the PLDT rank-and-file labor union Manggagawa sa Komunikasyon ng Pilipinas, and the DOLE filed Motions for Reconsideration.

On February 14, 2019, the CA issued a Resolution denying all Motions for Reconsideration and upheld its July 31, 2018 Decision. After filing a Motion for Extension of Time on March 7, 2019, PLDT filed on April 5, 2019 a Petition for Review with the Supreme Court, questioning only one aspect of the CA decision i.e. its order remanding to the DOLE the determination of which jobs fall within the scope of "installation, repair and maintenance," without however a qualification as to the "project" or "seasonal" nature of those engagements. As of the date of this report, the case remains pending with the Supreme Court.

Attys. Baquiran and Tecson vs. NTC, et al.

This is a Petition for Mandamus filed on October 23, 2018 by Attys. Joseph Lemuel Baligod Baquiran and Ferdinand C. Tecson against the Respondents NTC, the PCC, Liberty, BellTel, Globe, PLDT and Smart. Briefly, the case involves the 700 MHz frequency, among others, or Subject Frequencies, that was originally assigned to Liberty and which eventually became subject of the Co-Use Agreement between Globe, on the one hand, and PLDT and Smart, on the other.

The Petition prayed that: (a) a Temporary Restraining Order, or TRO, /Writ of Preliminary Injunction, or WPI, be issued to enjoin and restrain Globe, PLDT and Smart from utilizing and monopolizing the Subject Frequencies and the NTC from bidding out or awarding the frequencies returned by PLDT, Smart and Globe; (b) the NTC's conditional assignment of the Subject Frequencies be declared unconstitutional, illegal and void; (c) alternatively, Liberty and its successors-in-interest be divested of the Subject Frequencies and the same be reverted to the State; (d) Liberty be declared to have transgressed Section 11 (1), Article XVI of the Constitution; (e) Liberty and its parent company be declared to have contravened paragraph 2 of Section 10, Article XII of the 1987 Constitution; (f) Liberty's assignment of the Subject Frequencies to BellTel be declared illegal and void; (g) the Co-Use Agreement be declared invalid; (h) the NTC be found to have unlawfully neglected the performance of its positive duties; (i) the PCC be found to have unlawfully neglected the performance of its positive duties; (j) a Writ of Mandamus be issued commanding the NTC to revoke the Co-Use Agreement, recall the Subject Frequencies in favor of the State, and make the same available to the best qualified telecommunication players; (k) a Writ of Mandamus be issued commanding the PCC to conduct a full review of PLDT's and Globe's acquisition of all issued and outstanding shares of Vega Telecom; (l) an Investigation of NTC be ordered for possible violation of Section 3 (e) of R.A. 3019 and other applicable laws; and (m) the said TRO/WPI be made permanent.

Essentially, petitioners contend that the NTC's assignments of the Subject Frequencies of Liberty were void for failing to comply with Section 4 (c) of R.A. 7925 which essentially states that "the radio frequency spectrum is a scarce public resource xxx." Even assuming the assignments were valid, Liberty should be deemed divested of the same by operation of law (with the Subject Frequencies reverted to the State), considering that it underutilized or never utilized the Subject Frequencies in violation of the terms and conditions of the assignment. Assuming further that the NTC's assignments of the Subject Frequencies were valid and that Liberty was not divested of the same by operation of law, still, Liberty did not validly assign the Subject Frequencies to BellTel because of the absence of Congressional approval. Petitioners conclude that since the assignments of the Subject Frequencies from the NTC to Liberty, and from Liberty to BellTel, were all illegal and void, it follows that the Subject Frequencies could not serve as the object of the Co-Use Agreement between PLDT, Smart and Globe.

On November 23, 2018, PLDT, through counsel, filed an Entry of Appearance on behalf of PLDT and Smart. On January 17, 2019, PLDT and Smart through counsel, filed their Comment. Essentially, the Comment raised the following arguments: *first*, that the requisites for judicial review and for a mandamus petition are lacking; *second*, that there was no need for Liberty to obtain prior Congressional approval before it assigned the Subject Frequencies to BellTel; and *third*, that the Co-Use Agreement is valid and approved by the NTC, and did not violate the Constitution or any laws.

On January 15, 2019, PLDT, through counsel, received a copy of BellTel's Comment/Opposition dated January 10, 2019. On February 12, 2019, PLDT, through counsel, received a copy of Globe Telecom, Inc.'s, or Globe's Comment/Opposition dated January 21, 2019. In a Resolution dated March 19, 2019, the Supreme Court noted the aforesaid filings. As at the date of the report, however, PLDT, through counsel, has not received any pleadings from the OSG on behalf of the public respondents.

On June 18, 2019, the Supreme Court issued a Resolution consolidating this case with G.R. No. 230798 (Philippine Competition Commission vs. CA [Twelfth Division] and PLDT; Globe, intervenor) and G.R. No. 234969 (Philippine Competition Commission vs. PLDT and Globe). The consolidated cases were assigned to the Court in charge of G.R. No. 230798, the case with the lowest docket number.

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*.

29. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables, cash and short-term deposits. Our principal financial liabilities, other than derivatives, comprise of bank loans, 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, interest rate swaps and forward foreign exchange contracts and options 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 consolidated financial assets and financial liabilities as at September 30, 2019 and December 31, 2018:

	Financial instruments at amortized cost	Financial instruments at FVPL	Financial instruments at FVOCI	Total financial instruments
		(in million pesos)		
Assets as at September 30, 2019 (Unaudited)				
Noncurrent:				
Financial assets at fair value through profit or loss	**—**	**3,767**	**—**	**3,767**
Derivative financial assets – net of current portion	**—**	**10**	**—**	**10**
Financial assets at fair value through other comprehensive income – net of current portion	**—**	**—**	**161**	**161**
Other financial assets – net of current portion	**2,906**	**—**	**—**	**2,906**
Current:				
Cash and cash equivalents	**27,138**	**—**	**—**	**27,138**
Short-term investments	**424**	**—**	**—**	**424**
Trade and other receivables	**20,622**	**—**	**—**	**20,622**
Current portion of derivative financial assets	**—**	**60**	**—**	**60**
Current portion of debt instruments at amortized cost	**150**	**—**	**—**	**150**
Current portion of financial assets at fair value through other comprehensive income	**—**	**—**	**2,718**	**2,718**
Current portion of other financial assets	**173**	**6,867**	**—**	**7,040**
Total assets	**51,413**	**10,704**	**2,879**	**64,996**
Liabilities as at September 30, 2019 (Unaudited)				
Noncurrent:				
Interest-bearing financial liabilities – net of current portion	**161,244**	**—**	**—**	**161,244**
Lease liabilities – net of current portion	**17,101**	**—**	**—**	**17,101**
Derivative financial liabilities – net of current portion	**—**	**6**	**—**	**6**
Customers' deposits	**2,205**	**—**	**—**	**2,205**
Deferred credits and other noncurrent liabilities	**3,403**	**—**	**—**	**3,403**
Current:				
Accounts payable	**77,603**	**—**	**—**	**77,603**
Accrued expenses and other current liabilities	**71,621**	**7,853**	**—**	**79,474**
Current portion of interest-bearing financial liabilities	**17,140**	**—**	**—**	**17,140**
Current portion of lease liabilities	**4,476**	**—**	**—**	**4,476**
Dividends payable	**1,595**	**—**	**—**	**1,595**
Current portion of derivative financial liabilities	**—**	**64**	**—**	**64**
Total liabilities	**356,388**	**7,923**	**—**	**364,311**
Net assets (liabilities)	**(304,975)**	**2,781**	**2,879**	**(299,315)**

	Financial instruments at amortized cost	Financial instruments at FVPL	Financial instruments at FVOCI	Total financial instruments
	(in million pesos)			
Assets as at December 31, 2018 (Audited)				
Noncurrent:				
Financial assets at fair value through profit or loss	—	4,763	—	4,763
Debt instruments at amortized cost	150	—	—	150
Derivative financial assets – net of current portion	—	140	—	140
Financial assets at fair value through other comprehensive income – net of current portion	—	—	2,749	2,749
Other financial assets – net of current portion	2,275	—	—	2,275
Current:				
Cash and cash equivalents	51,654	—	—	51,654
Short-term investments	1,165	—	—	1,165
Trade and other receivables	24,056	—	—	24,056
Current portion of derivative financial assets	—	183	—	183
Current portion of financial assets at fair value through other comprehensive income	—	—	1,604	1,604
Current portion of other financial assets	175	6,833	—	7,008
Total assets	**79,475**	**11,919**	**4,353**	**95,747**
Liabilities as at December 31, 2018 (Audited)				
Noncurrent:				
Interest-bearing financial liabilities – net of current portion	155,835	—	—	155,835
Customers' deposits	2,194	—	—	2,194
Deferred credits and other noncurrent liabilities	3,088	—	—	3,088
Current:				
Accounts payable	72,818	—	—	72,818
Accrued expenses and other current liabilities	68,920	7,862	—	76,782
Current portion of interest-bearing financial liabilities	20,441	—	—	20,441
Dividends payable	1,533	—	—	1,533
Current portion of derivative financial liabilities	—	80	—	80
Total liabilities	**324,829**	**7,942**	**—**	**332,771**
Net assets (liabilities)	**(245,354)**	**3,977**	**4,353**	**(237,024)**

The following table sets forth our consolidated offsetting of financial assets and liabilities recognized as at September 30, 2019 and December 31, 2018:

	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set-off in the statement of financial position	Net amount presented in the statement of financial position
		(in million pesos)	
September 30, 2019 (Unaudited)			
Current Financial Assets			
Trade and other receivables			
Foreign administrations	**6,611**	**4,362**	**2,249**
Domestic carriers	**2,659**	**2,016**	**643**
Total	**9,270**	**6,378**	**2,892**
Current Financial Liabilities			
Accounts payable			
Suppliers and contractors	**74,027**	**71**	**73,956**
Carriers and other customers	**6,284**	**3,250**	**3,034**
Total	**80,311**	**3,321**	**76,990**
December 31, 2018 (Audited)			
Current Financial Assets			
Trade and other receivables			
Foreign administrations	6,882	3,576	3,306
Domestic carriers	8,245	8,052	193
Total	**15,127**	**11,628**	**3,499**
Current Financial Liabilities			
Accounts payable			
Suppliers and contractors	69,144	45	69,099
Carriers and other customers	5,602	2,567	3,035
Total	**74,746**	**2,612**	**72,134**

There are no financial instruments subject to an enforceable master netting arrangement as at September 30, 2019 and December 31, 2018.

The following table sets forth our consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at September 30, 2019 and December 31, 2018 other than those whose carrying amounts are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)	**September 30, 2019 (Unaudited)**	December 31, 2018 (Audited)
		(in million pesos)		
Noncurrent Financial Assets				
Debt instruments at amortized cost	**—**	150	**—**	148
Other financial assets – net of current portion	**2,906**	2,275	**2,557**	2,020
Total	**2,906**	2,425	**2,557**	2,168
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities:				
Long-term debt – net of current portion	**161,238**	155,835	**156,800**	139,504
Customers' deposits	**2,205**	2,194	**1,513**	1,305
Deferred credits and other noncurrent liabilities	**3,403**	3,088	**3,020**	2,583
Total	**166,846**	161,117	**161,333**	143,392

Below is the list of our consolidated financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as required for our complete sets of consolidated financial statements as at September 30, 2019 and December 31, 2018. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

	September 30, 2019 (Unaudited)				December 31, 2018 (Audited)			
	Level 1[(1)]	**Level 2[(2)]**	**Level 3[(3)]**	**Total**	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]	Total
				(in million pesos)				
Noncurrent Financial Assets								
Listed equity securities								
Financial assets at FVPL	**2,605**	**293**	**869**	**3,767**	3,625	154	984	4,763
Derivative financial assets – net of current portion	**—**	**10**	**—**	**10**	—	140	—	140
Financial assets at FVOCI – net of current portion	**—**	**161**	**—**	**161**	—	2,749	—	2,749
Current Financial Assets								
Current portion of derivative financial assets	**—**	**60**	**—**	**60**	—	183	—	183
Current portion of FVOCI	**—**	**2,718**	**—**	**2,718**	—	1,604	—	1,604
Current portion of other financial assets	**—**	**6,867**	**—**	**6,867**	—	6,833	—	6,833
Total	**2,605**	**10,109**	**869**	**13,583**	3,625	11,663	984	16,272
Noncurrent Financial Liabilities								
Derivative financial liabilities	**—**	**6**	**—**	**6**	—	—	—	—
Current Financial Liabilities								
Accrued expenses and other current liabilities	**—**	**7,853**	**—**	**7,853**	—	7,862	—	7,862
Derivative financial liabilities	**—**	**64**	**—**	**64**	—	80	—	80
Total	**—**	**7,923**	**—**	**7,923**	—	7,942	—	7,942

(1) *Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.*
(2) *Fair values determined using inputs other than quoted market prices that are either directly or indirectly observable for the assets or liabilities.*
(3) *Fair values determined using discounted values of future cash flows for the assets or liabilities.*

As at September 30, 2019 and December 31, 2018, there were no transfers into and out of Level 3 fair value measurements.

As at September 30, 2019 and December 31, 2018, 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
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.	Level 3
Fixed Rate Loans: U.S. dollar notes	Quoted market price.	Level 1
Investment in debt securities	Fair values were determined using quoted prices. For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.	Level 1 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 BVAL rates for similar types of loans plus PLDT's credit spread.[1]	Level 3
Variable Rate Loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.	Level 2

[1] *Effective October 29, 2018, PHP BVAL Reference Rates replaced PDST Reference Rates (PDST-RI and PDST-R2).*

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.

The valuation techniques considered various inputs including the credit quality of counterparties.

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.

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.

As at September 30, 2019 and December 31, 2018, we have taken into account the counterparties' credit risks (for derivative assets) and our own non-performance risk (for derivative liabilities) and have included a credit or debit valuation adjustment, as appropriate, by assessing the maximum credit exposure and taking into account market-based inputs which considers the risk of default occurring and corresponding losses once the default event occurs. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

The table below sets out the information about our consolidated derivative financial instruments as at September 30, 2019 and December 31, 2018:

							September 30, 2019		December 31, 2018	
							(Unaudited)		(Audited)	
	Original Notional Amount	**Trade Date**	**Underlying Transaction in U.S. Dollar**	**Termination Date**	**Weighted Average Hedge Cost**	**Weighted Average Foreign Exchange Rate**	**Notional Amount**	**Net Mark-to-market Gains (Losses) in Php**	Notional Amount	Net Mark-to-market Gains (Losses) in Php
	(in millions)		(in millions)				(in millions)			
Transactions not designated as hedges:										
PLDT										
Forward foreign exchange contracts	US$114	Various dates in 2017 and 2018	U.S. Dollar Liabilities	Various dates in 2018	—	Php51.68	**—**	**—**	—	—
	US$60	Various dates in 2019	U.S. Dollar Liabilities	Various dates in October 2019 to January 2020	—	Php52.07	**US$60**	**(13)**	US$34	(22)
	US$27	October and November 2019	U.S. Dollar Liabilities	Various dates in December 2019 to April 2020	—	Php51.36	**—**	**—**	—	—
	EUR9	Various dates in August 2018	EUR Assets	December 14, 2018	—	US$1.17	**—**	**—**	—	—
	EUR11	Various dates in 2018	EUR Assets	December 14, 2018	—	Php62.95	**—**	**—**	—	—
	EUR7	Various dates in July and August 2019	EUR Assets	Various dates in December 2019 to January 2020	—	Php58.50	**EUR7**	**10**	—	—
Foreign exchange options	EUR36[a]	Various dates in 2018	EUR Assets	Various dates in November and December 2018	—	EUR1.161	**—**	**—**	—	—
						EUR1.185				
Smart										
Forward foreign exchange contracts	US$120	Various dates in 2017 and 2018	U.S. Dollar Liabilities	Various dates in 2018	—	Php52.13	**—**	**—**	—	—
	US$137	Various dates in 2018 and 2019	U.S. Dollar Liabilities	Various dates in 2019	—	Php52.79	**US$23**	**(3)**	US$54	(38)
	US$7	October 2019	U.S. Dollar Liabilities	Various dates in 2019	—	Php51.72	**—**	**—**	—	—
	US$38	October and November 2019	U.S. Dolar Liabilities	Various dates in 2020	—	Php51.47	**—**	**—**	—	—
Foreign exchange options[b]	US$4	Various dates in 2017 and 2018	U.S. Dollar Liabilities	Various dates in 2018	—	Php50.64	**—**	**—**	—	—
						Php51.58				
						Php52.48				
PCEV										
Forward foreign exchange contracts	US$22	Various dates in 2019	U.S. Dollar Cash Conversion	Various dates in 2019	—	Php52.24	**US$22**	**9**		—
								3		(60)

	Original Notional Amount	Trade Date	Underlying Transaction in U.S. Dollar	Termination Date	Weighted Average Hedge Cost	Weighted Average Foreign Exchange Rate	**September 30, 2019 (Unaudited)** Notional Amount		December 31, 2018 (Audited) Notional Amount	
							Notional Amount	**Net Mark-to-market Gains (Losses) in Php**	Notional Amount	Net Mark-to-market Gains (Losses) in Php
	(in millions)		(in millions)				(in millions)			
Transactions designated as hedges:										
PLDT										
Interest rate swaps[c]	US$240	Various dates in 2013 and 2015	300 Term Loan	January 16, 2018	2.17%	—	—	—	—	—
	US$100	August 2014	100 PNB	August 11, 2020	3.46%	—	**US$95**	**(6)**	US$96	55
	US$50	September 2014	50 Metrobank	September 2, 2020	3.47%	—	**US$48**	**(6)**	US$48	25
	US$150	April and June 2015	200 Term Loan	February 25, 2022	2.70%	—	**US$56**	**(2)**	US$79	66
Long-term currency swaps[d]	US$140	October 2015 to June 2016	300 Term Loan	January 16, 2018	2.20%	Php46.67	—	—	—	—
	US$4	January 2017	100 PNB	August 11, 2020	1.01%	Php49.79	**US$1**	**2**	US$2	7
	US$6	April and June 2017	200 MUFG Bank, Ltd.	August 26, 2019	1.63%	Php49.51	—	—	US$3	9
	US$2	January 2018	200 MUFG Bank, Ltd.	August 26, 2019	1.59%	Php49.86	—	—	US$1	3
	US$6	February 2018	200 MUFG Bank, Ltd.	February 26, 2020	1.82%	Php51.27	**US$2**	**1**	US$5	6
	US$22	November 2018 to June 2019	200 MUFG Bank, Ltd.	February 25, 2022	2.28%	Php52.08	**US$17**	**(7)**	US$11	17
								(18)		188
Smart										
Interest rate swaps[e]	US$110	Various dates in 2013 and 2014	120 Term Loan	June 20, 2018	2.22%	—	—	—	—	—
	US$85	Various dates in 2014 and 2015	100 Bank of Tokyo	March 7, 2019	2.23%	—	—	—	US$10	3
	US$50	October 2, 2014	50 Mizuho	May 14, 2019	2.58%	—	—	—	US$5	2
	US$200	Various dates in 2015	200 Mizuho	March 4, 2020	2.10%	—	**US$22**	**4**	US$67	52
	US$30	February 2016	100 Mizuho	December 7, 2021	2.03%	—	**US$15**	**9**	US$18	24
Long-term currency swaps[f]	US$100	Various dates in 2015	200 Mizuho	March 5, 2018	2.21%	Php46.66	—	—	—	—
	US$45	Various dates in 2016	100 Mizuho	December 7, 2018	1.93%	Php46.55	—	—	—	—
	US$11	Various dates in 2017	80 CBC	May 31, 2018	1.28%	Php49.66	—	—	—	—
	US$18	Various dates in 2017, 2018 and 2019	100 Mizuho	December 7, 2020	1.77%	Php50.98	**US$14**	**6**	US$16	28
	US$13	Various dates in 2018 and 2019	200 Mizuho	March 4, 2020	2.06%	Php51.93	**US$3**	**(1)**	US$9	6
	US$6	February 2019	2015 Mizuho US$100M	December 7, 2021	2.22%	Php51.83	**US$5**	**(3)**	—	—
								15		115
								—		243

(a) If the EUR to U.S. dollar spot exchange rate on the fixing date settles below €1.161, PLDT will sell the EUR at €1.161. However, if on the fixing date, the exchange rate settles between the €1.161 and €1.185, there will be no settlement by PLDT, and if the exchange rate is above €1.185, PLDT will sell the EUR at €1.185.

(b) If the Philippine peso to U.S. dollar spot exchange rate on the maturity date settles between Php51.58 to Php52.48, Smart will purchase the U.S. dollar at Php51.58. However, if on maturity, the exchange rate settles above Php52.48, Smart will purchase the U.S. dollar at Php51.58 plus the excess above Php52.48, and if the exchange rate is lower than Php51.58, Smart will purchase the U.S. dollar at the prevailing Philippine peso to U.S. dollar spot exchange rate, subject to a floor of Php50.64.

(c) PLDT's interest rate swap agreements outstanding as at September 30, 2019 and December 31, 2018 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market loss amounting to Php16 million and mark-to-market gain amounting to Php129 million were recognized in our consolidated statements of other comprehensive income as at September 30, 2019 and December 31, 2018, respectively. Interest accrual on the interest rate swaps amounting to Php2 million and Php17 million were recorded as at September 30, 2019 and December 31, 2018, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the nine months ended September 30, 2019 and 2018.

(d) PLDT's long-term principal only-currency swap agreements outstanding as at September 30, 2019 and December 31, 2018 were designated as cash flow hedges, wherein effective portion of the movements in the fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market loss amounting to Php2 million and mark-to-market gain amounting to Php45 million were recognized in our consolidated statement of other comprehensive income as at September 30, 2019 and December 31, 2018, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php2 million and Php3 million were recognized as at September 30, 2019 and December 31, 2018, respectively. The amounts recognized as other comprehensive income are transferred to profit or loss when the hedged loan is revalued for changes in the foreign exchange rate. The hedge cost portion of the movements in the fair value amounting to Php2 million and Php1 million were recognized in our consolidated income statements for the nine months ended September 30, 2019 and 2018, respectively.

(e) Smart's interest rate swap agreements outstanding as at September 30, 2019 and December 31, 2018 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market gains amounting to Php9 million and Php63 million were recognized in our consolidated statements of other comprehensive income as at September 30, 2019 and December 31, 2018, respectively. Reduction on interest arising from the interest rate swaps amounted to Php4 million and Php18 million as at September 30, 2019 and December 31, 2018, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the nine months ended September 30, 2019 and 2018.

(f) Smart's long-term principal only-currency swap agreements outstanding as at September 30, 2019 and December 31, 2018 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market gains amounting to Php8 million and Php50 million were recognized in our consolidated statements of other comprehensive income as at September 30, 2019 and December 31, 2018, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php6 million and Php16 million were recognized as at September 30, 2019 and December 31, 2018, respectively. The amounts recognized as other comprehensive income are transferred to profit or loss when the hedged loan is revalued for changes in the foreign exchange rate. The hedge cost portions of the movements in the fair value amounting to Php2 million each was recognized in our consolidated income statements for the nine months ended September 30, 2019 and 2018.

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Presented as:		
Noncurrent assets	**10**	140
Current assets	**60**	183
Noncurrent liabilities	**(6)**	—
Current liabilities	**(64)**	(80)
Net assets	**—**	243

Movements of our consolidated mark-to-market gains for the nine months ended September 30, 2019 and for the year ended December 31, 2018 are summarized as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Net mark-to-market gains at beginning of the period	**243**	237
Effective portion recognized in the profit or loss for the cash flow hedges	**16**	27
Gains (losses) on derivative financial instruments (Note 4)	**(150)**	1,135
Net fair value losses on cash flow hedges charged to other comprehensive income	**(302)**	(286)
Settlements, interest expense and others	**193**	(870)
Net mark-to-market gains at end of the period	**—**	243

Our consolidated analysis of gains (losses) on derivative financial instruments for the nine months ended September 30, 2019 and 2018 are as follows:

	September 30,	
	2019	2018
	(Unaudited)	(Audited)
	(in million pesos)	
Gains (losses) on derivative financial instruments (Note 4)	**(40)**	1,091
Hedge costs	**(150)**	(38)
Net gains (losses) on derivative financial instruments (Notes 4 and 5)	**(190)**	1,053

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, which 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 will not be 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 and managed funds. 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 sufficient to support our planned capital expenditure requirements and service our debt and financing obligations; however, we may be required to finance a portion of our future capital expenditures from external financing sources. We have cash and cash equivalents, and short-term investments amounting to Php27,138 million and Php424 million, respectively, as at September 30, 2019, which we can use to meet our short-term liquidity needs. See *Note 16 – Cash and Cash Equivalents.*

The following table summarizes the maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at September 30, 2019 and December 31, 2018:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in million pesos)		
September 30, 2019 (Unaudited)					
Financial instruments at amortized cost:	***65,892***	***62,690***	***2,681***	***345***	***176***
Other financial assets	**3,381**	**179**	**2,681**	**345**	**176**
Debt instruments at amortized cost	**150**	**150**	—	—	—
Cash equivalents	**22,058**	**22,058**	—	—	—
Short-term investments	**424**	**424**	—	—	—
Retail subscribers	**19,608**	**19,608**	—	—	—
Corporate subscribers	**11,812**	**11,812**	—	—	—
Foreign administrations	**2,652**	**2,652**	—	—	—
Domestic carriers	**721**	**721**	—	—	—
Dealers, agents and others	**5,086**	**5,086**	—	—	—
Financial instruments at FVPL:	***7,185***	***195***	—	—	***6,990***
Financial assets at fair value through profit or loss	**6,990**	—	—	—	**6,990**
Other financial assets	**195**	**195**	—	—	—
Financial instruments at FVOCI	***6,329***	***2,718***	***161***	—	***3,450***
Financial assets at fair value through other comprehensive income	**6,329**	**2,718**	**161**	—	**3,450**
Total	**79,406**	**65,603**	**2,842**	**345**	**10,616**
December 31, 2018 (Audited)					
Financial instruments at amortized cost:	*90,232*	*87,526*	*2,190*	*349*	*167*
Other financial assets	2,686	130	2,040	349	167
Debt instruments at amortized cost	150	—	150	—	—
Cash equivalents	45,672	45,672	—	—	—
Short-term investments	1,165	1,165	—	—	—
Retail subscribers	19,444	19,444	—	—	—
Corporate subscribers	11,073	11,073	—	—	—
Foreign administrations	4,225	4,225	—	—	—
Domestic carriers	270	270	—	—	—
Dealers, agents and others	5,547	5,547	—	—	—
Financial instruments at FVPL:	*11,596*	*6,833*	—	—	*4,763*
Financial assets at fair value through profit or loss	4,763	—	—	—	4,763
Other financial assets	6,833	6,833	—	—	—
Financial instruments at FVOCI	*4,353*	*1,604*	*2,749*	—	—
Financial assets at fair value through other comprehensive income	4,353	1,604	2,749	—	—
Total	**106,181**	**95,963**	**4,939**	**349**	**4,930**

The following table summarizes the maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at September 30, 2019 and December 31, 2018:

	Payments Due by Period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in million pesos)		
September 30, 2019 (Unaudited)					
Debt[1]:	***222,435***	***12,686***	***65,953***	***56,940***	***86,856***
Principal	**178,755**	**12,305**	**42,875**	**46,735**	**76,840**
Interest	**43,680**	**381**	**23,078**	**10,205**	**10,016**
Lease obligations:	***43,333***	***14,796***	***21,686***	***2,981***	***3,870***
Various trade and other obligations:	***154,432***	***148,740***	***3,697***	***46***	***1,949***
Suppliers and contractors	**77,252**	**73,956**	**3,296**	**—**	**—**
Utilities and related expenses	**50,953**	**50,870**	**83**	**—**	**—**
Employee benefits	**8,625**	**8,625**	**—**	**—**	**—**
Liability from redemption of preferred shares	**7,853**	**7,853**	**—**	**—**	**—**
Customers' deposits	**2,205**	**—**	**210**	**46**	**1,949**
Dividends	**1,595**	**1,595**	**—**	**—**	**—**
Carriers and other customers	**1,336**	**1,336**	**—**	**—**	**—**
Others	**4,613**	**4,505**	**108**	**—**	**—**
Total contractual obligations	**420,200**	**176,222**	**91,336**	**59,967**	**92,675**
December 31, 2018 (Audited)					
Debt[1]:	*218,791*	*13,892*	*72,007*	*51,098*	*81,794*
Principal	176,694	13,292	49,747	41,401	72,254
Interest	42,097	600	22,260	9,697	9,540
Lease obligations:	*22,674*	*12,727*	*4,066*	*2,616*	*3,265*
Operating lease	*22,674*	*12,727*	*4,066*	*2,616*	*3,265*
Various trade and other obligations:	*145,892*	*140,548*	*3,207*	*176*	*1,961*
Suppliers and contractors	72,064	69,099	2,828	137	—
Utilities and related expenses	48,189	48,128	61	—	—
Employee benefits	7,955	7,955	—	—	—
Liability from redemption of preferred shares	7,862	7,862	—	—	—
Customers' deposits	2,194	—	194	39	1,961
Carriers and other customers	1,815	1,815	—	—	—
Dividends	1,533	1,533	—	—	—
Others	4,280	4,157	123	—	—
Total contractual obligations	**387,357**	**167,167**	**79,280**	**53,890**	**87,020**

[1] *Consists of long-term debt, including current portion; gross of unamortized debt discount and debt issuance costs.*

Debt

See *Note 21 – Interest-bearing Financial Liabilities – Long-term Debt* for a detailed discussion of our debt.

Our consolidated future minimum lease commitments payable with non-cancellable leases as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Within one year	**14,884**	12,867
After one year but not more than five years	**24,579**	6,542
More than five years	**3,870**	3,265
Total	**43,333**	22,674

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 Php154,432 million and Php145,892 million as at September 30, 2019 and December 31, 2018, respectively. See *Note 24 – Accounts Payable* and *Note 25 – Accrued Expenses and Other Current Liabilities*.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to nil and Php20 million as at September 30, 2019 and December 31, 2018, respectively. These commitments will expire within one year. See *Note 11 – Investments in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare*.

Collateral

We have not made any pledges as collateral with respect to our financial liabilities as at September 30, 2019 and December 31, 2018.

Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument 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 denominated financial assets and liabilities. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, a substantial portion of our capital expenditures, a portion of our indebtedness and related interest expense 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. Further details of the risk management strategy is recognized in our hedge designation documentation. We use forward foreign exchange purchase contracts, currency swap contracts and currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated financial liabilities. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized in our consolidated other comprehensive income until the hedged transaction affects our consolidated income statement or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the period.

The impact of the hedging instruments on our consolidated statements of financial position as at September 30, 2019 and December 31, 2018 are as follows:

	Notional Amount (U.S. Dollar)	Carrying Amount (Php)	Line item in the Consolidated Statement of Financial Position
	(in million pesos)		
September 30, 2019 (Unaudited)			
Long-term currency swaps	**41**	**9**	Derivative financial assets – net of current portion
		7	Current portion of derivative financial assets
		(3)	Derivative financial liabilities – net of current portion
		(13)	Current portion of derivative financial liabilities
December 31, 2018 (Audited)			
Long-term currency swaps	46	83	Derivative financial assets – net of current portion
		13	Current portion of derivative financial assets

The impact of the hedged items on our consolidated statements of financial position as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
	Cash flow hedge reserve	**Cost of hedging reserve**	Cash flow hedge reserve	Cost of hedging reserve
	(in million pesos)			
PLDT:				
US$300M Term Loan	**(273)**	**–**	(273)	4
US$100M PNB	**(10)**	**–**	(7)	–
US$200M MUFG Bank, Ltd.	**(41)**	**2**	(3)	–
	(324)	**2**	(283)	4
Smart:				
US$200M Mizuho	**(1)**	**4**	7	3
US$100M Mizuho	**9**	**9**	43	13
	8	**13**	50	16

The effect of the cash flow hedge on our consolidated income statements and statements of other comprehensive income as at September 30, 2019 and December 31, 2018 are as follows:

	Total hedging loss recognized in OCI	Line item in the Consolidated Income Statements
	(in million pesos)	
September 30, 2019 (Unaudited)		
Long-term currency swaps	**(330)**	Other comprehensive loss
December 31, 2018 (Audited)		
Long-term currency swaps	(234)	Other comprehensive loss

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at September 30, 2019 and December 31, 2018:

	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
	U.S. Dollar	**Php(1)**	U.S. Dollar	Php(2)
		(in millions)		
Noncurrent Financial Assets				
Derivative financial assets – net of current portion	**—**	**10**	3	140
Other financial assets – net of current portion	**—**	**13**	—	12
Total noncurrent financial assets	**—**	**23**	3	152
Current Financial Assets				
Cash and cash equivalents	**318**	**16,489**	717	37,688
Short-term investments	**8**	**395**	22	1,138
Trade and other receivables – net	**714**	**36,960**	261	13,741
Current portion of derivative financial assets	**1**	**60**	3	183
Current portion of other financial assets	**—**	**10**	—	11
Total current financial assets	**1,041**	**53,914**	1,003	52,761
Total Financial Assets	**1,041**	**53,937**	1,006	52,913
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	**133**	**6,913**	336	17,668
Derivative financial liabilities – net of current portion	**—**	**6**	—	—
Other noncurrent liabilities	**—**	**13**	—	12
Total noncurrent financial liabilities	**133**	**6,932**	336	17,680
Current Financial Liabilities				
Accounts payable	**671**	**34,774**	415	21,797
Accrued expenses and other current liabilities	**197**	**10,179**	170	8,961
Current portion of interest-bearing financial liabilities	**210**	**10,895**	110	5,780
Current portion of derivative financial liabilities	**1**	**64**	2	80
Total current financial liabilities	**1,079**	**55,912**	697	36,618
Total Financial Liabilities	**1,212**	**62,844**	1,033	54,298

(1) *The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php51.80 to US$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Bankers Association of the Philippines as at September 30, 2019.*

(2) *The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php52.56 to US$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Bankers Association of the Philippines as at December 31, 2018.*

As at November 6, 2019, the Philippine peso-U.S. dollar exchange rate was Php50.56 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have decreased in Philippine peso terms by Php212 million as at September 30, 2019.

Approximately 10% and 13% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at September 30, 2019 and December 31, 2018, respectively. Our consolidated foreign currency-denominated debt decreased to Php17,751 million as at September 30, 2019 from Php23,352 million as at December 31, 2018. See *Note 21 – Interest-bearing Financial Liabilities*. The aggregate notional amount of our consolidated outstanding long-term principal only-currency swap contracts were US$41 million and US$46 million as at September 30, 2019 and December 31, 2018, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 9% (or 6%, net of our consolidated U.S. dollar cash balances allocated for debt) and 12% (or 8%, net of our consolidated U.S. dollar cash balances allocated for debt) as at September 30, 2019 and December 31, 2018, respectively.

Approximately 15% of our consolidated revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for each of the nine months ended September 30, 2019 and 2018. Approximately 11% of our consolidated expenses were denominated in U.S. dollars and/or linked to the U.S. dollar for the nine months ended September 30, 2019 as compared with approximately 9% for the nine months ended September 30, 2018. 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. In view of the anticipated continued decline in dollar-denominated/dollar-linked revenues, which provide a natural hedge against our foreign currency exposure, we are progressively refinancing our dollar-denominated debts in Philippine pesos.

The Philippine peso appreciated by 1.45% against the U.S. dollar to Php51.80 to US$1.00 as at September 30, 2019 from Php52.56 to US$1.00 as at December 31, 2018. 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 Php10 million for the nine months ended September 30, 2019, while we recognized net consolidated foreign exchange losses of Php891 million for the nine months ended September 30, 2018.

Management conducted a survey among our banks to determine the outlook of the Philippine peso-U.S. dollar exchange rate until December 31, 2019. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 1.07% as compared to the exchange rate of Php51.80 to US$1.00 as at September 30, 2019. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 1.07% as at September 30, 2019, with all other variables held constant, profit after tax for the nine months ended September 30, 2019 would have been approximately Php46 million lower/higher and our consolidated stockholders' equity as at September 30, 2019 would have been approximately Php39 million lower/higher, 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 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. We enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. Further details of the risk management strategy is recognized in our hedge designation documentation. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our debt obligations and not for trading purposes.

The impact of the hedging instruments on our consolidated statements of financial position as at September 30, 2019 and December 31, 2018 are as follows:

	Notional Amount (U.S. Dollar)	Carrying Amount (Php)	Line item in the Consolidated Statement of Financial Position
	(in million pesos)		
September 30, 2019 (Unaudited)			
Interest rate swaps	**236**	**1**	Derivative financial assets – net of current portion
		34	Current portion of derivative financial assets
		(3)	Derivative financial liabilities – net of current portion
		(34)	Current portion of derivative financial liabilities
	236	**(2)**	
December 31, 2018 (Audited)			
Interest rate swaps	323	57	Derivative financial assets – net of current portion
		170	Current portion of derivative financial assets
	323	**227**	

The impact of the hedged items on our consolidated statements of financial position as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
	Cash flow hedge reserve	**Cost of hedging reserve**	Cash flow hedge reserve	Cost of hedging reserve
	(in million pesos)			
PLDT:				
US$100M PNB	**(7)**	—	50	—
US$50M MBTC	**(6)**	—	24	—
US$200M MUFG Bank, Ltd.	**(3)**	—	55	—
	(16)	—	129	—
Smart:				
2014 BTMU US$100M	—	—	(6)	—
2014 Mizuho US$50M	—	—	(2)	—
2015 Mizuho US$200M	**(7)**	—	(11)	—
2015 Mizuho US$100M	**(2)**	—	—	—
2013 Sumitomo US$120M	—	—	(3)	—
	(9)	—	(22)	—

The effect of the cash flow hedge on our consolidated income statements and statements of other comprehensive income as at September 30, 2019 and December 31, 2018 are as follows:

	Total hedging gain (loss) recognized in OCI	**Line item in the Consolidated Income Statements**
	(in million pesos)	
September 30, 2019 (Unaudited)		
Interest rate swaps	**(7)**	Other comprehensive loss
December 31, 2018 (Audited)		
Interest rate swaps	179	Other comprehensive gain

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 September 30, 2019 and December 31, 2018. Financial instruments that are not subject to interest rate risk were not included in the table.

As at September 30, 2019 (Unaudited)

	In U.S. Dollars							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	In Php	In Php	In U.S. Dollar	In Php
									(in millions)		
Assets:											
Debt Instruments at Amortized Cost											
Philippine Peso	3	—	—	—	—	3	150	—	150	3	150
Interest rate	4.8371%	—	—	—	—	—	—	—	—	—	—
Cash in Bank											
U.S. Dollar	24	—	—	—	—	24	1,247	—	1,247	24	1,247
Interest rate	0.0100% to 0.2500%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	43	—	—	—	—	43	2,245	—	2,245	43	2,245
Interest rate	0.05000% to 1.2500%	—	—	—	—	—	—	—	—	—	—
Other Currencies	—	—	—	—	—	—	24	—	24	—	24
Interest rate	0.1000% to 0.5000%	—	—	—	—	—	—	—	—	—	—
Temporary Cash Investments											
U.S. Dollar	272	—	—	—	—	272	14,101	—	14,101	272	14,101
Interest rate	0.2500% to 2.5000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	154	—	—	—	—	154	7,957	—	7,957	154	7,957
Interest rate	0.1250% to 6.0000%	—	—	—	—	—	—	—	—	—	—
Short-term Investments											
Philippine Peso	1	—	—	—	—	1	29	—	29	1	29
Interest rate	0.7500% to 3.6250%	—	—	—	—	—	—	—	—	—	—
Other Currencies	8	—	—	—	—	8	395	—	395	8	395
Interest rate	0.0000%	—	—	—	—	—	—	—	—	—	—
	505	—	—	—	—	505	26,148	—	26,148	505	26,148
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Fixed Loans	—	15	4	—	—	19	971	1	970	19	958
Interest rate	—	2.8850%	2.8850%	—		—	—	—	—	—	—
Philippine Peso	73	396	151	778	1,429	2,827	146,422	284	146,138	2,734	141,618
Interest rate	4.9110% to 5.5000%	3.9000% to 6.7339%	3.9000% to 6.7339%	3.9000% to 6.7339%	4.2500% to 6.7339%	—	—	—	—	—	—
Variable Rate											
U.S. Dollar Loans	165	76	27	57	—	325	16,837	56	16,781	325	16,837
Interest rate	0.7900% to 1.4500% over LIBOR	0.7900% to 0.9500% over LIBOR	0.7900% to 0.9500% over LIBOR	0.7900% to 1.0500% over LIBOR	—	—	—	—	—	—	—
Philippine Peso	—	158	1	67	54	280	14,525	38	14,487	280	14,525
Interest rate		0.5000% to 1.0000% over PHP BVAL	0.5000% to 0.6000% over PHP BVAL	0.5000% to 0.6000% over PHP BVAL	0.6000% over PHP BVAL	—	—	—	—	—	—
	238	645	183	902	1,483	3,451	178,755	379	178,376	3,358	173,938

As at December 31, 2018 (Audited)

	In U.S. Dollars							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	**1-2 years**	**2-3 years**	**3-5 years**	**Over 5 years**	**Total**	**In Php**	**In Php**	**In Php**	**In U.S. Dollar**	**In Php**
									(in millions)		
Assets:											
Debt Instruments at Amortized Cost											
Philippine Peso	—	3	—	—	—	3	150	—	150	3	148
Interest rate	—	4.8371%	—	—	—	—	—	—	—	—	—
Cash in Bank											
U.S. Dollar	30	—	—	—	—	30	1,580	—	1,580	30	1,580
Interest rate	0.0100% to 0.2500%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	57	—	—	—	—	57	3,017	—	3,017	57	3,017
Interest rate	0.05000% to 1.2500%	—	—	—	—	—	—	—	—	—	—
Other Currencies	—	—	—	—	—	—	4	—	4	—	4
Interest rate	0.1000% to 0.5000%	—	—	—	—	—	—	—	—	—	—
Temporary Cash Investments											
U.S. Dollar	675	—	—	—	—	675	35,468	—	35,468	675	35,468
Interest rate	2.7000% to 3.0000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	194	—	—	—	—	194	10,204	—	10,204	194	10,204
Interest rate	0.2500% to 7.0500%	—	—	—	—	—	—	—	—	—	—
Short-term Investments											
U.S. Dollar	22	—	—	—	—	22	1,138	—	1,138	22	1,138
Interest rate	2.5000% to 3.0000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	1	—	—	—	—	1	27	—	27	1	27
Interest rate	3.5000%	—	—	—	—	—	—	—	—	—	—
	979	**3**	**—**	**—**	**—**	**981**	**51,589**	**—**	**51,589**	**981**	**51,587**
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Fixed Loans	2	15	7	4	—	28	1,483	1	1,482	28	1,502
Interest rate	1.4100%	2.8850%	2.8850%	2.8850%	—	—	—	—	—	—	—
Philippine Peso	234	123	319	730	1,232	2,638	138,637	278	138,359	2,319	121,868
Interest rate	4.9110% to 5.6038%	3.9000% to 6.7339%	3.9000% to 6.7339%	3.9000% to 6.7339%	4.2500% to 6.7339%	—	—	—	—	—	—
Variable Rate											
U.S. Dollar Loans	17	286	38	52	25	418	21,964	94	21,870	418	21,965
Interest rate	0.9500% to 1.1000% over LIBOR	0.7900% to 1.4500% over LIBOR	0.7900% to 0.9500% over LIBOR	0.7900% to 1.0500% over LIBOR	1.0500% over LIBOR	—	—	—	—	—	—
Philippine Peso	—	94	64	2	118	278	14,610	45	14,565	278	14,610
Interest rate*	—	0.5000% to 1.0000% over PHP BVAL	0.5000% to 1.0000% over PHP BVAL	0.5000% to 0.6000% over PHP BVAL	0.5000% to 0.6000% over PHP BVAL	—	—	—	—	—	—
	253	**518**	**428**	**788**	**1,375**	**3,362**	**176,694**	**418**	**176,276**	**3,043**	**159,945**

* *Effective October 29, 2018, PHP BVAL Reference Rates replaced PDST Reference Rates (PDST-R1 and PDST-R2).*

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.

Approximately 18% and 21% of our consolidated debts were variable rate debts as at September 30, 2019 and December 31, 2018, respectively. Our consolidated variable rate debt decreased to Php31,362 million as at September 30, 2019 from Php36,575 million as at December 31, 2018. Considering the aggregate notional amount of our consolidated outstanding long-term interest rate swap contracts of US$236 million and US$323 million as at September 30, 2019 and December 31, 2018, respectively, approximately 89% each of our consolidated debts were fixed as at September 30, 2019 and December 31, 2018.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until December 31, 2019. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 25 basis points, or bps, and 10 bps higher/lower, respectively, as compared to levels as at September 30, 2019. If U.S. dollar interest rates had been 25 bps higher/lower as compared to market levels as at September 30, 2019, with all other variables held constant, profit after tax for the nine months ended September 30, 2019 and our consolidated stockholders' equity as at September 30, 2019 would have been approximately Php2 million and Php16 million, respectively, 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 10 bps higher/lower as compared to market levels as at September 30, 2019, with all other variables held constant, profit after tax for the nine months ended September 30, 2019 and our consolidated stockholders' equity as at September 30, 2019 would have been approximately Php2 million and Php16 million, respectively, 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.

Maximum exposure to credit risk of financial assets not subject to impairment

The gross carrying amount of financial assets not subject to impairment also represents our maximum exposure to credit risk as at September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
	(in million pesos)	
Financial assets at fair value through profit or loss	**3,767**	4,763
Derivative financial assets – net of current portion	**10**	140
Current portion of derivative financial assets	**60**	183
Total	**3,837**	5,086

Maximum exposure to credit risk of financial assets subject to impairment

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 September 30, 2019 and December 31, 2018. The maximum exposure is shown gross before both the effect of mitigation through use of master netting and collateral arrangements. The extent to which collateral and other credit enhancements mitigate the maximum exposure to credit risk is described in the footnotes to the table.

For financial assets recognized on our consolidated statements of financial position, the gross exposure to credit risk equal their carrying amount.

	September 30, 2019 (Unaudited)			
	Stage 1 12-Month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
		(in million pesos)		
High grade	**31,957**	**8,475**	**—**	**40,432**
Standard grade	**1,706**	**5,784**	**—**	**7,490**
Substandard grade	**7**	**6,363**	**—**	**6,370**
Default	**302**	**1,865**	**17,392**	**19,559**
Gross carrying amount	**33,972**	**22,487**	**17,392**	**73,851**
Less allowance	**302**	**1,865**	**17,392**	**19,559**
Carrying amount	**33,670**	**20,622**	**—**	**54,292**

	December 31, 2018 (Audited)			
	Stage 1 12-Month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
		(in million pesos)		
High grade	58,299	8,776	—	67,075
Standard grade	1,470	7,881	—	9,351
Substandard grade	3	7,399	—	7,402
Default	236	1,595	14,908	16,739
Gross carrying amount	60,008	25,651	14,908	100,567
Less allowance	236	1,595	14,908	16,739
Carrying amount	**59,772**	**24,056**	**—**	**83,828**

Maximum exposure to credit risk after collateral held or other credit enhancements

Collateral held as security for financial assets depends on the nature of the instrument. Debt investment securities are generally unsecured. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are regularly updated according to internal lending policies and regulatory guidelines. Generally, collateral is not held over loans and advances to us except for reverse repurchase agreements. Collateral usually is not held against investment securities, and no such collateral was held as at September 30, 2019 and December 31, 2018.

Our policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by us during the year.

We have not identified significant risk concentrations arising from the nature, type or location of collateral and other credit enhancements held against our credit exposures.

An analysis of the maximum exposure to credit risk for the components of our consolidated statements of financial position, including derivative financial instruments as at September 30, 2019 and December 31, 2018:

	September 30, 2019 (Unaudited)		
	Gross Maximum Exposure	**Collateral and Other Credit Enhancements***	**Net Maximum Exposure**
		(in million pesos)	
Financial instruments at amortized cost:			
Current portion of other financial assets	**3,079**	**62**	**3,017**
Debt instruments at amortized cost	**150**	**—**	**150**
Cash and cash equivalents	**27,138**	**116**	**27,022**
Short-term investments	**424**	**—**	**424**
Retail subscribers	**7,319**	**37**	**7,282**
Corporate subscribers	**6,492**	**304**	**6,188**
Foreign administrations	**2,249**	**—**	**2,249**
Domestic carriers	**643**	**—**	**643**
Dealers, agents and others	**3,919**	**2**	**3,917**
Financial instruments at FVPL:			
Financial assets at FVPL	**3,767**	**—**	**3,767**
Other financial assets – net of current portion	**6,867**	**—**	**6,867**
Interest rate swap	**36**	**—**	**36**
Forward foreign exchange contracts	**19**	**—**	**19**
Long-term currency swap	**9**	**—**	**9**
Currency swap	**6**	**—**	**6**
Financial instruments at FVOCI:			
Financial instruments at FVOCI	**2,879**	**—**	**2,879**
Total	**64,996**	**521**	**64,475**

* *Includes bank insurance, security deposits and customer deposits. We have no collateral held as at September 30, 2019.*

	December 31, 2018 (Audited)		
	Gross Maximum Exposure	Collateral and Other Credit Enhancements*	Net Maximum Exposure
		(in million pesos)	
Financial instruments at amortized cost:			
Other financial assets	2,450	—	2,450
Debt instruments at amortized cost	150	—	150
Cash and cash equivalents	51,654	187	51,467
Short-term investments	1,165	—	1,165
Retail subscribers	9,620	55	9,565
Corporate subscribers	6,564	273	6,291
Foreign administrations	3,306	—	3,306
Domestic carriers	193	—	193
Dealers, agents and others	4,373	1	4,372
Financial instruments at FVPL:			
Financial assets at FVPL	4,763	—	4,763
Other financial assets	6,833	—	6,833
Interest rate swap	227	—	227
Long-term currency swap	83	—	83
Currency swap	13	—	13
Financial instruments at FVOCI:			
Financial instruments at FVOCI:	4,353	—	4,353
Total	**95,747**	**516**	**95,231**

* *Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2018.*

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at September 30, 2019 and December 31, 2018:

		Neither past due nor credit impaired		Past due but not credit impaired	
	Total	Class A(1)	Class B(2)		Impaired
			(in million pesos)		
September 30, 2019 (Unaudited)					
Financial instruments at amortized cost:	***70,972***	***37,553***	***7,490***	***6,370***	***19,559***
Other financial assets	**3,381**	**1,606**	**1,466**	**7**	**302**
Debt instruments at amortized cost	**150**	**150**	—	—	—
Cash and cash equivalents	**27,138**	**26,898**	**240**	—	—
Short-term investments	**424**	**424**	—	—	—
Retail subscribers	**19,608**	**3,324**	**2,606**	**1,389**	**12,289**
Corporate subscribers	**11,812**	**2,633**	**1,336**	**2,523**	**5,320**
Foreign administrations	**2,652**	**606**	**636**	**1,007**	**403**
Domestic carriers	**721**	**354**	**166**	**123**	**78**
Dealers, agents and others	**5,086**	**1,558**	**1,040**	**1,321**	**1,167**
Financial instruments at FVPL:	***10,704***	***10,587***	***117***	—	—
Financial assets at FVPL	**3,767**	**3,650**	**117**	—	—
Other financial assets	**6,867**	**6,867**	—	—	—
Interest rate swap	**36**	**36**	—	—	—
Forward foreign exchange contracts	**19**	**19**	—	—	—
Long-term currency swap	**9**	**9**	—	—	—
Currency swap	**6**	**6**	—	—	—
Financial instruments at FVOCI:	***2,879***	***2,879***	—	—	—
Financial instruments at FVOCI:	**2,879**	**2,879**	—	—	—
Total	**84,555**	**51,019**	**7,607**	**6,370**	**19,559**

(1) *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.*

(2) *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.*

	Total	Neither past due nor credit impaired		Past due but not credit impaired	Impaired
		Class A[1]	Class B[2]		
			(in million pesos)		
December 31, 2018 (Audited)					
Financial instruments at amortized cost:	*96,214*	*62,722*	*9,351*	*7,402*	*16,739*
Other financial assets	2,686	1,221	1,226	3	236
Debt instruments at amortized cost	150	150	—	—	—
Cash and cash equivalents	51,654	51,410	244	—	—
Short-term investments	1,165	1,165	—	—	—
Retail subscribers	19,444	4,125	3,577	1,918	9,824
Corporate subscribers	11,073	2,806	1,519	2,239	4,509
Foreign administrations	4,225	593	850	1,863	919
Domestic carriers	270	29	49	115	77
Dealers, agents and others	5,547	1,223	1,886	1,264	1,174
Financial instruments at FVPL:	*11,919*	*11,806*	*113*	—	—
Financial assets at FVPL	4,763	4,650	113	—	—
Other financial assets	6,833	6,833	—	—	—
Interest rate swap	227	227	—	—	—
Long-term currency swap	83	83	—	—	—
Currency swap	13	13	—	—	—
Financial instruments at FVOCI:	*4,353*	*4,353*	—	—	—
Financial instruments at FVOCI:	4,353	4,353	—	—	—
Total	**112,486**	**78,881**	**9,464**	**7,402**	**16,739**

(1) *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.*

(2) *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.*

The aging analysis of past due but not impaired class of financial assets as at September 30, 2019 and December 31, 2018 are as follows:

	Total	Neither past due nor credit impaired	Past due but not credit impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
			(in million pesos)			
September 30, 2019 (Unaudited)						
Financial assets at amortized cost:	***70,972***	***45,043***	***2,576***	***583***	***3,211***	***19,559***
Other financial assets	**3,381**	**3,072**	**—**	**—**	**7**	**302**
Debt instruments at amortized cost	**150**	**150**	**—**	**—**	**—**	**—**
Cash and cash equivalents	**27,138**	**27,138**	**—**	**—**	**—**	**—**
Short-term investments	**424**	**424**	**—**	**—**	**—**	**—**
Retail subscribers	**19,608**	**5,930**	**1,303**	**45**	**41**	**12,289**
Corporate subscribers	**11,812**	**3,969**	**870**	**219**	**1,434**	**5,320**
Foreign administrations	**2,652**	**1,242**	**206**	**47**	**754**	**403**
Domestic carriers	**721**	**520**	**129**	**53**	**(59)**	**78**
Dealers, agents and others	**5,086**	**2,598**	**68**	**219**	**1,034**	**1,167**
Financial instruments at FVPL:	***10,704***	***10,704***	**—**	**—**	**—**	**—**
Financial assets at FVPL	**3,767**	**3,767**	**—**	**—**	**—**	**—**
Other financial assets	**6,867**	**6,867**	**—**	**—**	**—**	**—**
Interest rate swap	**36**	**36**	**—**	**—**	**—**	**—**
Forward foreign exchange contracts	**19**	**19**	**—**	**—**	**—**	**—**
Long-term currency swap	**9**	**9**	**—**	**—**	**—**	**—**
Currency swap	**6**	**6**	**—**	**—**	**—**	**—**
Financial instruments at FVOCI:	***2,879***	***2,879***	**—**	**—**	**—**	**—**
Financial instruments at FVOCI:	**2,879**	**2,879**	**—**	**—**	**—**	**—**
Total	**84,555**	**58,626**	**2,576**	**583**	**3,211**	**19,559**

	Total	Neither past due nor credit impaired	Past due but not credit impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
			(in million pesos)			
December 31, 2018 (Audited)						
Financial assets at amortized cost:	*96,214*	*72,073*	*3,262*	*398*	*3,742*	*16,739*
Other financial assets	2,686	2,447	—	—	3	236
Debt instruments at amortized cost	150	150	—	—	—	—
Cash and cash equivalents	51,654	51,654	—	—	—	—
Short-term investments	1,165	1,165	—	—	—	—
Retail subscribers	19,444	7,702	1,747	62	109	9,824
Corporate subscribers	11,073	4,325	957	101	1,181	4,509
Foreign administrations	4,225	1,443	139	131	1,593	919
Domestic carriers	270	78	52	21	42	77
Dealers, agents and others	5,547	3,109	367	83	814	1,174
Financial instruments at FVPL:	*11,919*	*11,919*	—	—	—	—
Financial assets at FVPL	4,763	4,763	—	—	—	—
Other financial assets	6,833	6,833	—	—	—	—
Interest rate swap	227	227	—	—		
Long-term currency swap	83	83	—	—	—	—
Currency swap	13	13	—	—	—	—
Financial instruments at FVOCI:	*4,353*	*4,353*	—	—	—	—
Financial instruments at FVOCI:	4,353	4,353	—	—	—	—
Total	**112,486**	**88,345**	**3,262**	**398**	**3,742**	**16,739**

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 incurrence of debt as we seek new investment opportunities for new businesses and growth areas. On August 5, 2014, the PLDT Board of Directors approved an amendment to our dividend policy, increasing the dividend payout rate to 75% from 70% of our core EPS as regular dividends, although we amended our dividend policy to reduce the regular dividend payout to 60% of core EPS in 2016. In declaring dividends, we take into consideration the interest of our shareholders, as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs.

However, in view of our elevated capital expenditures to build-out a robust, superior network to support the continued growth of data traffic, plans to invest in new adjacent businesses that will complement the current business and provide future sources of profits and dividends, and management of our cash and gearing levels, the PLDT Board of Directors approved on August 2, 2016, the amendment of our dividend policy, reducing the regular dividend payout to 60% of core EPS. As part of the dividend policy, 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.

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.

No changes were made in our objectives, policies or processes for managing capital during the nine months ended September 30, 2019 and 2018.

30. Notes to the Statement of Cash Flows

The following table shows the changes in liabilities arising from financing activities as at September 30, 2019 and December 31, 2018:

	January 1, 2019 (Audited)	Cash flows	Foreign exchange movement	Others	September 30, 2019 (Unaudited)
			(in million pesos)		
Interest-bearing financial liabilities (Note 21)	**176,276**	**2,320**	**(311)**	**99**	**178,384**
Lease liabilities (Note 22)	**—**	**(4,363)**	**—**	**25,940**	**21,577**
Accrued interests and other related costs (Note 25)	**1,347**	**(5,252)**	**—**	**5,314**	**1,409**
Dividends	**1,533**	**(15,556)**	**—**	**15,618**	**1,595**
	179,156	**(22,851)**	**(311)**	**46,971**	**202,965**

	January 1, 2018 (Audited)	Cash flows	Foreign exchange movement	Others	December 31, 2018 (Audited)
			(in million pesos)		
Interest-bearing financial liabilities (Note 21)	172,611	1,722	1,723	220	176,276
Accrued interests and other related costs (Note 25)	1,176	(6,614)	—	6,785	1,347
Dividends	1,575	(13,928)	—	13,886	1,533
	175,362	**(18,820)**	**1,723**	**20,891**	**179,156**

Others include the effect of accretion of long-term borrowings, effect of recognition and accretion of lease liabilities, effect of accrued but not yet paid interest on interest-bearing loans and borrowings and accrual of dividends that were not yet paid at the end of the period.