FINANCIAL REVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes as at December 31, 2018 and 2017 and for each of the three years ended December 31, 2018, 2017 and 2016 included elsewhere in this Annual Report. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We are the largest and most diversified telecommunications company in the Philippines which delivers data and multimedia 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:

- *Wireless* — mobile telecommunications services provided by Smart Communications, Inc., or Smart, and Digitel Mobile Philippines, Inc., or DMPI, our mobile service providers; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; and certain subsidiaries of PLDT Global Corporation, or 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, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. or Philcom, and its subsidiaries, or Philcom Group, PLDT-Maratel, Inc., Bonifacio Communications Corporation, PLDT Global and certain subsidiaries, and Digital Telecommunications Phils., Inc., or Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, big data, managed security services, managed IT services and resellership provided by ePLDT, Inc., or ePLDT, IP Converge Data Services, Inc., or IPCDSI, and subsidiary, or IPCDSI Group, ABM Global Solutions, Inc., or AGS, and its subsidiaries, or AGS Group, Curo Teknika, Inc. and ePDS, Inc., or ePDS; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation provided by Talas Data Intelligence, Inc., or Talas; distribution of Filipino channels and content by Pilipinas Global Network Limited and its subsidiaries; and

- *Others* — Voyager Innovations Holdings, Pte. Ltd., or VIH, and certain subsidiaries, the digital innovations arm of PLDT and Smart; PLDT Communications and Energy Ventures, Inc., or PCEV, PLDT Global Investment Holdings, Inc., PLDT Global Investments Corporation, or PGIC, PLDT Digital Investments Pte. Ltd., or PLDT Digital, and its subsidiaries, our investment companies.

New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except that we have adopted certain standards and amendments starting January 1, 2018. Except for the adoption of PFRS 9, *Financial Instruments (2014)*, and PFRS 15, *Revenue from Contract with Customers*, the adoption of these new standards and amendments did not have any significant impact on our financial position or performance. Please see *Note 2 – Summary of Significant Accounting Policies and Procedures* to the accompanying audited consolidated financial statements for further discussion.

Selected Financial Data and Key Performance Indicators

	2018	2017	2016
Financial Data (in millions):			
Service revenues	**Php154,207**	Php151,165	Php157,210
Net income	**18,973**	13,466	20,162
Core income	**25,855**	27,668	27,857
EBITDA	**64,027**	66,174	61,161
EBITDA margin(1)	**42%**	44%	39%
Operational Data:			
Number of mobile subscribers	**60,499,017**	58,293,908	62,763,209
Number of fixed line subscribers	**2,710,972**	2,663,210	2,438,473
Number of broadband subscribers	**2,025,563**	1,950,881	1,720,753

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

We use a number of non-GAAP performance indicators to monitor financial performance. These are summarized below and discussed later in this report.

EBITDA

EBITDA 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 is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. EBITDA is presented because our management believes that it is widely used by investors in their analysis of the performance of PLDT and can assist them in their comparison of PLDT's performance with those of other companies in the technology, media and telecommunications sector. We also present EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Companies in the technology, media and telecommunications sector have historically reported EBITDA as a supplement to financial measures in accordance with PFRS. EBITDA should not be considered as an alternative to net income as an indicator of our performance, nor should EBITDA be considered as an alternative to cash flows from operating activities, as a measure of liquidity or as an alternative to any other measure determined in accordance with PFRS. Unlike net income, EBITDA does not include depreciation and amortization or financing costs and, therefore, does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using EBITDA as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax, net income, and operating, investing and financing cash flows. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in EBITDA. Our calculation of EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated net income to our consolidated EBITDA for the years ended December 31, 2018, 2017 and 2016 is presented in *Note 4 – Operating Segment Information* to the accompanying audited consolidated financial statements.

Core Income

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. Core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis for determining the level of dividend payouts to shareholders and a basis for granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with PFRS as an indicator of our performance. Unlike net income, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and non-recurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with

PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated net income to our consolidated core income for the years ended December 31, 2018, 2017 and 2016 is presented in *Note 4 – Operating Segment Information* to the accompanying audited consolidated financial statements.

Management's Financial Review

We use our EBITDA and our core income to assess our operating performance; a reconciliation of our consolidated net income to our consolidated EBITDA and our consolidated core income for the years ended December 31, 2018, 2017 and 2016 is set forth below.

The following table shows the reconciliation of our consolidated net income to our consolidated EBITDA for the years ended December 31, 2018, 2017 and 2016:

	2018	**2017**	**2016**
		(in millions)	
Consolidated net income	**Php18,973**	Php13,466	Php20,162
Add (deduct) adjustments:			
Depreciation and amortization	**47,240**	51,915	34,455
Financing costs – net	**7,067**	7,370	7,354
Provision for income tax	**3,842**	1,103	1,909
Noncurrent asset impairment	**2,122**	3,913	1,074
Amortization of intangible assets	**892**	835	929
Foreign exchange losses – net	**771**	411	2,785
Impairment of investments	**172**	2,562	5,515
Equity share in net losses (earnings) of associates and joint ventures	**87**	(2,906)	(1,181)
Gains on derivative financial instruments – net	**(1,086)**	(533)	(996)
Interest income	**(1,943)**	(1,412)	(1,046)
Other income – net	**(14,110)**	(10,550)	(9,799)
Total adjustments	**45,054**	52,708	40,999
EBITDA	**Php64,027**	Php66,174	Php61,161

The following table shows the reconciliation of our consolidated net income to our consolidated core income for the years ended December 31, 2018, 2017 and 2016:

	2018	**2017**	**2016**
		(in millions)	
Consolidated net income	**Php18,973**	Php13,466	Php20,162
Add (deduct) adjustments:			
Depreciation due to shortened life of property and equipment	**4,564**	12,816	—
Noncurrent asset impairment	**2,122**	3,913	1,074
Manpower rightsizing program	**1,703**	—	—
Loss in fair value of investments	**1,154**	—	—
Foreign exchange losses – net	**771**	411	2,785
Investment written-off	**362**	—	—
Impairment of investments	**172**	2,562	5,515
Core income adjustment on equity share in net losses of associates and joint ventures	**23**	60	95
Net income attributable to noncontrolling interests	**(57)**	(95)	(156)
Other nonrecurring income	**(1,018)**	—	—
Gains on derivative financial instruments – net, excluding hedge costs	**(1,135)**	(724)	(1,539)
Net tax effect of aforementioned adjustments	**(1,779)**	(4,741)	(79)
Total adjustments	**6,882**	14,202	7,695
Consolidated core income	**Php25,855**	Php27,668	Php27,857

Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expense), income (loss) before income tax, provision for (benefit from) income tax, net income (loss)/segment profit (loss), EBITDA, EBITDA margin and core income for the years ended December 31, 2018, 2017 and 2016. In each of the years ended December 31, 2018, 2017 and 2016, majority of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

In 2018, we reclassified the presentation of VIH from wireless to other business resulting from the transfer from Smart to PCEV in April 2018. In 2017, we changed the presentation of our expenses by combining certain line items to simplify our reporting while maintaining the same level of information. In 2016, we changed the classification of our revenue mix to provide for a more direct comparison to the current industry presentation in the Philippines by combining or separating certain line items from our service lines, and moving line items from one service line to another. We also changed the classification of our impairment on investments not directly affecting operations (most significantly, the impairment of our investment in Rocket Internet SE, or Rocket Internet), from operating expenses to other expenses. Accordingly, we changed prior years' financial information to conform with the current years' presentation in order to provide a clear comparison.

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(in millions)		
For the year ended December 31, 2018					
Revenues	**Php89,929**	**Php85,222**	**Php1,138**	**(Php11,537)**	**Php164,752**
Expenses	**82,246**	**77,782**	**4,093**	**(13,142)**	**150,979**
Other income (expenses)	**(625)**	**(45)**	**12,099**	**(2,387)**	**9,042**
Income before income tax	**7,058**	**7,395**	**9,144**	**(782)**	**22,815**
Provision for income tax	**1,333**	**1,336**	**1,173**	**–**	**3,842**
Net income/Segment profit	**5,725**	**6,059**	**7,971**	**(782)**	**18,973**
EBITDA	**34,235**	**30,875**	**(2,688)**	**1,605**	**64,027**
EBITDA margin(1)	**41%**	**38%**	**-246%**	**–**	**42%**
Core income	**9,760**	**6,925**	**9,952**	**(782)**	**25,855**
For the year ended December 31, 2017					
Revenues	92,572	78,341	1,279	(12,266)	159,926
Expenses	97,651	63,864	2,774	(13,874)	150,415
Other income (expenses)	77	(3,323)	10,530	(2,226)	5,058
Income (loss) before income tax	(5,002)	11,154	9,035	(618)	14,569
Provision for (benefit from) income tax	(2,787)	3,680	210	–	1,103
Net income (loss)/Segment profit (loss)	(2,215)	7,474	8,825	(618)	13,466
EBITDA	36,395	29,478	(1,307)	1,608	66,174
EBITDA margin(1)	42%	39%	-104%	–	44%
Core income	9,812	8,846	9,628	(618)	27,668
For the year ended December 31, 2016					
Revenues	104,087	72,728	847	(12,400)	165,262
Expenses	91,623	61,285	1,623	(13,972)	140,559
Other income (expenses)	(3,103)	(291)	2,334	(1,572)	(2,632)
Income before income tax	9,361	11,152	1,558	–	22,071
Provision for (benefit from) income tax	(1,257)	3,018	148	–	1,909
Net income/Segment profit	10,618	8,134	1,410	–	20,162
EBITDA	32,915	26,950	(276)	1,572	61,161
EBITDA margin(1)	33%	39%	-37%	–	39%
Core income	12,275	7,746	7,836	–	27,857

(1) *EBITDA margin for the year is measured as EBITDA from continuing operations divided by service revenues.*

Years Ended December 31, 2018 and 2017

Wireless

Revenues

We generated revenues of Php89,929 million from our Wireless business segment in 2018, a decrease of Php2,643 million, or 3%, from Php92,572 million in 2017.

The following table summarizes our total revenues by service from our Wireless business segment for the years ended December 31, 2018 and 2017:

					Increase (Decrease)	
	2018	%	2017	%	Amount	%
			(in millions)			
Service Revenues:						
Mobile	**Php81,096**	**90**	Php84,439	91	(Php3,343)	(4)
Home Broadband	**155**	**—**	2,556	3	(2,401)	(94)
MVNO and others(1)	**1,750**	**2**	417	—	1,333	320
Total Wireless Service Revenues	**83,001**	**92**	87,412	94	(4,411)	(5)
Non-Service Revenues:						
Sale of mobile handsets, SIM-packs and broadband data modems	**6,928**	**8**	5,160	6	1,768	34
Total Wireless Revenues	**Php89,929**	**100**	Php92,572	100	(Php2,643)	(3)

(1) *Includes service revenues generated by MVNOs of PLDT Global subsidiaries and facilities service fees.*

Service Revenues

Our wireless service revenues in 2018 decreased by Php4,411 million, or 5%, to Php83,001 million as compared with Php87,412 million in 2017, mainly as a result of lower revenues from mobile, and home broadband, partially offset by higher revenues from other services. As a percentage of our total wireless revenues, service revenues accounted for 92% and 94% for the years ended December 31, 2018 and 2017, respectively.

Mobile Services

Our mobile service revenues amounted to Php81,096 million in 2018, a decrease of Php3,343 million, or 4%, from Php84,439 million in 2017. Mobile service revenues accounted for 98% and 97% of our wireless service revenues for the years ended December 31, 2018 and 2017, respectively. In the third quarter of 2018, the revenue split allocation among voice, SMS and data for our mobile bundled plans was revised to reflect the current usage behavior pattern of our subscribers based on the recent network study conducted for our Wireless business segment.

					Increase (Decrease)	
	2018	**%**	**2017**	**%**	**Amount**	**%**
			(in millions)			
Mobile Services:						
Data	**Php38,350**	**47**	Php26,281	31	Php12,069	46
Voice	**28,052**	**35**	30,724	36	(2,672)	(9)
SMS	**13,103**	**16**	26,045	31	(12,942)	(50)
Inbound roaming and others(1)	**1,591**	**2**	1,389	2	202	15
Total	**Php81,096**	**100**	Php84,439	100	(Php3,343)	(4)

(1) *Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees.*

Data Services

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php12,069 million, or 46%, to Php38,350 million in 2018 from Php26,281 million in 2017 due to increased mobile internet usage driven mainly by enhanced data offers with video access, supported by continuous network improvement and LTE migration, as well as the impact of the revised revenue split allocation, partially offset by lower revenues from mobile broadband and the impact of adoption of PFRS 15. Data services accounted for 47% and 31% of our mobile service revenues for the years ended December 31, 2018 and 2017, respectively.

The following table shows the breakdown of our mobile data service revenues for the years ended December 31, 2018 and 2017:

					Increase (Decrease)	
	2018	**%**	**2017**	**%**	**Amount**	**%**
			(in millions)			
Data Services:						
Mobile internet(1)	**Php33,207**	**87**	Php20,086	76	Php13,121	65
Mobile broadband	**4,589**	**12**	6,030	23	(1,441)	(24)
Other data(2)	**554**	**1**	165	1	389	236
Total	**Php38,350**	**100**	Php26,281	100	Php12,069	46

(1) *Includes revenues from web-based services, net of discounts and content provider costs.*
(2) *Beginning third quarter of 2018, revenues from other data include value-added services, or VAS.*

Mobile internet

Mobile internet service revenues increased by Php13,121 million, or 65%, to Php33,207 million in 2018 from Php20,086 million in 2017, primarily due to the following: (i) LTE migration efforts which yielded growth in LTE SIMs and smartphone ownership among our subscriber base; (ii) *Youtube* promo which built a video-streaming habit among users; (iii) prevalent use of mobile apps, social networking and e-commerce sites, and other OTT services; and (iv) impact of the revised revenue split allocation. Mobile internet services accounted for 41% and 24% of our mobile service revenues for the years ended December 31, 2018 and 2017, respectively.

Mobile broadband

Mobile broadband revenues amounted to Php4,589 million in 2018, a decrease of Php1,441 million, or 24%, from Php6,030 million in 2017, primarily due to a decrease in the number of subscribers using pocket wifi as they shift to using mobile internet and fixed DSL/Fiber home broadband. Mobile broadband services accounted for 6% and 7% of our mobile service revenues for the years ended December 31, 2018 and 2017, respectively.

Other data

Revenues from our other data services, which include VAS, domestic leased lines and share in revenue from PLDT WeRoam, increased by Php389 million, or 236%, to Php554 million in 2018 from Php165 million in 2017.

Voice Services

Mobile revenues from our voice services, which include all voice traffic, decreased by Php2,672 million, or 9%, to Php28,052 million in 2018 from Php30,724 million in 2017, mainly on account of lower traffic due to subscribers' shift to digital lifestyle with access to alternative calling options and other OTT services, and the impact of reduction in interconnection rates for voice services, as mandated by the NTC, and adoption of PFRS 15, partly offset by the effect of the revised revenue split allocation. Mobile voice services accounted for 35% and 36% of our mobile service revenues for the years ended December 31, 2018 and 2017, respectively.

Domestic voice service revenues decreased by Php650 million, or 3%, to Php23,486 million in 2018 from Php24,136 million in 2017, due to lower domestic inbound and outbound voice service revenues.

International voice service revenues decreased by Php2,022 million, or 31%, to Php4,566 million in 2018 from Php6,588 million in 2017, primarily due to lower international inbound and outbound voice service revenues as a result of lower international voice traffic, partially offset by the effect of higher weighted average rate of the Philippine peso relative to the U.S. dollar.

SMS Services

Mobile revenues from our SMS services, which include all SMS-related services, decreased by Php12,942 million, or 50%, to Php13,103 million in 2018 from Php26,045 million in 2017 mainly due to declining SMS volumes as a result of alternative text messaging options, such as OTT services and social media, and the impact of the revised revenue split allocation, reduction in interconnection rates for SMS services and adoption of PFRS 15. Mobile SMS services accounted for 16% and 31% of our mobile service revenues for the years ended December 31, 2018 and 2017, respectively.

Inbound Roaming and Others

Mobile revenues from inbound roaming and other services increased by Php202 million, or 15%, to Php1,591 million in 2018 from Php1,389 million in 2017.

The following table shows the breakdown of our mobile service revenues by service type for the years ended December 31, 2018 and 2017:

			Increase (Decrease)	
	2018	**2017**	**Amount**	**%**
		(in millions)		
Mobile service revenues	**Php81,096**	Php84,439	(Php3,343)	(4)
By service type				
Prepaid	**59,914**	59,862	52	—
Postpaid	**19,591**	23,188	(3,597)	(16)
Inbound roaming and others	**1,591**	1,389	202	15

Prepaid Revenues

Revenues generated from our mobile prepaid services amounted to Php59,914 million in 2018, an increase of Php52 million as compared with Php59,862 million in 2017. Mobile prepaid service revenues accounted for 74% and 71% of mobile service revenues for the years ended December 31, 2018 and 2017, respectively. The increase in revenues from our mobile prepaid services was primarily driven by a higher mobile prepaid subscriber base combined with the sustained growth in mobile internet revenues.

Postpaid Revenues

Revenues generated from mobile postpaid service amounted to Php19,591 million in 2018, a decrease of Php3,597 million, or 16%, as compared with Php23,188 million in 2017, and accounted for 24% and 27% of mobile service revenues for the years ended December 31, 2018 and 2017, respectively. The decrease in our mobile postpaid service revenues was primarily due to a lower postpaid subscriber base and the impact of adoption of PFRS 15.

Subscriber Base, Average Revenue Per User, or ARPU, and Churn Rates

The following table shows our wireless subscriber base as at December 31, 2018 and 2017:

			Increase (Decrease)	
	2018	**2017**	**Amount**	**%**
Mobile subscriber base				
Smart[1]	**21,956,289**	21,821,441	134,848	1
Prepaid	***20,532,174***	*20,433,351*	*98,823*	—
Postpaid	***1,424,115***	*1,388,090*	*36,025*	3
TNT	**31,893,641**	28,807,964	3,085,677	11
Sun[1]	**6,649,087**	7,664,503	(1,015,416)	(13)
Prepaid	***5,753,163***	*6,535,331*	*(782,168)*	(12)
Postpaid	***895,924***	*1,129,172*	*(233,248)*	(21)
Total mobile subscribers	**60,499,017**	58,293,908	2,205,109	4

[1] *Includes mobile broadband subscribers.*

Our current policy is to recognize a prepaid subscriber as active only when the subscriber activates and uses the SIM card. Beginning the second quarter of 2017, a prepaid mobile subscriber is considered inactive if the subscriber does not reload within 90 days after the full usage or expiry of the last reload, revised from the previous 120 days.

In compliance with Memorandum Circular (MC) No. 05-12-2017 issued jointly by the NTC, Department of Information and Communications Technology, and Department of Trade and Industry, Smart, TNT, and Sun extended the validity of prepaid loads to one year. Beginning January 2018, the one-year validity was implemented particularly on prepaid loads worth Php300 and above. In July 2018, the one-year validity was fully implemented for all prepaid loads, including denominations lower than Php300, regardless of the validity period printed on the physical cards already out in the market.

The average monthly churn rates for Smart Prepaid subscribers were 6.5% and 6.7% in 2018 and 2017, respectively, while the average monthly churn rates for TNT subscribers were 5.8% and 6.8% in 2018 and 2017, respectively. The average monthly churn rates for Sun Prepaid subscribers were 6.1% and 7.7% in 2018 and 2017, respectively.

The average monthly churn rates for Smart Postpaid subscribers were 2.0% and 2.3% in 2018 and 2017, respectively, and 3.5% in each of 2018 and 2017, for Sun Postpaid subscribers.

The following table summarizes our average monthly ARPUs for the years ended December 31, 2018 and 2017:

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2018	2017	Amount	%	2018	2017	Amount	%
	(in Pesos)				(in Pesos)			
Prepaid								
Smart	***Php130***	*Php118*	*Php12*	*10*	***Php118***	*Php108*	*Php10*	*9*
TNT	***79***	*81*	*(2)*	*(2)*	***71***	*74*	*(3)*	*(4)*
Sun	***89***	*88*	*1*	*1*	***81***	*82*	*(1)*	*(1)*
Postpaid								
Smart	***836***	*1,004*	*(168)*	*(17)*	***819***	*972*	*(153)*	*(16)*
Sun	***403***	*422*	*(19)*	*(5)*	***401***	*418*	*(17)*	*(4)*

(1) *Gross monthly ARPU is calculated by dividing gross mobile service revenues for the month, including interconnection income but excluding inbound roaming revenues, gross of discounts, and content provider costs, by the average number of subscribers in the month.*

(2) *Net monthly ARPU is calculated by dividing gross mobile service revenues for the month, including interconnection income, but excluding inbound roaming revenues, net of discounts and content provider costs, by the average number of subscribers in the month.*

Home Broadband

Revenues from our Home Broadband services decreased by Php2,401 million, or 94%, to Php155 million in 2018 from Php2,556 million in 2017, mainly due to the transfer of *Ultera* and *WiMAX* businesses to PLDT.

MVNO and Others

Revenues from our MVNO and other services increased by Php1,333 million to Php1,750 million in 2018 from Php417 million in 2017, primarily due to facility service fees relating to *Ultera*, *WiMAX* and *Shops.Work Unplugged*, or *SWUP,* in 2018, partially offset by lower revenue contribution from MVNOs of PLDT Global.

Non-Service Revenues

Our wireless non-service revenues consist of sale of mobile handsets, mobile broadband data modems, tablets and accessories. Our wireless non-service revenues increased by Php1,768 million, or 34%, to Php6,928 million in 2018 from Php5,160 million in 2017, primarily due to the impact of adoption of PFRS 15.

Expenses

Expenses associated with our Wireless business segment amounted to Php82,246 million in 2018, a decrease of Php15,405 million, or 16%, from Php97,651 million in 2017. The decrease was mainly attributable to lower depreciation and amortization, asset impairment and interconnection costs, partially offset by higher cost of sales and services, and selling, general and administrative expenses. As a percentage of our total wireless revenues, expenses associated with our Wireless business segment accounted for 91% and 105% in the years ended December 31, 2018 and 2017, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2018 and 2017 and the percentage of each expense item in relation to the total:

					Increase (Decrease)	
	2018	%	2017	%	Amount	%
			(in millions)			
Selling, general and administrative expenses	**Php39,693**	**48**	Php39,584	41	Php109	—
Depreciation and amortization	**24,778**	**30**	36,776	38	(11,998)	(33)
Cost of sales and services	**9,989**	**12**	8,814	9	1,175	13
Interconnection costs	**4,467**	**6**	6,373	6	(1,906)	(30)
Provisions	**2,173**	**3**	2,191	2	(18)	(1)
Asset impairment	**1,146**	**1**	3,913	4	(2,767)	(71)
Total	**Php82,246**	**100**	Php97,651	100	(Php15,405)	(16)

Selling, general and administrative expenses increased by Php109 million to Php39,693 million, primarily due to higher taxes and licenses, repairs and maintenance, and compensation and employee benefits, partly offset by lower professional and other contracted services, rent, and selling and promotions expenses.

Depreciation and amortization charges decreased by Php11,998 million, or 33%, to Php24,778 million, on account of lower depreciation due to shortened life of certain data network platform and other technology equipment resulting from the ongoing transformation projects which commenced in the previous year, to improve and simplify the network and systems applications.

Cost of sales and services increased by Php1,175 million, or 13%, to Php9,989 million, primarily due to higher issuances of mobile handsets and cost of SIM packs.

Interconnection costs decreased by Php1,906 million, or 30%, to Php4,467 million, primarily due to lower interconnection cost on domestic voice and SMS services, mainly due to the impact of reduction in interconnection rates for voice and SMS, as well as lower interconnection charges on international SMS and data roaming services.

Provisions decreased by Php18 million, or 1%, to Php2,173 million, primarily due to lower provision for inventory obsolescence.

Asset impairment decreased by Php2,767 million, or 71%, to Php1,146 million primarily due to the impairment of certain network equipment in 2017 which were rendered obsolete due to technological advancements as a result of continuing network transformation projects.

Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2018 and 2017:

			Change	
	2018	**2017**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Financing costs – net	**(Php1,865)**	(Php2,247)	Php382	17
Foreign exchange losses – net	**(125)**	(57)	(68)	(119)
Equity share in net earnings (losses) of associates	**62**	(129)	191	148
Gain on derivative financial instruments – net	**449**	282	167	59
Interest income	**719**	305	414	136
Other income – net	**135**	1,923	(1,788)	(93)
Total	**(Php625)**	Php77	(Php702)	(912)

Our Wireless business segment's other expenses amounted to Php625 million in 2018, a change of Php702 million as against other income of Php77 million in 2017, primarily due to the net effects of the following: (i) lower other income – net by Php1,788 million mainly due to lower income from consultancy and other miscellaneous income, partly offset by lower impairment on Smart's investment in AFPI; (ii) higher net foreign exchange losses by Php68 million; (iii) higher net gains on derivative financial instruments by Php167 million; (iv) equity share in net earnings of associates of Php62 million in 2018 as against equity share in net losses of Php129 million in 2017; (v) lower net financing costs by Php382 million mainly due to higher capitalized interest, lower financing charges and lower weighted average loan principal amount, partly offset by higher weighted average interest rates; and (vi) higher interest income by Php414 million mainly due to an increase in principal amount of temporary cash investment, higher weighted average interest rates and higher weighted average rate of the Philippine peso relative to the U.S. dollar.

Provision for (Benefit from) Income Tax

Provision for income tax amounted to Php1,333 million in 2018, a change of Php4,120 million as against benefit from income tax of Php2,787 million, which includes tax impact of depreciation due to shortened life of property and equipment and noncurrent asset impairment recognized in 2017.

Net Income (Loss)

As a result of the foregoing, our Wireless business segment's net income increased by Php7,940 million to Php5,725 million in 2018 as against net losses of Php2,215 million in 2017.

EBITDA

Our Wireless business segment's EBITDA decreased by Php2,160 million, or 6%, to Php34,235 million in 2018 from Php36,395 million in 2017. EBITDA margin decreased to 41% in 2018 from 42% in 2017.

Core Income

Our Wireless business segment's core income decreased by Php52 million to Php9,760 million in 2018 from Php9,812 million in 2017 on account of lower EBITDA, higher provision for income tax and lower other miscellaneous income, partially offset by lower depreciation expense and net financing costs.

Fixed Line

Revenues

Revenues generated from our Fixed Line business segment amounted to Php85,222 million in 2018, an increase of Php6,881 million, or 9%, from Php78,341 million in 2017.

The following table summarizes our total revenues by service from our Fixed Line business segment for the years ended December 31, 2018 and 2017:

					Increase (Decrease)	
	2018	**%**	**2017**	**%**	**Amount**	**%**
			(in millions)			
Service Revenues:						
Voice	**Php25,178**	**30**	Php28,500	36	(Php3,322)	(12)
Data	**54,770**	**64**	44,294	57	10,476	24
Miscellaneous	**1,700**	**2**	1,963	2	(263)	(13)
	81,648	**96**	74,757	95	6,891	9
Non-Service Revenues:						
Sale of computers, phone units and SIM packs, and point-product sales	**3,574**	**4**	3,584	5	(10)	—
Total Fixed Line Revenues	**Php85,222**	**100**	Php78,341	100	Php6,881	9

Service Revenues

Our fixed line service revenues increased by Php6,891 million, or 9%, to Php81,648 million in 2018 from Php74,757 million in 2017, due to higher revenues from our data services, partially offset by lower voice and miscellaneous service revenues. In the second quarter of 2018, the revenue split allocation between voice and data for our fixed line bundled plans was revised, in favor of data, to reflect the result of a recent network usage study from our Fixed Line business segment.

Voice Services

Revenues from our voice services decreased by Php3,322 million, or 12%, to Php25,178 million in 2018 from Php28,500 million in 2017, primarily due to lower revenues from local exchange and domestic services. The decline was partly due to the continued popularity of services such as Skype, Viber, Line, Facebook Messenger, Google Talk and WhatsApp, offering free OTT calling services, and other similar services, as well as the impact of the revised revenue split allocation. The percentage contribution of voice service revenues to our fixed line service revenues accounted for 31% and 38% for the years ended December 31, 2018 and 2017, respectively.

Data Services

The following table shows information of our data service revenues for the years ended December 31, 2018 and 2017:

			Increase	
	2018	**2017**	**Amount**	**%**
		(in millions)		
Data service revenues	**Php54,770**	Php44,294	Php10,476	24
Home broadband	**26,733**	18,054	8,679	48
Corporate data and ICT	**28,037**	26,240	1,797	7

Our data services posted revenues of Php54,770 million in 2018, an increase of Php10,476 million, or 24%, from Php44,294 million in 2017, primarily due to higher home broadband revenues from DSL and Fibr, higher corporate data and leased lines, and higher data center and ICT revenues. The percentage contribution of this service segment to our fixed line service revenues accounted for 67% and 59% for the years ended December 31, 2018 and 2017, respectively.

Home Broadband

Home broadband data revenues amounted to Php26,733 million in 2018, an increase of Php8,679 million, or 48%, from Php18,054 million in 2017. This growth is driven by increasing demand for broadband services which the company is providing through its existing copper network and a nationwide roll-out of its fiber-to-the-home, or FTTH, network, and the transfer of *Ultera* and *WiMAX* businesses from SBI, as well as the impact of the revised revenue split allocation. Home broadband revenues accounted for 49% and 41% of total data service revenues in the years ended December 31, 2018 and 2017, respectively. In 2018, PLDT's FTTH nationwide network rollout has passed 6.3 million homes.

Corporate Data and ICT

Corporate data services amounted to Php23,991 million in 2018, an increase of Php1,102 million, or 5%, as compared with Php22,889 million in 2017, mainly due to sustained market traction of internet services, such as Dedicated Internet Access and FibrBiz, as a result of higher internet connectivity requirements, and key Multiprotocol Label Switching solutions, such as IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data revenues accounted for 44% and 52% of total data services in the years ended December 31, 2018 and 2017, respectively.

ICT revenues increased by Php695 million, or 21%, to Php4,046 million in 2018 from Php3,351 million in 2017 mainly due to higher revenues from colocation and managed IT services. The percentage contribution of this service segment to our total data service revenues accounted for 7% in each of the years ended December 31, 2018 and 2017.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rentals and management fees. These service revenues decreased by Php263 million, or 13%, to Php1,700 million in 2018 from Php1,963 million in 2017 mainly due to lower management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues accounted for 2% and 3% for the years ended December 31, 2018 and 2017, respectively.

Non-service Revenues

Non-service revenues decreased by Php10 million to Php3,574 million in 2018 from Php3,584 million in 2017, primarily due to lower sale of hardware and software, and *Fabtab* for *myDSL* retention, partly offset by higher sale of computer bundles, managed ICT equipment, and *Ultera* devices, combined with the impact of PFRS 15 adjustment.

Expenses

Expenses related to our Fixed Line business segment totaled Php77,782 million in 2018, an increase of Php13,918 million, or 22%, as compared with Php63,864 million in 2017. The increase was primarily due to higher depreciation and amortization, selling, general and administrative expenses, provisions, asset impairment, and interconnection costs. As a percentage of our total fixed line revenues, expenses associated with our Fixed Line business segment accounted for 91% and 82% for the years ended December 31, 2018 and 2017, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2018 and 2017 and the percentage of each expense item in relation to the total:

					Increase (Decrease)	
	2018	**%**	**2017**	**%**	**Amount**	**%**
			(in millions)			
Selling, general and administrative expenses	**Php41,065**	**53**	Php37,390	59	Php3,675	10
Depreciation and amortization	**22,303**	**29**	15,001	23	7,302	49
Interconnection costs	**5,145**	**7**	4,587	7	558	12
Cost of sales and services	**4,523**	**6**	4,788	8	(265)	(6)
Provisions	**3,547**	**4**	2,098	3	1,449	69
Asset impairment	**1,199**	**1**	—	—	1,199	100
Total	**Php77,782**	**100**	Php63,864	100	Php13,918	22

Selling, general and administrative expenses increased by Php3,675 million, or 10%, to Php41,065 million primarily due to higher professional and other contracted services, repairs and maintenance, rent, and selling and promotions expenses, partly offset by lower compensation and employee benefits, mainly as a result of lower incentive plan and MRP costs.

Depreciation and amortization charges increased by Php7,302 million, or 49%, to Php22,303 million mainly due to a higher depreciable asset base and depreciation due to shortened life of certain network equipments resulting from the modernization of facilities to adopt more effective technologies, such as VVDSL and FTTH.

Interconnection costs increased by Php558 million, or 12%, to Php5,145 million, primarily due to higher international interconnection costs, as a result of an increase in international inbound calls that terminated to other domestic carriers, partly offset by lower domestic interconnection costs.

Cost of sales and services decreased by Php265 million, or 6%, to Php4,523 million, primarily due to lower cost of hardware and software, *Fabtab* for *myDSL* retention, and *TVolution* units, partly offset by higher cost of services.

Provisions increased by Php1,449 million, or 69%, to Php3,547 million, primarily due to higher provision for doubtful accounts mainly due to lower collection efficiency by 1% and provision for unbilled receivables relating to devices, as well as higher provision for inventory obsolescence due to provision for network materials resulting from the modernization of facilities.

Asset impairment amounted to Php1,199 million in 2018 primarily due to the impairment provision for property and equipment of Digitel.

Other Income (Expenses)

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2018 and 2017:

			Change	
	2018	**2017**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Financing costs – net	**(Php5,195)**	(Php5,106)	(Php89)	(2)
Foreign exchange losses	**(58)**	(98)	40	41
Equity share in net earnings of associates	**171**	44	127	289
Gains on derivative financial instruments – net	**355**	251	104	41
Interest income	**812**	695	117	17
Other income – net	**3,870**	891	2,979	334
Total	**(Php45)**	(Php3,323)	Php3,278	99

Our Fixed Line business segment's other expenses amounted to Php45 million in 2018, a decrease of Php3,278 million, or 99%, from Php3,323 million in 2017, mainly due to the combined effects of the following: (i) higher other income – net by Php2,979 million, mainly due to the impairment of investment in Hastings PDRs in 2017 while nil in 2018, and higher other miscellaneous income; (ii) higher equity share in net earnings of associates by Php127 million; (iii) higher interest income by Php117 million; (iv) higher net gains on derivative financial instruments by Php104 million; (v) lower foreign exchange losses by Php40 million; and (vi) higher net financing costs by Php89 million.

Provision for Income Tax

Provision for income tax amounted to Php1,336 million in 2018, a decrease of Php2,344 million, or 64%, from Php3,680 million in 2017, mainly due to lower taxable income.

Net Income

As a result of the foregoing, our Fixed Line business segment registered a net income of Php6,059 million in 2018, a decrease of Php1,415 million, or 19%, as compared with Php7,474 million in 2017.

EBITDA

Our Fixed Line business segment's EBITDA increased by Php1,397 million, or 5%, to Php30,875 million in 2018 from Php29,478 million in 2017. EBITDA margin decreased to 38% in 2018 from 39% in 2017.

Core Income

Our Fixed Line business segment's core income decreased by Php1,921 million, or 22%, to Php6,925 million in 2018 from Php8,846 million in 2017, primarily as a result of higher depreciation expense, partially offset by higher EBITDA and lower provision for income tax.

Others

Revenues

Revenues generated from our Other business segment, which include revenues from digital platforms and mobile financial services, amounted to Php1,138 million in 2018, a decrease of Php141 million, or 11%, from Php1,279 million in the same period in 2017, due mainly to the deconsolidation of VIH.

Expenses

Expenses related to our Other business segment totaled Php4,093 million in 2018, an increase of Php1,319 million, or 48%, from Php2,774 million in the same period in 2017, due to higher selling, general and administrative expenses of VIH.

Other Income (Expenses)

The following table summarizes the breakdown of our Other business segment's other income (expenses) for the years ended December 31, 2018 and 2017:

			Change	
	2018	**2017**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Gain on deconsolidation of VIH	**Php12,054**	Php—	Php12,054	100
Interest income	**536**	655	(119)	(18)
Gain on derivative financial instruments – net	**282**	—	282	100
Financing costs – net	**(131)**	(214)	83	39
Equity share in net earnings (losses) of associates and joint ventures	**(320)**	2,991	(3,311)	(111)
Foreign exchange losses	**(588)**	(256)	(332)	(130)
Other income – net	**266**	7,354	(7,088)	(96)
Total	**Php12,099**	Php10,530	Php1,569	15

Our Other business segment's other income amounted to Php12,099 million in 2018, an increase of Php1,569 million, or 15%, from Php10,530 million in 2017, primarily due to the combined effects of the following: (i) gain on the deconsolidation of VIH of Php12,054 million in 2018; (ii) net gains on derivative financial instruments of Php282 million in 2018; (iii) lower net financing costs by Php83 million; (iv) lower interest income by Php119 million; (v) higher net foreign exchange losses by Php332 million; and (vi) equity share in net losses of associates and joint ventures of Php320 million in 2018 as against equity share in net earnings of associates and joint ventures of Php2,991 million in 2017 mainly due to sale of Beacon shares and SPi Global in 2017; and (vii) lower other income – net by Php7,088 million mainly due to gain on sale of Beacon shares and gain on conversion of iflix convertible notes in 2017, and unrealized loss on fair value of iflix investment in 2018, partly offset by realized gain on fair value of Rocket Internet investment in 2018.

Net Income

As a result of the foregoing, our Other business segment registered a net income of Php7,971 million in 2018, a decrease of Php854 million, or 10%, from Php8,825 million in 2017.

EBITDA

Our Other business segment's EBITDA amounted to negative Php2,688 million in 2018, an increase of Php1,381 million, or 106%, from negative Php1,307 million in 2017.

Core Income

Our Other business segment's core income amounted to Php9,952 million in 2018, an increase of Php324 million, or 3%, as compared with Php9,628 million in 2017, primarily as a result of higher miscellaneous income, partially offset by equity share in net losses of associates and joint ventures in 2018, higher negative EBITDA and higher provision for income tax.

Years Ended December 31, 2017 and 2016

Wireless

Revenues

We generated revenues of Php92,572 million from our wireless business in 2017 a decrease of Php11,515 million, or 11%, from Php104,087 million in 2016.

The following table summarizes our total revenues by service from our wireless business for the years ended December 31, 2017 and 2016:

					Increase (Decrease)	
	2017	%	2016	%	Amount	%
			(in millions)			
Service Revenues:						
Mobile	Php84,439	91	Php96,497	93	(Php12,058)	(12)
Home broadband	2,556	3	2,772	3	(216)	(8)
MVNO and others[(1)]	417	–	585	–	(168)	(29)
Total Wireless Service Revenues	87,412	94	99,854	96	(12,442)	(12)
Non-Service Revenues:						
Sale of mobile handsets, SIM-packs and broadband data modems	5,160	6	4,233	4	927	22
Total Wireless Revenues	Php92,572	100	Php104,087	100	(Php11,515)	(11)

[(1)] *Includes service revenues generated by MVNOs of PLDT Global subsidiaries.*

Service Revenues

Our wireless service revenues in 2017 decreased by Php12,442 million, or 12%, to Php87,412 million as compared with Php99,854 million in 2016, mainly as a result of lower revenues from mobile services and home broadband services. As a percentage of our total wireless revenues, service revenues accounted for 94% and 96% for the years ended December 31, 2017 and 2016, respectively.

Mobile Services

Our mobile service revenues amounted to Php84,439 million in 2017, a decrease of Php12,058 million, or 12%, from Php96,497 million in 2016. Mobile service revenues accounted for 97% of our wireless service revenues in each of the years ended December 31, 2017 and 2016.

The following table shows the breakdown of our mobile service revenues for the years ended December 31, 2017 and 2016:

					Increase (Decrease)	
	2017	%	2016	%	Amount	%
			(in millions)			
Mobile Services:						
Voice	Php30,724	36	Php37,094	38	(Php6,370)	(17)
SMS	26,045	31	32,745	34	(6,700)	(20)
Data	26,281	31	25,517	27	764	3
Inbound roaming and others[(1)]	1,389	2	1,141	1	248	22
Total	Php84,439	100	Php96,497	100	(Php12,058)	(12)

[(1)] *Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees and share in revenues from Smart Money.*

Voice Services

Mobile revenues from our voice services, which include all voice traffic, decreased by Php6,370 million, or 17%, to Php30,724 million in 2017 from Php37,094 million in 2016, mainly on account of lower domestic and international voice revenues due to the availability of alternative calling options and other OTT services. Mobile voice services accounted for 36% and 38% of our mobile service revenues for the years ended December 31, 2017 and 2016, respectively.

Domestic voice service revenues decreased by Php4,530 million, or 16%, to Php24,136 million in 2017 from Php28,666 million in 2016, due to lower domestic outbound and inbound voice service revenues.

International voice service revenues decreased by Php1,840 million, or 22%, to Php6,588 million in 2017 from Php8,428 million in 2016, primarily due to lower international inbound and outbound voice service revenues as a result of lower international voice traffic, partially offset by the effect of higher weighted average rate of the Philippine peso relative to the U.S. dollar.

SMS Services

Mobile revenues from our SMS services, which include all SMS-related services and VAS, decreased by Php6,700 million, or 20%, to Php26,045 million in 2017 from Php32,745 million in 2016 mainly due to declining SMS volumes as a result of alternative text messaging options, such as OTT services and social media. Mobile SMS services accounted for 31% and 34% of our mobile service revenues for the years ended December 31, 2017 and 2016, respectively.

Data Services

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php764 million, or 3%, to Php26,281 million in 2017 from Php25,517 million in 2016 as a result of increased mobile internet usage, partially offset by lower revenues from mobile broadband.

The following table shows the breakdown of our mobile data service revenues for the years ended December 31, 2017 and 2016:

					Increase (Decrease)	
	2017	**%**	**2016**	**%**	**Amount**	**%**
			(in millions)			
Data Services:						
Mobile internet[1]	Php20,086	76	Php17,167	67	Php2,919	17
Mobile broadband	6,030	23	8,147	32	(2,117)	(26)
Other data	165	1	203	1	(38)	(19)
Total	Php26,281	100	Php25,517	100	Php764	3

[1] *Includes revenues from web-based services, net of discounts and content provider costs.*

Mobile internet

Mobile internet service revenues increased by Php2,919 million, or 17%, to Php20,086 million in 2017 from Php17,167 million in 2016 as a result of the increase in smartphone ownership and greater data usage among our subscriber base leading to an increase in mobile internet browsing and prevalent use of mobile apps, social networking sites and other OTT services. Mobile internet services accounted for 24% and 18% of our mobile service revenues for the years ended December 31, 2017 and 2016, respectively.

Mobile broadband

Mobile broadband revenues amounted to Php6,030 million in 2017, a decrease of Php2,117 million, or 26%, from Php8,147 million in 2016, primarily due to a decrease in the number of subscribers, mainly *Sun Broadband*. Mobile broadband services accounted for 7% and 9% of our mobile service revenues for the years ended December 31, 2017 and 2016, respectively.

Other data

Revenues from our other data services, which include domestic leased lines and share in revenue from PLDT *WeRoam*, decreased by Php38 million, or 19%, to Php165 million in 2017 from Php203 million in 2016.

Inbound Roaming and Others

Mobile revenues from inbound roaming and other services increased by Php248 million, or 22%, to Php1,389 million in 2017 from Php1,141 million in 2016.

The following table shows the breakdown of our mobile service revenues by service type for the years ended December 31, 2017 and 2016:

	2017	2016	Increase (Decrease) Amount	%
		(in millions)		
Mobile service revenues	Php84,439	Php96,497	(Php12,058)	(12)
By service type				
Prepaid	59,862	67,304	(7,442)	(11)
Postpaid	23,188	28,052	(4,864)	(17)
Inbound roaming and others	1,389	1,141	248	22

Prepaid Revenues

Revenues generated from our mobile prepaid services amounted to Php59,862 million in 2017, a decrease of Php7,442 million, or 11%, as compared with Php67,304 million in 2016. Mobile prepaid service revenues accounted for 71% and 70% of mobile service revenues for the years ended December 31, 2017 and 2016, respectively. The decrease in revenues from our mobile prepaid services was primarily driven by a lower mobile prepaid subscriber base resulting in lower voice and SMS revenues, partially offset by the increase in mobile internet revenues.

Postpaid Revenues

Revenues generated from mobile postpaid service amounted to Php23,188 million in 2017, a decrease of Php4,864 million, or 17%, as compared with Php28,052 million in 2016, and accounted for 27% and 29% of mobile service revenues for the years ended December 31, 2017 and 2016, respectively. The decrease in our mobile postpaid service revenues was primarily due to a lower postpaid subscriber base.

Subscriber Base, ARPU and Churn Rates

The following table shows our wireless subscriber base as at December 31, 2017 and 2016:

	2017	2016	Increase (Decrease) Amount	%
Mobile subscriber base	58,293,908	62,763,209	(4,469,301)	(7)
Smart[(1)]	21,821,441	23,027,793	(1,206,352)	(5)
Prepaid[(2)]	*20,433,351*	*21,643,963*	*(1,210,612)*	*(6)*
Postpaid	*1,388,090*	*1,383,830*	*4,260*	–
TNT	28,807,964	29,845,509	(1,037,545)	(3)
Sun[(1)]	7,664,503	9,889,907	(2,225,404)	(23)
Prepaid[(2)]	*6,535,331*	*8,463,469*	*(1,928,138)*	*(23)*
Postpaid	*1,129,172*	*1,426,438*	*(297,266)*	*(21)*
Home broadband subscriber base	237,354	270,203	(32,849)	(12)
Total wireless subscribers	58,531,262	63,033,412	(4,502,150)	(7)

(1) Includes mobile broadband subscribers.
(2) Beginning 2Q2017, the prepaid subscriber base excludes subscribers who did not reload within 90 days vis-à-vis 120 days previous cut-off.

The average monthly churn rate for *Smart Prepaid* subscribers in 2017 and 2016 were 6.7% and 7.6%, respectively, while the average monthly churn rate for *TNT* subscribers were 6.8% and 6.3% in 2017 and 2016, respectively. The average monthly churn rate for *Sun Prepaid* subscribers were 7.7% and 8.8% in 2017 and 2016, respectively.

The average monthly churn rate for *Smart Postpaid* subscribers were 2.3% and 4.8% in 2017 and 2016, respectively, and 3.5% and 6.4% in 2017 and 2016, respectively, for *Sun Postpaid* subscribers.

The following table summarizes our average monthly ARPUs for the years ended December 31, 2017 and 2016:

	Gross[(1)]		Increase (Decrease)		Net[(2)]		Increase (Decrease)	
	2017	2016	Amount	%	2017	2016	Amount	%
Prepaid								
Smart	*Php118*	*Php117*	*Php1*	*1*	*Php108*	*Php107*	*Php1*	*1*
TNT	*81*	*82*	*(1)*	*(1)*	*74*	*76*	*(2)*	*(3)*
Sun	*88*	*90*	*(2)*	*(2)*	*82*	*83*	*(1)*	*(1)*
Postpaid								
Smart	*1,004*	*966*	*38*	*4*	*972*	*951*	*21*	*2*
Sun	*422*	*443*	*(21)*	*(5)*	*418*	*437*	*(19)*	*(4)*

(1) *Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income but excluding inbound roaming revenues, gross of discounts, and content provider costs, by the average number of subscribers in the month.*

(2) *Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, net of discounts and content provider costs, by the average number of subscribers in the month.*

Home Broadband

Revenues from our *Home Ultera* services decreased by Php216 million, or 8%, to Php2,556 million in 2017 from Php2,772 million in 2016, due mainly to the continued migration of our high-value fixed wireless subscribers from legacy technologies (Canopy & WiMAX) to wired broadband (digital subscriber line, or DSL/FTTH). In addition, we offer lower-priced plan offerings as part of our efforts to expand our customer base to include lower income home segments.

Subscribers of our Home Ultera services decreased by 32,849, or 12%, to 237,354 subscribers as at December 31, 2017 from 270,203 subscribers as at December 31, 2016.

MVNO and Others

Revenues from our MVNO and other services decreased by Php168 million, or 29%, to Php417 million in 2017 from Php585 million in 2016, primarily due to lower revenue contribution from MVNOs of PLDT Global and ACeS Philippines, partially offset by the impact of higher weighted average rate of the Philippine peso relative to the U.S. dollar.

Non-Service Revenues

Our wireless non-service revenues consist of sales of mobile handsets, SIM-packs, mobile broadband data modems, tablets and accessories. Our wireless non-service revenues increased by Php927 million, or 22%, to Php5,160 million in 2017 from Php4,233 million in 2016, primarily due to lower subsidy on postpaid mobile handsets, partly offset by the decline in revenues from prepaid mobile handsets and broadband data modems attributable to lower average price per unit.

Expenses

Expenses associated with our Wireless business segment amounted to Php97,651 million in 2017, an increase of Php6,028 million, or 7%, from Php91,623 million in 2016. A significant portion of the increase was mainly attributable to higher depreciation and amortization, and noncurrent asset impairment, partially offset by lower provisions, cost of sales and services, interconnection costs, and selling, general and administrative expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 105% and 88% for the years ended December 31, 2017 and 2016, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2017 and 2016 and the percentage of each expense item in relation to the total:

					Increase (Decrease)	
	2017	%	2016	%	Amount	%
			(in millions)			
Selling, general and administrative expenses	Php39,584	41	Php41,472	45	(Php1,888)	(5)
Depreciation and amortization	36,776	38	18,767	20	18,009	96
Cost of sales and services	8,814	9	14,333	16	(5,519)	(39)
Interconnection costs	6,373	6	8,035	9	(1,662)	(21)
Asset impairment	3,913	4	785	1	3,128	398
Provisions	2,191	2	8,231	9	(6,040)	(73)
Total	Php97,651	100	Php91,623	100	Php6,028	7

Selling, general and administrative expenses decreased by Php1,888 million, or 5%, to Php39,584 million, primarily due to lower expenses related to selling and promotions, repairs and maintenance, insurance and security services, and professional and other contracted services, partly offset by higher rent expenses and compensation and employee benefits.

Depreciation and amortization charges increased by Php18,099 million, or 96%, to Php36,776 million, primarily due to higher depreciable asset base and depreciation due to shortened life of certain data network platform and other technology equipment resulting from the transformation projects to improve and simplify the network and systems applications.

Cost of sales and services decreased by Php5,519 million, or 39%, to Php8,814 million, primarily due to lower issuances of mobile handsets and mobile broadband data modems, partly offset by higher cost of licenses from various partnership with content providers.

Interconnection costs decreased by Php1,662 million, or 21%, to Php6,373 million, primarily due to lower interconnection cost on domestic voice and SMS services, mainly as a result of lower interconnection rates, and lower interconnection costs on international voice and SMS services, partially offset by an increase in interconnection charges on international data roaming services.

Asset impairment increased by Php3,128 million, or 398%, to Php3,913 million, primarily due to impairment of certain network equipment, which were rendered obsolete due to technological advancements as a result of the continuing network transformation projects.

Provisions decreased by Php6,040 million, or 73%,to Php2,191 million, mainly due to lower provisions for doubtful accounts and inventory obsolescence, primarily driven by a 16% year-on-year decline in our postpaid service revenues and an improvement of our year-on-year collection efficiency from 89% to 90%, both of which resulted in the decrease of our billed subscribers receivable for postpaid services and in turn a decline in our provision for doubtful accounts, and a one-time provision taken in 2016 relating to the migration of our billing system for postpaid accounts for our Sun Cellular brand to Smart's billing system, and the resulting alignment of provisioning policies related to receivables and inventories.

Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2017 and 2016:

			Change	
	2017	2016	Amount	%
		(in millions)		
Other Income (Expenses):				
Financing costs – net	(Php2,247)	(Php2,482)	Php235	9
Equity share in net losses of associates	(129)	(127)	(2)	(2)
Foreign exchange losses – net	(57)	(1,653)	1,596	97
Gain on derivative financial instruments – net	282	485	(203)	(42)
Interest income	305	269	36	13
Other income – net	1,923	405	1,518	375
Total	Php77	(Php3,103)	Php3,180	102

Our Wireless business segment's other income amounted to Php77 million in 2017, an increase of Php3,180 million, or 102%, as against other expenses of Php3,103 million in 2016, primarily due to the combined effects of the following: (i) lower net foreign exchange losses by Php1,596 million on account of revaluation of foreign currency-denominated assets and liabilities due to the lower level of depreciation of the Philippine peso relative to the U.S. dollar; (ii) higher other income – net by Php1,518 million mainly due to higher miscellaneous income, partly offset by the impairment on Smart's investment in AF Payments, Inc., or AFPI, and lower income from consultancy; (iii) lower net financing costs by Php235 million; (iv) higher interest income by Php36 million; (v) higher equity share in net losses of associates by Php2 million; and (vi) lower net gains on derivative financial instruments by Php203 million.

Benefit from Income Tax

Benefit from income tax amounted to Php2,787 million in 2017, an increase of Php1,530 million from Php1,257 million in 2016, primarily due to the tax impact of depreciation due to shortened life of property and equipment, and asset impairment recognized for the year.

Net Income (Loss)

As a result of the foregoing, our Wireless business segment's net loss amounted to Php2,215 million in 2017, a change of Php12,833 million as against net income of Php10,618 million in 2016.

EBITDA

Our Wireless business segment's EBITDA increased by Php3,480 million, or 11%, to Php36,395 million in 2017 from Php32,915 million in 2016. EBITDA margin increased to 42% in 2017 from 33% in 2016.

Core Income

Our Wireless business segment's core income decreased by Php2,463 million, or 20%, to Php9,812 million in 2017 from Php12,275 million in 2016 mainly on account of higher depreciation expense, partly offset by higher EBITDA.

Fixed Line

Revenues

Revenues generated from our Fixed Line business segment amounted to Php78,341 million in 2017, an increase of Php5,613 million, or 8%, from Php72,728 million in 2016.

The following table summarizes our total revenues by service from our fixed line business for the years ended December 31, 2017 and 2016:

					Increase (Decrease)	
	2017	**%**	**2016**	**%**	**Amount**	**%**
			(in millions)			
Service Revenues:						
Voice	Php28,500	36	Php29,630	41	(Php1,130)	(4)
Data	44,294	57	37,711	52	6,583	17
Miscellaneous	1,963	2	1,665	2	298	18
	74,757	95	69,006	95	5,751	8
Non-Service Revenues:						
Sale of computers, phone units and SIM packs, and point-product sales	3,584	5	3,722	5	(138)	(4)
Total Fixed Line Revenues	Php78,341	100	Php72,728	100	Php5,613	8

Service Revenues

Our fixed line service revenues increased by Php5,751 million, or 8%, to Php74,757 million in 2017 from Php69,006 million in 2016, due to higher revenues from our data and miscellaneous services, partially offset by lower voice service revenues.

Voice Services

Revenues from our voice services decreased by Php1,130 million, or 4%, to Php28,500 million in 2017 from Php29,630 million in 2016, primarily due to lower international (partly due to the continued popularity of services such as *Skype*, *Uber*, *Line*, *Facebook Messenger, Googletalk* and *Whats App,* offering free on-net calling services, and other similar services), and domestic services, partially offset by higher revenues from local exchange.

Data Services

The following table shows information of our data service revenues for the years ended December 31, 2017 and 2016:

			Increase	
	2017	**2016**	**Amount**	**%**
Data service revenues (in millions)	Php44,294	Php37,711	Php6,583	17
Home broadband	18,054	14,896	3,158	21
Corporate data and ICT	26,240	22,815	3,425	15

Our data services posted revenues of Php44,294 million in 2017, an increase of Php6,583 million, or 17%, from Php37,711 million in 2016, primarily due to higher home broadband revenues from DSL and *Fibr*, an increase in corporate data and leased lines primarily i-Gate, Fibernet, Internet Protocol-Virtual Private Network, or IP-VPN, Metro Ethernet and *Shops.Work*, and higher data center and ICT revenues. The percentage contribution of this service segment to our fixed line service revenues accounted for 59% and 55% for the years ended December 31, 2017 and 2016, respectively.

Home Broadband

Home broadband data revenues amounted to Php18,054 million in 2017, an increase of Php3,158 million, or 21%, from Php14,896 million in 2016. This growth is driven by increasing demand for broadband services which the company is providing through its existing copper network and a nationwide roll-out of its FTTH network. Home broadband revenues accounted for 41% and 39% of total data service revenues in the years ended December 31, 2017 and 2016, respectively. PLDT's FTTH nationwide network rollout reached over four million homes passed in 2017.

Corporate Data and ICT

Corporate data services amounted to Php22,889 million in 2017, an increase of Php2,909 million, or 15%, as compared with Php19,980 million in 2016, mainly due to sustained market traction of broadband data services and growth on *Fibr*, as a result of higher internet connectivity requirements, and key Private Networking Solutions such as IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data revenues accounted for 52% and 53% of total data services in the years ended December 31, 2017 and 2016, respectively.

ICT revenues increased by Php516 million, or 18%, to Php3,351 million in 2017 from Php2,835 million in 2016 mainly due to higher revenues from colocation and managed IT services. Cloud services include cloud contact center, cloud infrastructure as a service, cloud software as a service and cloud professional services. The percentage contribution of this service segment to our total data service revenues was 8% in each of 2017 and 2016.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees. These service revenues increased by Php298 million, or 18%, to Php1,963 million in 2017 from Php1,665 million in 2016 mainly due to higher outsourcing and management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues accounted for 3% and 2% in 2017 and 2016, respectively.

Non-service Revenues

Non-service revenues decreased by Php138 million, or 4%, to Php3,584 million in 2017 from Php3,722 million in 2016, primarily due to lower sale of *PLP* and *Telpad* units, and *FabTab* for *myDSL* retention, partly offset by higher computer-bundled, hardware and software sales.

Expenses

Expenses related to our Fixed Line business segment totaled Php63,864 million in 2017, an increase of Php2,579 million, or 4%, as compared with Php61,285 million in 2016. The increase was primarily due to higher selling, general and administrative expenses, cost of sales and services, and provisions, partly offset by lower interconnection costs, depreciation and amortization expenses, and asset impairment. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 82% and 84% for the years ended December 31, 2017 and 2016, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2017 and 2016 and the percentage of each expense item in relation to the total:

	2017	%	2016	%	Increase (Decrease) Amount	%
			(in millions)			
Selling, general and administrative expenses	Php37,390	59	Php34,248	56	Php3,142	9
Depreciation and amortization	15,001	24	15,471	25	(470)	(3)
Cost of sales and services	4,788	7	3,868	6	920	24
Interconnection costs	4,587	7	5,940	10	(1,353)	(23)
Provisions	2,098	3	1,722	3	376	22
Asset impairment	–	–	36	–	(36)	(100)
Total	Php63,864	100	Php61,285	100	Php2,579	4

Selling, general and administrative expenses increased by Php3,142 million, or 9%, to Php37,390 million primarily due to higher professional and other contracted services, and compensation and employee benefits, partly offset by lower repairs and maintenance costs, and selling and promotions.

Depreciation and amortization charges decreased by Php470 million, or 3%, to Php15,001 million mainly due to a lower depreciable asset base.

Cost of sales and services increased by Php920 million, or 24%, to Php4,788 million, primarily due to various partnerships with content providers.

Interconnection costs decreased by Php1,353 million, or 23%, to Php4,587 million, primarily due to lower international interconnection costs, as a result of a decrease in international inbound calls that terminated to other domestic carriers, and lower domestic interconnection costs.

Provisions increased by Php376 million, or 22%, to Php2,098 million, mainly due to higher provision for doubtful accounts, partly offset by lower provision for inventory obsolescence.

Asset impairment amounted to nil and Php36 million in 2017 and 2016, respectively.

Other Income (Expenses)

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2017 and 2016:

	2017	2016	Change Amount	%
		(in millions)		
Other Income (Expenses):				
Financing costs – net	(Php5,106)	(Php4,917)	(Php189)	(4)
Foreign exchange losses	(98)	(486)	388	80
Equity share in net earnings (losses) of associates	44	(40)	84	210
Gains on derivative financial instruments – net	251	511	(260)	(51)
Interest income	695	707	(12)	(2)
Other income – net	891	3,934	(3,043)	(77)
Total	(Php3,323)	(Php291)	(Php3,032)	(1,042)

Our Fixed Line business segment's other expenses amounted to Php3,323 million in 2017 from Php291 million in 2016, mainly due to the combined effects of the following: (i) lower other income – net by Php3,043 million mainly due to impairment of investment in Hastings PDRs and lower gain on sale of properties, partly offset by the reversal of impairment of investment in Digitel Crossing, Inc., or DCI; (ii) lower net gains on derivative financial instruments by Php260 million; (iii) higher net financing costs by Php189 million; (iv) a decrease in interest income by Php12 million; (v) equity share in net earnings of associates of Php44 million in 2017 as against equity share in net losses of associates of Php40 million in 2016; and (vi) lower net foreign exchange losses by Php388 million.

Provision for Income Tax

Provision for income tax amounted to Php3,680 million in 2017, an increase of Php662 million, or 22%, from Php3,018 million in 2016. The effective tax rates for our Fixed Line business segment were 33% and 27% in 2017 and 2016, respectively.

Net Income

As a result of the foregoing, our Fixed Line business segment registered a net income of Php7,474 million in 2017, a decrease of Php660 million, or 8%, as compared with Php8,134 million in 2016.

EBITDA

Our Fixed Line business segment's EBITDA increased by Php2,528 million, or 9%, to Php29,478 million in 2017 from Php26,950 million in 2016. EBITDA margin remained stable at 39% in each of 2017 and 2016.

Core Income

Our Fixed Line business segment's core income increased by Php1,100 million, or 14%, to Php8,846 million in 2017 from Php7,746 million in 2016, primarily as a result of higher EBITDA and lower depreciation expense, partially offset by lower other income – net.

Others

Revenues

We generated revenues of Php1,279 million from our Other business segment in 2017, which include revenues from digital platforms and mobile financial services, an increase of Php432 million, or 51%, from Php847 million in 2016, primarily due to the increase in PayMaya mobile payment transactions.

Expenses

Expenses related to our other business totaled Php2,774 million in 2017, an increase of Php1,151 million, or 71%, as compared with Php1,623 million in 2016, due to higher selling, general and administrative expenses.

Other Income (Expenses)

The following table summarizes the breakdown of other income (expenses) for other business segment for the years ended December 31, 2017 and 2016:

			Change	
	2017	2016	Amount	%
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates and joint ventures	Php2,991	Php1,348	Php1,643	122
Interest income	655	307	348	113
Financing costs – net	(214)	(192)	(22)	(11)
Foreign exchange losses	(256)	(646)	390	60
Other income – net	7,354	1,517	5,837	385
Total	Php10,530	Php2,334	Php8,196	351

Other income increased by Php8,196 million to Php10,530 million in 2017 from Php2,334 million in 2016, primarily due to the combined effects of the following: (i) higher other income – net by Php5,837 million due to lower impairment on the Rocket Internet investment and gain on conversion of iflix convertible notes, partly offset by lower gain on sale of Beacon Electric Holdings, Inc., or Beacon, shares in 2017; (ii) higher equity share in net earnings of associates and joint ventures by Php1,643 million due to higher equity share in net earnings of Beta, resulting mainly from the gain on sale of SPi; (iii) an increase in interest income by Php348 million; (iv) lower net foreign exchange losses by Php390 million; and (v) higher financing costs by Php22 million.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php8,825 million in 2017, an increase of Php7,415 million from Php1,410 million in 2016.

Core Income

Our other business segment's core income amounted to Php9,628 million in 2017, an increase of Php1,792 million, or 23%, as compared with Php7,836 million in 2016, mainly as a result of higher equity share in net earnings of associates and joint ventures, higher other income and higher interest income.

Years Ended December 31, 2016 and 2015

Wireless

Revenues

We generated revenues of Php104,087 million from our Wireless business segment in 2016, a decrease of Php10,209 million, or 9%, from Php114,296 million in 2015.

The following table summarizes our total revenues by service from our wireless business for the years ended December 31, 2016 and 2015:

					Decrease	
	2016	%	2015	%	Amount	%
			(in millions)			
Service Revenues:						
Mobile	Php96,497	93	Php105,655	92	(Php9,158)	(9)
Home Broadband	2,772	3	3,040	3	(268)	(9)
MVNO and others[1]	585	–	970	1	(385)	(40)
Total Wireless Service Revenues	99,854	96	109,665	96	(9,811)	(9)
Non-Service Revenues:						
Sale of mobile handsets, mobile SIM-packs and broadband data modems	4,233	4	4,631	4	(398)	(9)
Total Wireless Revenues	Php104,087	100	Php114,296	100	(Php10,209)	(9)

[1] *Includes service revenues generated by MVNOs of PLDT Global subsidiaries.*

Service Revenues

Our wireless service revenues in 2016 decreased by Php9,811 million, or 9%, to Php99,854 million as compared with Php109,665 million in 2015, mainly as a result of lower revenues from mobile, home broadband, and MVNO and other services. As a percentage of our total wireless revenues, service revenues accounted for 96% in each of 2016 and 2015.

Mobile Services

Our mobile service revenues amounted to Php96,497 million in 2016, a decrease of Php9,158 million, or 9%, from Php105,655 million in 2015. Mobile service revenues accounted for 97% and 96% of our wireless service revenues in 2016 and 2015, respectively.

The following table shows the breakdown of our mobile service revenues for the years ended December 31, 2016 and 2015:

					Increase (Decrease)	
	2016	%	2015	%	Amount	%
			(in millions)			
Mobile Services:						
Voice	Php37,094	38	Php46,129	44	(Php9,035)	(20)
SMS	32,745	34	37,982	36	(5,237)	(14)
Data	25,517	27	20,179	19	5,338	26
Inbound roaming and others[1]	1,141	1	1,365	1	(224)	(16)
Total	Php96,497	100	Php105,655	100	(Php9,158)	(9)

[1] *Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees and share in revenues from Smart Money.*

Voice Services

Mobile revenues from our voice services, which include all voice traffic, decreased by Php9,035 million, or 20%, to Php37,094 million in 2016 from Php46,129 million in 2015 primarily due to lower domestic and international voice revenues due to the availability of alternative calling options and other OTT services such as *Viber*, *Facebook Messenger*, and similar services. Mobile voice services accounted for 38% and 44% of our mobile service revenues in 2016 and 2015, respectively.

Domestic voice service revenues decreased by Php6,486 million, or 18%, to Php28,666 million in 2016 from Php35,152 million in 2015, due to lower domestic outbound and inbound voice service revenues.

International voice service revenues decreased by Php2,549 million, or 23%, to Php8,428 million in 2016 from Php10,977 million in 2015 primarily due to lower international inbound and outbound voice service revenues as a result of lower international voice traffic, partially offset by the effect of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar.

SMS Services

Mobile revenues from our SMS services, which include all SMS-related services and VAS, decreased by Php5,237 million, or 14%, to Php32,745 million in 2016 from Php37,982 million in 2015 mainly from lower bucket-priced and unlimited SMS revenues. Mobile SMS services accounted for 34% and 36% of our mobile service revenues in 2016 and 2015, respectively.

Data Services

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php5,338 million, or 26%, to Php25,517 million in 2016 from Php20,179 million in 2015 primarily due to higher mobile internet revenues, mobile broadband and other data revenues.

The following table shows the breakdown of our mobile data revenues for the years ended December 31, 2016 and 2015:

					Increase	
	2016	**%**	**2015**	**%**	**Amount**	**%**
			(in millions)			
Data Services:						
Mobile internet[1]	Php17,167	67	Php12,055	60	Php5,112	42
Mobile broadband	8,147	32	7,951	39	196	2
Other data	203	1	173	1	30	17
Total	Php25,517	100	Php20,179	100	Php5,338	26

[1] *Includes revenues from web-based services, net of discounts and content provider costs.*

Mobile internet

Mobile internet service revenues increased by Php5,112 million, or 42%, to Php17,167 million in 2016 from Php12,055 million in 2015 as a result of the increase in smartphone ownership and greater data usage among our subscriber base leading to an increase in mobile internet browsing and prevalent use of mobile apps, social networking sites and other OTT services. Mobile internet services accounted for 18% and 11% of our mobile service revenues in 2016 and 2015, respectively.

Mobile broadband

Mobile broadband revenues amounted to Php8,147 million in 2016, an increase of Php196 million, or 2%, from Php7,951 million in 2015 primarily due to higher mobile broadband traffic.

Other data

Revenues from our other data services, which include domestic leased lines and share in revenue from PLDT *WeRoam*, increased by Php30 million, or 17%, to Php203 million in 2016 from Php173 million in 2015.

Inbound Roaming and Others

Mobile revenues from inbound roaming and other services decreased by Php224 million, or 16%, to Php1,141 million in 2016 from Php1,365 million in 2015.

The following table shows the breakdown of our mobile service revenues for the years ended December 31, 2016 and 2015:

	2016	2015	Decrease Amount	%
		(in millions)		
Mobile service revenues	Php96,497	Php105,655	(Php9,158)	(9)
By service type				
Prepaid	67,304	76,143	(8,839)	(12)
Postpaid	28,052	28,147	(95)	–
Inbound roaming and others	1,141	1,365	(224)	(16)

Prepaid Revenues

Revenues generated from our mobile prepaid services amounted to Php67,304 million in 2016, a decrease of Php8,839 million, or 12%, as compared with Php76,143 million in 2015. Mobile prepaid service revenues accounted for 70% and 72% of mobile service revenues in 2016 and 2015, respectively. The decrease in revenues from our mobile prepaid services was primarily driven by lower mobile prepaid subscriber base resulting to lower voice and text messaging revenues, partially offset by an increase in mobile internet revenues.

Postpaid Revenues

Revenues generated from mobile postpaid services amounted to Php28,052 million in 2016, a decrease of Php95 million as compared with Php28,147 million in 2015, and accounted for 29% and 27% of mobile service revenues in 2016 and 2015, respectively. The decrease in our mobile postpaid service revenues was primarily due to a lower postpaid subscriber base.

Subscriber Base, ARPU and Churn Rates

The following table shows our wireless subscriber base as at December 31, 2016 and 2015:

	2016	2015	Increase (Decrease) Amount	%
Mobile subscriber base	62,763,209	68,612,118	(5,848,909)	(9)
Smart(1)	23,027,793	26,921,211	(3,893,418)	(14)
Prepaid	*21,643,963*	*25,418,533*	*(3,774,570)*	*(15)*
Postpaid	*1,383,830*	*1,502,678*	*(118,848)*	*(8)*
TNT	29,845,509	28,054,160	1,791,349	6
Sun(1)	9,889,907	13,636,747	(3,746,840)	(27)
Postpaid	*1,426,438*	*2,045,580*	*(619,136)*	*(30)*
Prepaid	*8,463,469*	*11,591,167*	*(3,127,698)*	*(27)*
Home Broadband subscriber base	270,203	258,776	11,427	4
Total wireless subscribers	63,033,412	68,870,894	(5,837,482)	(8)

(1) Includes mobile broadband subscribers.

The average monthly churn rate for *Smart Prepaid* subscribers in 2016 and 2015 were 7.6% and 6.6%, respectively, while the average monthly churn rate for *TNT* subscribers were 6.3% and 5.7% in 2016 and 2015, respectively. The average monthly churn rate for *Sun Prepaid* subscribers were 8.8% and 11.3% in 2016 and 2015, respectively.

The average monthly churn rate for *Smart Postpaid* subscribers were 4.8% and 3.3% in 2016 and 2015, respectively, and 6.4% and 4.3% in 2016 and 2015, respectively, for *Sun Postpaid* subscribers.

The following table summarizes our average monthly ARPUs for the years ended December 31, 2016 and 2015:

	Gross(1)		Increase (Decrease)		Net(2)		Increase (Decrease)	
	2016	2015	Amount	%	2016	2015	Amount	%
Prepaid								
Smart	*Php117*	*Php129*	*(Php12)*	*(9)*	*Php107*	*Php118*	*(Php11)*	*(9)*
TNT	*82*	*91*	*(9)*	*(10)*	*76*	*84*	*(8)*	*(10)*
Sun	*90*	*74*	*16*	*22*	*83*	*68*	*15*	*22*
Postpaid								
Smart	*966*	*993*	*(27)*	*(3)*	*951*	*982*	*(31)*	*(3)*
Sun	*443*	*444*	*(1)*	*–*	*437*	*441*	*(4)*	*(1)*

(1) *Gross monthly ARPU is calculated by dividing gross mobile service revenues for the month, gross of discounts, content provider costs and interconnection income but excluding inbound roaming revenues, by the average number of subscribers in the month.*

(2) *Net monthly ARPU is calculated by dividing gross mobile service revenues for the month, including interconnection income, but excluding inbound roaming revenues, net of discounts and content provider costs, by the average number of subscribers in the month.*

Home Broadband

Revenues from our *HOMEBro* services decreased by Php268 million, or 9%, to Php2,772 million in 2016 from Php3,040 million in 2015 mainly due to the continued migration of our high-value fixed wireless subscribers from legacy technologies (Canopy & WiMAX) to either TD-LTE or wired broadband (DSL/FTTH). In addition, ARPU has decreased as a result of price competition and PLDT's continued efforts to bring high-quality broadband services to the lower income home segments.

Subscribers of our *HOMEBro* services increased by 11,427 or 4% to 270,203 subscribers as of December 31, 2016 from 258,776 subscribers as of December 31, 2015. This significant turnaround in subscriber base was directly attributed to the launch of the country's most affordable postpaid broadband offering designed for the home – *Home Ultera Plan 699*.

MVNO and Others

Revenues from our other services decreased by Php385 million, or 40%, to Php585 million in 2016 from Php970 million in 2015, primarily due to a decrease in the number of ACeS Philippines' subscribers, lower revenue contribution from MVNOs of PLDT Global, partially offset by the impact of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php47.48 for the year ended December 31, 2016 from Php45.51 for the year ended December 31, 2015 on our U.S. dollar and U.S. dollar-linked other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of sales of mobile handsets, mobile SIM-packs and broadband data modems, tablets and accessories. Our wireless non-service revenues decreased by Php398 million, or 9%, to Php4,233 million in 2016 from Php4,631 million in 2015, primarily due to lower revenues from the sale of broadband data modems, partially offset by higher revenues from sale of mobile handsets attributed to *Smart Prepaid Android Phone Kits*.

Expenses

Expenses associated with our wireless business amounted to Php91,623 million in 2016, a decrease of Php1,833 million, or 2%, from Php93,456 million in 2015. A significant portion of the decrease was mainly attributable to lower asset impairment, selling, general and administrative expenses, and interconnection costs, partially offset by higher provisions, depreciation and amortization, and cost of sales and services. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 88% and 82% in 2016 and 2015, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2016 and 2015 and the percentage of each expense item in relation to the total:

					Increase (Decrease)	
	2016	%	2015	%	Amount	%
			(in millions)			
Selling, general and administrative expenses	Php41,472	45	Php45,771	49	(Php4,299)	(9)
Depreciation and amortization	18,767	20	17,037	18	1,730	10
Cost of sales and services	14,333	16	13,720	15	613	4
Provisions	8,231	9	2,627	3	5,604	213
Interconnection costs	8,035	9	8,513	9	(478)	(6)
Asset impairment	785	1	5,788	6	(5,003)	(86)
Total	Php91,623	100	Php93,456	100	(Php565)	(1)

Selling, general and administrative expenses decreased by Php4,299 million, or 9%, to Php41,472 million, primarily due to lower selling and promotions, compensation and employee benefits, and rent expenses.

Depreciation and amortization charges increased by Php1,730 million, or 10%, to Php18,767 million, primarily due to higher depreciable asset base.

Cost of sales and services increased by Php613 million, or 4%, to Php14,333 million, primarily due to higher average costs and increased smartphone and data-capable device issuances for Smart Postpaid subscribers, increased availments for *Smart Prepaid Android Phone Kits,* and higher cost of licenses from various partnership with content providers.

Provisions increased by Php5,604 million, to Php8,231 million, primarily due to higher provisions for doubtful accounts and inventory obsolescence.

Interconnection costs decreased by Php478 million, or 6%, to Php8,035 million, primarily due to lower interconnection cost on international voice and text services, partially offset by an increase in interconnection charges on domestic voice and text services.

Asset impairment decreased by Php5,003 million, or 86%, to Php785 million, primarily due to higher impairment provision for property and equipment in 2015.

Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2016 and 2015:

			Change	
	2016	2015	Amount	%
		(in millions)		
Other Income (Expenses):				
Financing costs – net	(Php2,482)	(Php1,794)	(Php688)	(38)
Foreign exchange losses – net	(1,653)	(1,533)	(120)	(8)
Equity share in net losses of associates	(127)	(81)	(46)	(57)
Interest income	269	308	(39)	(13)
Gain on derivative financial instruments – net	485	–	485	100
Other income – net	405	1,162	(757)	(65)
Total	(Php3,103)	(Php1,938)	(Php1,165)	(60)

Our Wireless business segment's other expenses amounted to Php3,103 million in 2016, an increase of Php1,165 million, or 60%, from Php1,938 million in 2015, primarily due to the combined effects of the following: (i) a decrease in other income – net by Php757 million mainly due to reversal of asset retirement obligation in 2015 and lower gain on insurance claims, partly offset by higher income from consultancy services; (ii) higher net financing costs by Php688 million mainly due to higher outstanding loan balances, higher weighted average interest rate and higher financing charges, partly offset by higher capitalized interest; (iii) higher foreign exchange losses by Php120 million; (iv) higher equity share in net losses of associates by Php46 million; (v) lower interest income by Php39 million; and (vi) net gains on derivative financial instruments of Php485 million in 2016.

Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php1,257 million in 2016 as against provision for income tax of Php2,763 million in 2015, primarily due to lower taxable income and recognition of deferred tax benefit relating to Smart's acquisition of DMPI's subscriber base.

Net Income

As a result of the foregoing, our Wireless business segment's net income decreased by Php5,521 million, or 34%, to Php10,618 million in 2016 from Php16,139 million in 2015.

EBITDA

Our Wireless business segment's EBITDA decreased by Php11,813 million, or 26%, to Php32,915 million in 2016 from Php44,728 million in 2015. EBITDA margin decreased to 33% in 2016 from 41% in 2015.

Core Income

Our wireless business' core income decreased by Php10,879 million, or 47%, to Php12,275 million in 2016 from Php23,154 million in 2015 mainly on account of lower EBITDA and higher depreciation expense.

Fixed Line

Revenues

Revenues generated from our Fixed Line business segment amounted to Php72,728 million in 2016, an increase of Php3,863 million, or 6%, from Php68,865 million in 2015.

The following table summarizes our total revenues by service from our fixed line business for the years ended December 31, 2016 and 2015:

					Increase (Decrease)	
	2016	%	2015	%	Amount	%
			(in millions)			
Service Revenues:						
Voice	Php29,630	41	Php30,253	44	(Php623)	(2)
Data	37,711	52	33,748	49	3,963	12
Miscellaneous	1,665	2	1,474	2	191	13
	69,006	95	65,475	95	3,531	5
Non-Service Revenues:						
Sale of computers, phone units and SIM packs, and point-product sales	3,722	5	3,390	5	332	10
Total Fixed Line Revenues	Php72,728	100	Php68,865	100	Php3,863	6

Service Revenues

Our fixed line service revenues increased by Php3,531 million, or 5%, to Php69,006 million in 2016 from Php65,475 million in 2015 due to higher revenues from our data and miscellaneous services, partially offset by lower voice service revenues.

Voice Services

Revenues from our voice services decreased by Php623 million, or 2%, from Php29,630 million in 2016 from Php30,253 million in 2015 primarily due to lower international and domestic services, partially offset by higher revenues from local exchange.

Data Services

The following table shows information of our data service revenues for the years ended December 31, 2016 and 2015:

			Increase	
	2016	2015	Amount	%
		(in millions)		
Data service revenues	Php37,711	Php33,748	Php3,963	12
Home broadband	14,896	12,338	2,558	21
Corporate data and ICT	22,815	21,410	1,405	7

Our data services posted revenues of Php37,711 million in 2016, an increase of Php3,963 million, or 12%, from Php33,748 million in 2015, primarily due to higher home broadband revenues from DSL and *Fibr*, an increase in corporate data and leased lines primarily i-Gate, Fibernet, Metro Ethernet and *Shops.Work*, and higher data center and ICT revenues. The percentage contribution of this service segment to our fixed line service revenues was 55% and 52% in 2016 and 2015, respectively.

Home Broadband

Home broadband data revenues amounted to Php14,896 million in 2016, an increase of Php2,558 million, or 21%, from Php12,338 million in 2015, primarily due to the company's commitment to aggressively expand the FTTH network in the Philippines, as well as an increase in the number of subscribers by 194,686, or 16%, to 1,450,550 subscribers as at December 31, 2016 from 1,255,864 subscribers as at December 31, 2015. Home broadband revenues accounted for 39% and 36% of total data service revenues in 2016 and 2015, respectively.

Corporate Data and ICT

Corporate data services contributed Php19,980 million in 2016, an increase of Php1,174 million, or 6%, as compared with Php18,806 million in 2015, primarily due to sustained market traction of broadband data services such as DSL and *Fibr*, as a result of higher internet connectivity requirements, and key Private Networking Solutions such as IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data revenues accounted for 53% and 56% of total data services in 2016 and 2015, respectively.

ICT revenues increased by Php231 million, or 9%, to Php2,835 million in 2016 from Php2,604 million in 2015, primarily due to higher revenues from colocation, managed IT and social engagement solutions services. Cloud services include cloud contact center, cloud Infrastructure as a Service, cloud Software as a Service, managed security services and cloud professional services. The percentage contribution of this service segment to our total data service revenues was 8% in each of 2016 and 2015.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees. These service revenues increased by Php191 million, or 13%, to Php1,665 million in 2016 from Php1,474 million in 2015, primarily due to higher outsourcing and management fees, partly offset by royalties from directory services in 2015. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 2% in each of 2016 and 2015.

Non-service Revenues

Non-service revenues increased by Php332 million, or 10%, to Php3,722 million in 2016 from Php3,390 million in 2015, primarily due to higher sale of *FabTAB* for *myDSL* retention and *PLP* units, computer-bundled, and TVolution units, partially offset by lower sale of *UNO* equipment, *Telpad* units, managed IT equipment, set top boxes and managed PABX solutions.

Expenses

Expenses related to our Fixed Line business segment totaled Php61,285 million in 2016, an increase of Php2,868 million, or 5%, as compared with Php58,417 million in 2015. The increase was primarily due to higher expenses related to depreciation and amortization, asset impairment, cost of sales and services, partly offset by lower expenses related to interconnection costs. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 84% and 85% in 2016 and 2015, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2016 and 2015 and the percentage of each expense item in relation to the total:

					Increase (Decrease)	
	2016	%	2015	%	Amount	%
			(in millions)			
Selling, general and administrative	Php34,248	56	Php32,608	56	Php1,640	5
Depreciation and amortization	15,471	25	14,301	25	1,170	8
Interconnection costs	5,940	10	6,666	11	(726)	(11)
Cost of sales and services	3,868	6	3,598	6	270	8
Noncurrent asset impairment	36	–	–	–	36	100
Provisions	1,722	3	1,244	2	478	38
Total	Php61,285	100	Php58,417	100	Php2,868	5

Selling, general and administrative expenses increased by Php1,640 million, or 5%, to Php34,248 million, primarily due to higher expenses related to professional and other contracted services, rent, and repairs and maintenance.

Depreciation and amortization charges increased by Php1,170 million, or 8% to Php15,471 million due to a higher depreciable asset base.

Interconnection costs decreased by Php726 million, or 11%, to Php5,940 million, primarily due to lower international interconnection/settlement costs as a result of a decrease in international inbound calls that terminated to other domestic carriers, and lower international outbound calls, and data interconnection/settlement costs, particularly Fibernet and Infonet.

Cost of sales and services increased by Php270 million, or 8%, to Php3,868 million, primarily due to higher sale of *FabTab* for *myDSL* retention, *PLP* units, computer-bundled sales, and sales of TVolution units, as well as due to various partnership with content providers.

Provisions increased by Php478 million, or 38%, to Php1,722 million, mainly due to higher provision for inventory obsolescence and doubtful accounts.

Other Income (Expenses)

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2016 and 2015:

			Change	
	2016	**2015**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Financing costs – net	(Php4,917)	(Php4,509)	(Php408)	9
Foreign exchange losses – net	(486)	(892)	406	(46)
Equity share in net earnings (losses) of associates	(40)	38	(78)	(205)
Gains on derivative financial instruments – net	511	420	91	22
Interest income	707	620	87	14
Other income – net	3,934	1,724	2,210	128
Total	(Php291)	(Php2,599)	Php2,308	(89)

Our Fixed Line business segment's other expenses amounted to Php291 million in 2016, a decrease of Php2,308 million, or 89% from Php2,599 million in 2015 mainly due to the combined effects of the following: (i) an increase in other income – net by Php2,210 million due to gain on sale of property and lower loss on sale of fixed assets and materials; (ii) lower foreign exchange losses by Php406 million; (iii) higher net gain on derivative financial instruments by Php91 million; (iv) an increase in interest income by Php87 million; (v) equity share in net losses of associates of Php40 million in 2016 as against equity share in net earnings of associates of Php38 million in 2015; and (vi) higher financing costs by Php408 million.

Provision for Income Tax

Provision for income tax amounted to Php3,018 million in 2016, an increase of Php1,362 million, or 82%, from Php1,656 million in 2015 primarily due to higher taxable income. The effective tax rates for our fixed line business were 27% and 21% in 2016 and 2015, respectively.

Net Income

As a result of the foregoing, our Fixed Line business segment registered a net income of Php8,134 million in 2016, an increase of Php1,941 million, or 31%, as compared with Php6,193 million in 2015.

EBITDA

Our Fixed Line business segment's EBITDA increased by Php2,201 million, or 9%, to Php26,950 million in 2016 from Php24,749 million in 2015. EBITDA margin increased to 39% in 2016 from 38% in 2015.

Core Income

Our Fixed Line business segment's core income increased by Php1,207 million, or 18%, to Php7,746 million in 2016 from Php6,539 million in 2015, primarily as a result of higher EBITDA, partly offset by higher provision for income tax.

Others

Revenues

Revenues generated from our Other business segment, which include revenues from digital platforms and mobile financial services, amounted to Php847 million in 2016, a decrease of Php370 million, or 30%, from Php1,217 million in 2015, primarily due to lower revenues from PayMaya.

Expenses

Expenses related to our Other business segment totaled Php1,623 million in 2016, a decrease of Php338 million, or 17%, as compared with Php1,961 million in 2015, primarily due to lower selling, general and administrative expenses.

Other Income (Expenses)

The following table summarizes the breakdown of other income – net for our Other business segment for the years ended December 31, 2016 and 2015:

			Change	
	2016	2015	Amount	%
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates and joint ventures	Php1,348	Php3,284	(Php1,936)	(59)
Interest income	307	99	208	210
Financing costs – net	(192)	(184)	(8)	(4)
Foreign exchange losses – net	(646)	(611)	(35)	(6)
Other income (expenses) – net	1,517	(1,957)	3,474	178
Total	Php2,334	Php631	Php1,703	270

Other income increased by Php1,703 million to Php2,334 million in 2016 from Php631 million in 2015 primarily due to the combined effects of the following: (i) other income of Php1,517 million in 2016 as against other expenses of Php1,957 million in 2015 due to higher gain on sale of Beacon shares by PCEV in 2016 as against the gain on sale of Meralco shares by Beacon in 2015, partly offset by higher impairment loss on our investment in Rocket Internet resulting from the decline in fair value; (ii) an increase in interest income by Php208 million; (iii) higher financing costs by Php8 million; (ii) higher foreign exchange losses by Php35 million; and (v) lower equity share in net earnings of associates by Php1,936 million mainly from lower equity share in net earnings of Beacon and equity share in net losses of VTI in 2016, partly offset by higher equity share in net earnings of Beta due to the sale of its SPi CRM business.

Net Income (Loss)

As a result of the foregoing, our Other business segment registered a net income of Php1,410 million in 2016, a change of Php1,667 million as against net loss of Php257 million in 2015.

Core Income

Our Other business segment's core income amounted to Php7,836 million in 2016, an increase of Php2,317 million, or 42%, as compared with Php5,519 million in 2015 mainly as a result of higher other income.

Plans

We are the largest telecommunications company in the Philippines in terms of revenues and subscribers. We intend to reinforce our leading position while offering a broader range and higher quality of products and services.

Our current estimate for our consolidated capital expenditures in 2019 is approximately Php78 billion. Our capital spending is focused on our objective to improve network quality and provide customers a superior data experience.

We plan to expand our LTE network in line with our desire to provide coverage to substantially all of the country's cities and municipalities by the end of 2019. We intend to expand and upgrade our fixed access networks for cable fortification and resiliency in various locations. The expansion of our national and domestic networks is intended to follow the roll-out of our access networks.

We also plan to continue the transformation of our service delivery platforms and IT in order to facilitate a real-time, on demand and personalized customer experience across all touch points and channels.

While the commercial use cases for 5G are still being determined, PLDT is undertaking 5G pilots with several equipment vendors, namely: Huawei, Nokia and Ericsson.

In November 2018, PLDT wireless arm Smart Communications, Inc. made the country's first successful video call on a 5G connection between the newly launched Smart 5G cities in Pampanga and Makati City. The country's first 5G-enabled video call was made using 5G Radio and Core equipment of Smart's technology partners Huawei in Makati and Ericsson in Clark, showcasing 5G interoperability in a multi-vendor environment at this early stage.

In March 2019, Smart signed a Memorandum of Understanding with Nokia, where both will collaborate in identifying innovative real world and enterprise-led 5G standalone (5G SA) solutions, such as artificial intelligence, drones, and Internet of Things (IoT) applications, for use in schools, colleges and universities. This will be done through the combined capabilities of the PLDT-Smart 5G Technolab in Makati and the Nokia Technology Center in Quezon City.

Furthermore, in anticipation of the rollout of 5G, the company's capex investments, particularly in the transport network, aim to make the PLDT network 5G-ready.

Our capital expenditure budget includes projects addressing the following objectives:

(1) Commercial expansion of capacity and footprint of our wired and wireless services, as well as new platforms to expand service offerings;

(2) Technical transformation of the PLDT Group's service delivery platform in order to realize operating and cost efficiencies, provision of greater resilience and redundancy for the network, and investments in additional cable systems;

(3) Continuing investments to ensure that the PLDT network is 5G-ready; and

(4) IT/Support Systems –upgrade of our IT and support systems.

We expect to fund incremental capital expenditures from free cash flow.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2018, 2017 and 2016 as well as our consolidated capitalization and other consolidated selected financial data as at December 31, 2018, 2017 and 2016:

	2018	2017	2016
		(in millions)	
Cash Flows			
Net cash flows provided by operating activities	**Php61,116**	Php56,114	Php48,976
Net cash flows used in investing activities	**(25,054)**	(21,060)	(41,982)
Payment for purchase of property and equipment, including capitalized interest	***48,771***	*37,432*	*42,825*
Net cash flows used in financing activities	**(18,144)**	(40,319)	(15,341)
Net increase (decrease) in cash and cash equivalents	**18,749**	(5,817)	(7,733)
Capitalization			
Interest-bearing financial liabilities:			
Long-term financial liabilities:			
Long-term debt	**Php155,835**	Php157,654	Php151,759
Current portion of interest-bearing financial liabilities:			
Long-term debt maturing within one year	**20,441**	14,957	33,273
Total interest-bearing financial liabilities	**176,276**	172,611	185,032
Total equity attributable to equity holders of PLDT	**112,358**	106,842	108,175
	Php288,634	Php279,453	Php293,207
Other Selected Financial Data			
Total assets	**Php482,750**	Php459,444	Php475,119
Property and equipment	**195,964**	186,907	203,188
Cash and cash equivalents	**51,654**	32,905	38,722
Short-term investments	**1,165**	1,074	2,738

Our consolidated cash and cash equivalents and short-term investments totaled Php52,819 million as at December 31, 2018. Principal sources of consolidated cash and cash equivalents in 2018 were: (1) cash flows from operating activities amounting to Php61,116 million; (2) proceeds from availment of long-term debt of Php20,500 million; (3) proceeds from disposal of Rocket Internet shares of Php11,400 million and proceeds from repurchase of Matrixx's Convertible Series B Preferred Stock of Php237 million; (4) proceeds from sale and collection of receivables from Metro Pacific Investments Corporation, or MPIC, of Php6,976 million and Php4,451 million, respectively; (5) proceeds from disposal of Hastings PDRs of Php1,664 million; (6) interest received of Php1,115 million; (7) proceeds from collection of derivative financial instruments of Php886 million; and (8) proceeds from disposal of property and equipment of Php345 million. These funds were used principally for: (1) payment for purchase of property and equipment, including capitalized interest, of Php48,771 million; (2) debt principal and interest payments of Php18,740 million and Php6,614 million, respectively; (3) cash dividend payments of Php13,928 million; and (4) payment for purchase of investment in Multisys Technologies Corporation, or Multisys, of Php1,588 million and net decrease in cash resulting from deconsolidation of VIH of Php1,186 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php33,979 million as at December 31, 2017. Principal sources of consolidated cash and cash equivalents in 2017 were: (1) cash flows from operating activities amounting to Php56,114 million; (2) proceeds from availment of long-term debt of Php26,255 million; (3) proceeds from disposal of investment in associates and joint ventures of Php14,884 million; (4) proceeds from issuance of perpetual notes of Php4,165 million; (5) collection of receivables from MPIC of Php2,001 million: (6) net proceeds from maturity of short-term investments of Php1,830 million; (7) interest received of Php1,217 million; (8) net proceeds from disposal of investments available-for-sale of Php924 million; (9) dividends received of Php833 million; (10) proceeds from disposal of property and equipment of Php484 million; (11) net proceeds from redemption of investment in debt securities of Php456 million; and (12) proceeds from disposal of investment properties of Php290 million. These funds were used principally for: (1) debt principal and interest payments of Php39,199 million and Php7,076 million, respectively; (2) payment for purchase of property and equipment, including capitalized interest, of Php37,432 million; (3) cash dividend payments of Php16,617 million; (4) net reduction in capital expenditures under long-term financing of Php7,735 million; (5) payment for purchase of investment in associates and joint ventures, mainly payment to VTI and Bow Arken of Php5,533 million and Php100 million additional funding to AFPI.

Operating Activities

Our consolidated net cash flows provided by operating activities increased by Php5,002 million, or 9%, to Php61,116 million in 2018 from Php56,114 million in 2017, primarily due to lower level of settlement of accounts payable and other liabilities, lower corporate taxes paid and lower prepayments, partially offset by higher advances and other noncurrent assets, lower collection of receivables and lower operating income.

Our consolidated net cash flows provided by operating activities increased by Php7,138 million, or 15%, to Php56,114 million in 2017 from Php48,976 million in 2016, primarily due to lower prepayments, inventories and advances and other noncurrent assets, lower level of settlement of accounts payable and other liabilities, higher operating income and lower corporate taxes paid, partially offset by lower collection of receivables.

Cash flows provided by operating activities of our Wireless business segment increased by Php7,559 million, or 24%, to Php39,296 million in 2018 from Php31,737 million in 2017, primarily due to lower receivables, lower level of settlement of accounts payable and other liabilities, lower corporate taxes paid and lower prepayments, partially offset by higher advances and other noncurrent assets and lower operating income. Cash flows provided by operating activities of our Fixed Line business segment decreased by Php2,950 million, or 12%, to Php22,601 million in 2018 from Php25,551 million in 2017, primarily due to higher advances and other noncurrent assets, higher level of settlement of accounts payable and other liabilities, and higher corporate taxes paid, partially offset by higher operating income and lower receivables. Cash flows used in operating activities of our Other business segment decreased by Php475 million, or 59%, to Php329 million in 2018 from Php804 million in 2017, mainly due to lower level of settlement of accounts payable, partly offset by lower collection of receivables and higher operating loss.

Cash flows provided by operating activities of our wireless business increased by Php6,749 million, or 27%, to Php31,737 million in 2017 from Php24,988 million in 2016, primarily due to lower level of settlement of accounts payable and other liabilities, lower prepayments, and lower corporate taxes paid, partially offset by lower collection of receivables, lower operating income and higher advances and other noncurrent assets. Cash flows provided by operating activities of our fixed line business increased by Php666 million, or 3%, to Php25,551 million in 2017 from Php24,885 million in 2016, primarily due to higher operating income, lower pension contribution, lower settlement of accounts payable and other liabilities, and lower inventories, partly offset by lower collection of receivables, higher prepayments and higher corporate taxes paid. Cash flows used in operating activities of our other business decreased by Php25 million, or 3%, to Php804 million in 2017 from Php829 million in 2016 mainly due to higher collection of receivables, partly offset by higher settlement of accounts payable and other liabilities, and higher operating loss.

Investing Activities

Consolidated net cash flows used in investing activities amounted to Php25,054 million in 2018, an increase of Php3,994 million, or 19%, from Php21,060 million in 2017, primarily due to the combined effects of the following: (1) lower proceeds from disposal of investment in associates and joint ventures by Php13,174 million mainly due to proceeds from disposal of the remaining Beacon shares in 2017, partly offset by proceeds from disposal of Hastings PDRs of Php1,664 million in 2018; (2) higher payment for purchase of property and equipment, including capitalized interest, by Php11,339 million; (3) higher payment for purchase of investment, mainly investment in Multisys amounting to Php1,588 million and decrease in cash resulting from deconsolidation of VIH of Php1,186 million; (4) lower net proceeds from maturity of short-term investments by Php1,720 million; (5) proceeds from redemption of Beacon's Class B Preferred Shares of Php1,000 million in 2017; (6) dividends received of Php833 million in 2017; (7) lower payment for purchase of investments in associates and joint ventures by Php5,522 million, mainly investment in VTI; (8) higher collection of receivables from MPIC by Php2,450 million and proceeds from sale of receivables from MPIC of Php6,976 million in 2018; and (9) proceeds from sale of Rocket Internet shares of Php11,400 million and proceeds from repurchase of Matrixx's Convertible Series B Preferred Stock of Php237 million in 2018.

Consolidated net cash flows used in investing activities amounted to Php21,060 million in 2017, a decrease of Php20,922 million, or 50%, from Php41,982 million in 2016, primarily due to the combined effects of the following: (1) lower net payment for purchase of investments in associates and joint ventures by Php15,891 million, primarily due to the purchase of investment in VTI, Bow Arken and Brightshare in 2016; (2) lower payment for purchase of property and equipment by Php5,393 million; (3) higher net proceeds from maturity of short-term investments by Php3,007 million; (4) collection of receivables of Php2,001 million in 2017, mainly from MPIC; (5) net proceeds from disposal of investments available-for-sale of Php924 million in 2017 as against net payment for the purchase of available-for-sale investments of Php998 million in 2016; (6) proceeds from disposal of investment properties of Php290 million; (7) lower proceeds from disposal of property and equipment by Php1,405 million; (8) lower proceeds from disposal of investment in associates and joint ventures by Php2,116 million primarily due to lower proceeds from disposal of remaining Beacon shares by Php5,000 million, offset by proceeds from repurchase of a portion of Beta's ordinary shares of Php2,884 million in 2017; and (9) lower dividends received by Php3,576 million.

Our consolidated payment for purchase of property and equipment, including capitalized interest, in 2018 totaled Php48,771 million, an increase of Php11,339 million as compared with Php37,432 million in 2017. Smart Group's capital spending increased by Php7,579 million, or 31%, to Php31,884 million in 2018 from Php24,305 million in 2017. Smart Group's capex spending was primarily focused on expansion of LTE (4G) coverage and capacity. PLDT's capital spending increased by Php4,118 million, or 37%, to Php15,252 million in 2018 from Php11,134 million in 2017. PLDT's capex spending was used to finance the modernization program and the continuous facility roll-out and expansion of our domestic fiber optic network, as well as expansion of our data center business. The balance represents other subsidiaries' capital spending.

Our payment for purchase of property and equipment, including capitalized interest, in 2017 totaled Php37,432 million, a decrease of Php5,393 million, or 13%, as compared with Php42,825 million in 2016. Smart Group's capital spending decreased by Php7,784 million, or 24%, to Php24,305 million in 2017 from Php32,089 million in 2016. Smart Group's capex spending was primarily focused on expanding 3G capacity and improving LTE (4G) coverage and reach across the nation. PLDT's capital spending increased by Php3,076 million, or 38%, to Php11,134 million in 2017 from Php8,058 million in 2016. The capex spending was used to finance the continuous facility roll-out and expansion of our domestic fiber optic network, as well as expansion of our data center business. The balance represents other subsidiaries' capital spending.

As part of our growth strategy, we may from time to time, continue to make acquisitions and investments in companies or businesses.

Financing Activities

On a consolidated basis, cash flows used in financing activities amounted to Php18,144 million in 2018, a decrease of Php22,175 million, or 55%, from Php40,319 million in 2017, resulting largely from the combined effects of the following: (1) lower payments of long-term debt and interest by Php20,459 million and Php462 million, respectively; (2) net settlement of capital expenditures under long-term financing of Php7,735 million in 2017; (3) lower cash dividend payments by Php2,689 million; (4) proceeds from issuance of perpetual notes of Php4,165 million in 2017; and (5) lower proceeds from availment of long-term debt by Php5,755 million.

On a consolidated basis, cash flows used in financing activities amounted to Php40,319 million in 2017, an increase of Php24,978 million, or 163%, from Php15,341 million in 2016, resulting largely from the combined effects of the following: (1) higher payments of long-term debt and interest by Php19,549 million and Php564 million, respectively; (2) lower proceeds from availment of long-term debt by Php14,314 million (3) higher net settlement of capital expenditures under long-term financing by Php1,695 million; (4) higher collections from derivatives by Php759 million; (5) proceeds from issuance of perpetual notes of Php4,165 million in 2017; and (6) lower cash dividend payments by Php6,370 million.

Debt Financing

Proceeds from availment of long-term debt for the year ended December 31, 2018 amounted to Php20,500 million, mainly from PLDT's and Smart's drawings related to the financing of capital expenditure requirements and refinancing of maturing loan obligations. Payments of principal and interest on our total debt amounted to Php18,740 million and Php6,614 million, respectively, for the year ended December 31, 2018.

Proceeds from availment of long-term debt for the year ended December 31, 2017 amounted to Php26,255 million, mainly from PLDT's drawings related to the financing of our capital expenditure requirements and refinancing of maturing loan obligations. Payments of principal and interest on our total debt amounted to Php39,199 million and Php7,076 million, respectively, for the year ended December 31, 2017.

Our consolidated long-term debt increased by Php3,665 million, or 2%, to Php176,276 million as at December 31, 2018 from Php172,611 million as at December 31, 2017, primarily due to drawings from our long-term facilities and the depreciation of the Philippine peso relative to the U.S. dollar, partly offset by debt amortizations. As at December 31, 2018, the long-term debt level of Smart increased by 6% to Php65,996 million from Php62,388 as at December 31, 2017, and PLDT's long-term debt level increased to Php110,280 million from Php110,223 million as at December 31, 2017.

Our consolidated long-term debt decreased by Php12,421 million, or 7%, to Php172,611 million as at December 31, 2017 from Php185,032 million as at December 31, 2016, primarily due to debt amortizations and prepayments, partly offset by drawings from our long-term facilities and the depreciation of the Philippine peso relative to the U.S. dollar. As at December 31, 2017, the long-term debt level of Smart decreased by 17% to Php62,388 million from Php74,851 as at December 31, 2016, while PLDT's increased to Php110,223 million from Php109,867 million as at December 31, 2016. DMPI loans, with a balance of Php314 million as at December 31, 2016, have been fully paid as at December 31, 2017.

See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying audited consolidated financial statements for a more detailed discussion of our long-term debt.

Debt Covenants

Our consolidated debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with PFRS, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

As at December 31, 2018 and 2017, we are in compliance with all of our debt covenants.

See *Note 20 – Interest-Bearing Financial Liabilities – Compliance with Debt Covenants* to the accompanying audited consolidated financial statements for a more detailed discussion of our debt covenants.

Financing Requirements

We believe that our available cash, including cash flow from operating activities, will provide sufficient liquidity to fund our projected operating, investment, capital expenditures and debt service requirements for the next 12 months; however, we may finance a portion of these costs from external sources if we consider it prudent to do so.

The following table shows the dividends declared to common and preferred shareholders from the earnings for the years ended December 31, 2018 and 2017:

	Date			Amount	
Earnings	**Approved[(1)]**	**Record**	**Payable**	**Per share**	**Total Declared**
				(in millions, except per share amount)	
2018					
Common Stock					
Regular Dividend	**August 9, 2018**	**August 28, 2018**	**September 11, 2018**	**36**	**7,778**
	March 21, 2019	**April 4, 2019**	**April 23, 2019**	**36**	**7,778**
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[(1)]	**August 9, 2018**	**August 28, 2018**	**September 15, 2018**	**—**	**13**
	November 8, 2018	**November 23, 2018**	**December 15, 2018**	**—**	**12**
	January 29, 2019	**February 22, 2019**	**March 15, 2019**	**—**	**12**
Voting Preferred Stock	**September 25, 2018**	**October 9, 2018**	**October 15, 2018**	**—**	**2**
	December 4, 2018	**December 19, 2018**	**January 15, 2019**	**—**	**3**
	March 7, 2019	**March 27, 2019**	**April 15, 2019**	**—**	**3**
Charged to Retained Earnings					**15,601**
2017					
Common Stock					
Regular Dividend	August 10, 2017	August 25, 2017	September 8, 2017	48	10,371
	March 27, 2018	April 13, 2018	April 27, 2018	28	6,049
Preferred Stock					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[(1)]	August 10, 2017	August 25, 2017	September 15, 2017	—	13
	November 9, 2017	November 28, 2017	December 15, 2017	—	12
	January 22, 2018	February 21, 2018	March 15, 2018	—	12
	May 10, 2018	May 25, 2018	June 15, 2018	—	12
Voting Preferred Stock	September 26, 2017	October 10, 2017	October 15, 2017	—	2
	December 5, 2017	December 20, 2017	January 15, 2018	—	3
	March 8, 2018	March 28, 2018	April 15, 2018	—	3
	June 13, 2018	June 29, 2018	July 15, 2018	—	2
Charged to Retained Earnings					16,479

(1) *Dividends were declared based on total amount paid up.*

See Item 5. "Market for Registrant's Common Equity and Related Stockholder Matters – Dividends" and *Note 19 – Equity* to the accompanying audited consolidated financial statements for a detailed discussion of our dividend payments.

Credit Ratings

None of our existing indebtedness contains provisions under which credit rating downgrades would trigger a default, changes in applicable interest rates or other similar terms and conditions.

PLDT's current credit ratings are as follows:

Rating Agency	Credit Rating		Outlook
Standard & Poor's Rating Services,or S&P	Long-term Foreign Issuer Credit	BBB+	Stable
	ASEAN regional scale	axA+	
Moody's Investor Service, or Moody's	Foreign Currency Senior Unsecured Debt Rating	Baa2	Stable
	Local Currency Issuer Rating	Baa2	Stable
Fitch Ratings, or Fitch	Long-term Foreign Currency Issuer Default Rating	BBB	Stable
	Long-term Local Currency Issuer Default Rating	BBB	Stable
	National Long-term Rating	AAA(ph1)	Stable
CRISP	Issuer rating	AAA	Stable

On September 3, 2018, Moody's affirmed PLDT's foreign currency bond rating and local currency issuer rating at "Baa2". Both ratings are considered "investment grade." The outlook in both ratings is stable.

On August 28, 2018, Fitch downgraded PLDT's long-term foreign currency issuer default rating and long-term local currency issuer default rating to "BBB" from "BBB+", with a stable outlook. Fitch affirmed its National Rating at "AAA (phl)".

On May 24, 2017, S&P affirmed our long-term foreign issuer credit rating at "BBB+", with a stable outlook. This rating is considered as "investment grade." On the S&P ASEAN regional scale, PLDT's rating affirmed at "axA+".

On January 6, 2014, CRISP rated PLDT's inaugural peso retail bonds as "AAA" issuer rating with a "stable" outlook, the highest on the scale. CRISP cited PLDT's market leadership, strong historical financial performance and excellent management and governance as key considerations for providing their rating. As at March 21, 2019, there has been no change in the credit rating issued by CRISP.

Changes in Financial Conditions

Our total assets amounted to Php482,750 million as at December 31, 2018, an increase of Php23,306 million, or 5%, from Php459,444 million as at December 31, 2017, primarily due to higher cash and cash equivalents, property and equipment, and investment in associates and joint ventures, mainly due to investment in VIH and Multisys, partially offset by lower financial assets at fair value through profit and loss, mainly due to sale of Rocket Internet shares, and lower financial assets at fair value through other comprehensive income, mainly on account of sale of MPIC receivables. Starting 2018, available-for-sale financial investments are presented as financial assets at fair value through profit or loss according to PFRS 9.

Our total assets amounted to Php459,444 million as at December 31, 2017, a decrease of Php15,675 million, or 3%, from Php475,119 million as at December 31, 2016, primarily due to lower property and equipment, investments in associates and joint ventures, mainly resulting from the sale of the remaining Beacon shares to MPIC, and cash and cash equivalents, partially offset by higher trade and other receivables, and advances and other noncurrent assets.

Our total liabilities amounted to Php366,084 million as at December 31, 2018, an increase of Php17,823 million, or 5%, from Php348,261 million as at December 31, 2017 significantly due to higher accounts payable, and accrued expenses and other liabilities, combined with higher interest-bearing financial liabilities.

Our total liabilities amounted to Php348,261 million as at December 31, 2017, a decrease of Php18,321 million, or 5%, from Php366,582 million as at December 31, 2016 significantly due to lower interest-bearing financial liabilities of Php172,611 million as at December 31, 2017 from Php185,032 million as at December 31, 2016.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have any current or future effect on our financial position, results of operations, cash flows, changes in stockholders' equity, liquidity, capital expenditures or capital resources that are material to investors.

Equity Financing

On August 5, 2014, the PLDT Board of Directors approved the amendment of our dividend policy, increasing the dividend payout rate to 75% from 70% of our core earnings per share as regular dividends. In 2016, in view of our elevated capital expenditures to support the build-out of a resilient and reliable data network, lower EBITDA primarily due to higher subsidies to grow the data business and defend market share and the resources required to support the acquisition of SMC's telecommunications business, we have lowered our regular dividend payout to 60% of our core income. 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 the event that no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends of up to the balance of our core earnings or to undertake share buybacks. We were able to pay out approximately 100% of our core earnings for seven consecutive years from 2007 to 2013, approximately 90% of our core earnings for 2014, 75% of our core earnings for 2015 and 60% of our core earnings in 2016, 2017 and 2018. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, are not available for distribution unless realized in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, Philippines, as the dividend-disbursing agent, converts the

Philippine peso dividends into U.S. dollars at the prevailing exchange rates and remits the dollar dividends abroad, net of any applicable withholding tax.

Our subsidiaries pay dividends subject to the requirements of applicable laws and regulations and availability of unrestricted retained earnings, without any restriction imposed by the terms of contractual agreements. Notwithstanding the foregoing, the subsidiaries of PLDT may, at any time, declare and pay such dividends depending upon the results of operations and future projects and plans, the respective subsidiary's earnings, cash flow, financial condition, capital investment requirements and other factors.

Consolidated cash dividend payments paid to shareholders amounted to Php13,928, Php16,617 million and Php22,987 million as at December 31, 2018, 2017 and 2016, respectively.

Market Information

Common Capital Stock and ADSs

The shares of common stock of PLDT are listed and traded on the PSE. On October 19, 1994, an ADR facility was established, pursuant to which Citibank, N.A., as the depositary, issued ADRs evidencing 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 of PLDT's ADR facility. The ADSs are listed on the NYSE and are traded on the NYSE under the symbol of "PHI".

The public ownership level of PLDT common shares listed on the PSE as at March 31, 2019 is 53.69%.

As at March 31, 2019, 10,141 stockholders were Philippine persons and held approximately 50.20% of PLDT's common capital stock. In addition, as at March 31, 2019, there were a total of approximately 27 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 249 holders.

For the period from January 1 to March 31, 2019, a total of 8.48 million shares of PLDT's common capital stock were traded on the PSE. During the same period, the volume of trading was 9.98 million ADSs on the NYSE.

High and low sales prices for PLDT's common shares on the PSE and ADSs on the NYSE for each of the full quarterly period during 2018 and 2017 and for the first quarter through April 15, 2019 were as follows:

	Philippine Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
2019				
First Quarter	Php1,386.00	Php1,015.00	US$26.33	US$19.36
January	1,386.00	1,128.00	26.33	20.78
February	1,329.00	1,015.00	25.08	19.86
March	1,190.00	1,025.00	22.46	19.36
Second Quarter				
Through April 15	1,186.00	1,102.00	23.29	21.10
2018				
First Quarter	**1,601.00**	**1,384.00**	**32.66**	**26.97**
Second Quarter	**1,536.00**	**1,100.00**	**29.07**	**21.58**
Third Quarter	**1,447.00**	**1,252.00**	**27.65**	**23.34**
Fourth Quarter	**1,448.00**	**1,125.00**	**27.00**	**20.49**
2017				
First Quarter	1,655.00	1,360.00	32.59	27.60
Second Quarter	1,944.00	1,602.00	38.54	31.49
Third Quarter	1,796.00	1,603.00	35.05	30.71
Fourth Quarter	1,762.00	1,437.00	34.38	28.09

Holders

As at March 31, 2019, there were 11,637 holders of record of PLDT's common shares. Listed below were the top 20 common shareholders, including their nationalities, the number of shares held, the amount of their holdings, and the approximate percentages of their respective shareholdings to PLDT's total outstanding common stocks:

Name of Holder of Record	Nationality	Number of Shares Held	Amount of Holding	Approximate % to Total Outstanding Common Stock
1. PCD Nominee Corporation	Various – Foreign	47,586,841	Php237,934,205	
	Various – Filipino	31,515,840	157,579,200	36.61
2. Philippine Telecommunications Investment Corporation	Filipino	26,034,263	130,171,315	12.05
3. J. P. Morgan Hong Kong Nominees Limited	Chinese	23,890,669	119,453,345	11.06
4. NTT DOCOMO, Inc.	Japanese	22,796,902	113,984,510	10.55
5. Metro Pacific Resources, Inc.	Filipino	21,556,676	107,783,380	9.98
6. JG Summit Holdings, Inc.	Filipino	17,208,753	86,043,765	7.96
7. NTT Communications Corporation	Japanese	12,633,487	63,167,435	5.85
8. Social Security System, or SSS	Filipino	8,338,378	41,691,890	3.86
9. Pan-Malayan Management & Inv Corp.	Filipino	781,124	3,905,620	0.36
10. Manuel V. Pangilinan	Filipino	255,795	1,278,975	0.12
11. Malayan Insurance Co., Inc.	Filipino	253,000	1,265,000	0.12
12. James L. Go	Filipino	135,914	679,570	0.06
13. Alfonso T. Yuchengco	Filipino	118,458	592,290	0.05
14. Albert F. &/or Margaret Gretchen V. del Rosario	Filipino	106,780	533,900	0.05
15. Edward A. Tortorici &/or Anita R. Tortorici	American	96,874	484,370	0.04
16. Express Holdings, Inc.	Filipino	86,723	433,615	0.04
17. Enrique T. Yuchengco, Inc.	Filipino	59,868	299,340	0.03
18. Mechatrends Contractors Corporation	Filipino	50,000	250,000	0.02
19. JDC Investment Realty Enterprises, Inc.	Filipino	47,708	238,540	0.02
20. Hare & Company	American	34,511	172,555	0.02
		213,588,564	Php1,067,942,820	

Recent Sale of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

On June 8, 2015, 870 shares of Series JJ 10% Cumulative Convertible Preferred Stock were issued in a transaction exempt from the registration requirement under Section 6 of the Revised Securities Act/Section 10 of the SRC. See *Note 19 – Equity* to the accompanying audited consolidated financial statements for further discussion.

Dividends

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2016, 2017 and 2018:

	Date			Amount	
Earnings	Approved	Record	Payable	Per share	Total Declared (in millions)
2016	August 2, 2016	August 16, 2016	September 1, 2016	Php49	Php10,587
2016	March 7, 2017	March 21, 2017	April 6, 2017	28	6,049
				77	16,636
2017	August 10, 2017	August 25, 2017	September 8, 2017	48	10,371
2017	March 27, 2018	April 13, 2018	April 27, 2018	28	6,050
				76	16,421
2018	**August 9, 2018**	**August 28, 2018**	**September 11, 2018**	**36**	**7,778**
2018	**March 21, 2019**	**April 4, 2019**	**April 23, 2019**	**36**	**7,778**
				Php72	**Php15,556**

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a detailed discussion of our consolidated contractual undiscounted obligations as at December 31, 2018 and 2017, see *Note 27 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php20 million and Php88 million as at December 31, 2018 and 2017, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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. We also monitor the market price risk arising from all financial instruments.

See *Note 27 – Financial Assets and Liabilities – Financial Risk Management Objectives and Policies* to the accompanying consolidated financial statements for a detailed discussion.

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines for the years ended December 31, 2018 and 2017 were 5.2% and 2.9%, respectively. We expect inflation to ease given BSP's outlook that it will be within the target range of 2% to 4% in 2019.

Independent Auditors' Fees and Services

The following table summarizes the fees paid or accrued for services rendered by SGV & Co., our independent auditors for the years ended December 31, 2018 and 2017:

	2018	2017
	(in millions)	
Audit Fees	**Php48**	Php48
All Other Fees	**21**	24
Total	**Php69**	**Php72**

Audit Fees. This category includes the audit of our annual financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years.

Audit-Related Fees. Other than the audit fees, we did not have any other audit-related fees for the years ended December 31, 2018 and 2017.

Tax Fees. We did not have any tax fees for the years ended December 31, 2018 and 2017.

All Other Fees. This category consists primarily of fees with respect to our Sarbanes-Oxley Act 404 assessment in 2018 and 2017, and other non-audit engagements.

The fees presented above includes out-of-pocket expenses incidental to our independent auditors' work, amount of which do not exceed 5% of the agreed-upon engagement fees.

Our AC pre-approved all audit and non-audit services as these are proposed or endorsed before these services are performed by our independent auditors.

Changes in and Disagreements with Independent Auditors on Accounting and Financial Disclosure

We have no disagreements with our independent auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

AUDIT COMMITTEE REPORT

March 21, 2019

The Board of Directors
PLDT Inc. (PLDT)

Further to our compliance with applicable corporate governance laws and rules, the Audit Committee confirms for 2018 that:

- Each voting member of the Audit Committee is an independent director as determined by the Board of Directors;
- It had five (5) regular meetings and three (3) joint meetings with the Audit Committees of Smart Communications, Inc. (Smart) and Digital Telecommunications Phils., Inc. (Digitel) during the year;
- It has reviewed and approved for retention the Audit Committee Charter, amended and adopted by the Board on January 22, 2018, until the next review in 2019;
- Based on a review of SGV & Co.'s performance and qualifications, including consideration of Management's recommendation, it approved the appointment of SGV & Co. as the PLDT Group's independent auditor;
- It has discussed with the PLDT's internal audit group the annual plan for their regular audits, and the results of their examinations;
- It has discussed with SGV & Co. the overall scope and plan for their integrated audit of the PLDT and Subsidiaries', or PLDT Group's, financial statements and internal controls over external financial reporting, and the results of their examinations;
- It has reviewed and approved all audit and non-audit services provided by SGV & Co. to the PLDT Group, and the related fees for such services, and concluded that the non-audit fees are not significant to impair their independence;
- It has discussed with SGV & Co. the matters required to be discussed by the prevailing applicable Auditing Standard, and it has received written disclosures and the letter from SGV & Co. as required by the prevailing applicable Independence Standards (Statement as to Independence) and has discussed with SGV & Co. its independence from the PLDT Group and the PLDT Group's Management;
- It has discussed with the Head of Enterprise Risk Management Department updates on enterprise risk management activities, and plans for 2019.
- In the performance of its oversight responsibilities, it has reviewed and discussed the unaudited consolidated quarterly financial statements and reports in the first three quarters of 2018 and the audited consolidated financial statements of the PLDT Group as of and for the year ended December 31, 2018 with the PLDT Group's Management, which has the primary responsibility for the financial statements, and with SGV & Co., the PLDT Group's independent auditor, who is responsible for expressing an opinion on the conformity of the PLDT Group's audited financial statements with Philippine Financial Reporting Standards (PFRS); and
- Based on the reviews and discussions referred to above, in reliance on the PLDT Group's Management and SGV & Co. and subject to the limitations of our role, it recommended to the Board of Directors and the Board has approved, the inclusion of the PLDT Group's audited financial statements as of and for the year ended December 31, 2018 in the PLDT Group's Annual Report to the Stockholders and to the Philippine Securities and Exchange Commission (Phil. SEC) on Form 17-A.

Respectfully submitted,

Mr. Pedro E. Roxas	**Retired CJ Artemio V. Panganiban**	**Mr. Bernido H. Liu**
Chairman	Member	Member

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

March 21, 2019

The management of PLDT Inc. and Subsidiaries (the PLDT Group) is responsible for the preparation and fair presentation of our consolidated financial statements, including the schedules attached therein, as at December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of our consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Manuel V. Pangilinan
Chairman of the Board
President and Chief Executive Officer

Anabelle Lim-Chua
Senior Vice President and Chief Financial Officer

June Cheryl A. Cabal-Revilla
Senior Vice President and Controller

SUBSCRIBED AND SWORN to before me this 21st day of March 2019 affiants exhibiting to me their Passport, as follows:

Name	Passport No.	Date of Expiry	Place of Issue
Manuel V. Pangilinan	P9969361A	December 17, 2028	DFA, NCR East
Anabelle Lim Chua	P7458770A	June 5, 2028	DFA, Manila
June Cheryl A. Cabal-Revilla	P7399576A	May 31, 2028	DFA, Manila

Notary Public
WENY U. YAU
Notary Public for the City of Makati
Until December 31, 2019
Appointment No. M-71
Roll of Attorneys No. 62564
PTR O.R. NO. 7333805 – 01/03/2019 Makati City
9/F, MGO Bldg. Legazpi St. Legazpi Vill., Makati City, MM

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Page No. 42 ;
Book No. II ;
Series of 2019.

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
PLDT Inc.
Ramon Cojuangco Building
Makati Avenue, Makati City

Opinion

We have audited the consolidated financial statements of PLDT Inc. and its subsidiaries (the PLDT Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the PLDT Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Revenue recognition

The PLDT Group mainly provides wireless and fixed line telecommunications services to a large number of subscribers. Its revenue recognition processes utilize complex and highly automated revenue and billing systems. In addition, effective January 1, 2018, the PLDT Group adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under the modified retrospective approach. The adoption of PFRS 15 resulted in significant changes in the PLDT Group's revenue recognition policies, processes, and procedures. The PLDT Group recorded transition adjustments that increased the retained earnings as of January 1, 2018 by Php2,553 million mainly due to the change in allocation of the transaction price between service and nonservice revenue which is recognized at a point in time.

Revenue recognition is a key audit matter in our audit because of (a) the substantial amount of the wireless and fixed line service revenues, the significant volume of data and transactions processed through various systems and the heavy reliance on automated processes and controls over the capture, measurement and recording of transactions, and (b) the adoption of PFRS 15 involves application of significant management judgment and estimation in: determining whether the criteria for the recognition of revenue is met; determining whether there are other promises in the contract that are separate performance obligations; determining whether the transaction price includes variable consideration and significant financing component; the allocation of the transaction price among the performance obligations; and determining the timing of satisfaction of performance obligation (over time or point in time). In addition, PFRS 15 requires that incremental cost to obtain a contract and cost to fulfill a contract are now capitalized and amortized as the related goods or services are transferred to the customer.

The PLDT Group's adoption of PFRS 15 and the information on wireless and fixed line service revenues are disclosed in Notes 2, 4 and 5 to the consolidated financial statements.

Audit response

We obtained an understanding of the PLDT Group's revenue recognition process. We evaluated the design and tested the relevant controls over the capture, measurement and recording of wireless and fixed line revenues. For selected transactions, we compared the customer billing data against the details in the billing systems for wireless and fixed line postpaid revenues. We also tested the recording of usage revenue and ending balance reconciliation of unearned income for wireless prepaid revenues. We also performed a fluctuation analysis of the wireless and fixed line service revenues by considering the relevant underlying data.

On PFRS 15 adoption, we obtained an understanding of PLDT Group's implementation in adopting the new revenue recognition standard and tested the relevant controls. We reviewed PLDT Group's adoption papers and accounting policies including the revenue streams identification and scoping, and contract analysis. We reviewed selected contracts to check whether the contracts within the same revenue stream have the same terms. For significant revenue streams, we obtained selected contracts and reviewed whether the accounting policies considered the five-step model and cost requirements of PFRS 15.

For significant revenue streams with changes in the accounting treatment and significant transition adjustments, we reviewed the transition adjustment calculation prepared by management. We traced selected contracts from the list of open contracts to the transition adjustment calculation to determine if open contracts were considered in the assessment.

In addition, we reviewed selected contracts and (a) determined whether performance obligations within the contracts with customers have been identified (b) checked the allocation of the transaction price to the performance obligations (c) tested management's estimate and underlying assumptions on the standalone selling price for each performance obligation included within a sample of contract to available published market prices and (d) assessed whether the PLDT Group recognized revenue when the control of the goods or services are transferred at a point in time or over time. We also reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 15.

Adoption of PFRS 9, Financial Instruments

On January 1, 2018, the PLDT Group adopted PFRS 9, *Financial Instruments*. PFRS 9, which replaced PAS 39, *Financial Instruments: Recognition and Measurement*, introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss. PLDT Group adopted the modified retrospective approach in adopting PFRS 9.

The PLDT Group's adoption of the expected credit loss (ECL) model involves the exercise of significant management judgment. Key areas of judgment include: segmenting the PLDT Group's credit risk exposures; determining the method to estimate lifetime ECL; defining default; determining assumptions to be used in the ECL model such as the expected life of the financial asset and timing and amounts of expected net recoveries from defaulted accounts; and incorporating forward-looking information (overlays) in calculating ECL.

The application of the ECL model increased allowance for expected credit losses by Php390 million and decreased retained earnings for the same amount as of January 1, 2018.

Refer to Notes 2 and 16 to the consolidated financial statements for the disclosure on the transition adjustments and details of the allowance for expected credit losses using the ECL model, respectively.

Audit Response

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

We (a) assessed the PLDT Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) checked the methodology used in applying the simplified approach by evaluating the key inputs, assumptions, and formulas used; (c) tested the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (d) tested loss given default by inspecting historical recoveries including the timing, and write-offs; (e) checked the forward-looking information used for overlays through statistical test and corroboration using publicly available information and our understanding of the PLDT Group's lending portfolios and broader industry knowledge; and (f) tested the effective interest rate, or an approximation thereof, used in discounting the expected credit loss.

Further, we checked the data used in the ECL models, such as the historical aging and defaults analysis, and recovery data, by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used in the model.

We recalculated impairment provisions on a sample basis. We checked the transition adjustments and reviewed the disclosures made in the consolidated financial statements based on the requirements of PFRS 9.

Recoverability of goodwill and intangible asset with indefinite useful life

Under PFRSs, the PLDT Group is required to annually test the amount of goodwill and intangible asset with indefinite useful life for impairment. As of December 31, 2018, the PLDT Group's goodwill attributable to the Wireless and Fixed Line cash-generating units (CGUs) amounted to Php56,571 million and Php4,808 million, respectively. Meanwhile, the PLDT Group's intangible asset with indefinite life amounted to Php4,505 million. We consider this as a key audit matter because management's assessment process requires significant judgment and is based on assumptions such as revenue growth rate, capital expenditures, discount rate and the long-term growth rate.

The PLDT Group's disclosures about goodwill and intangible assets are discussed in Notes 3 and 14 to the consolidated financial statements.

Audit response

We obtained an understanding of the PLDT Group's impairment assessment process and tested the relevant controls. We also involved our internal specialist in evaluating the methodologies and the assumptions used, which include, among others, revenue growth rate, capital expenditures, discount rate and the long-term growth rate. We then compared the key assumptions used (revenue growth rate and capital expenditures) against the historical performance of the CGUs, industry/market outlook and other relevant external data. We tested the parameters used in determining the discount rate and long-term growth rate against market data. Moreover, we analyzed the sensitivities on the available headroom if the long-term growth rate and the free cash flow forecasts would be decreased, and the discount rate would be increased. We also reviewed the PLDT Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill and intangible asset with indefinite useful life.

Valuation of accrued pension benefit costs

PLDT has a defined benefit pension plan covering all permanent and regular employees. The PLDT Group's accrued pension benefit costs and net periodic benefit costs amounted to Php7,159 million and Php1,541 million, respectively. The amount of accrued pension benefit costs is calculated as the difference between the present value of the defined benefit obligation and the fair value of plan assets. The valuation of defined benefit obligation involves significant management judgment in the use of assumptions. The valuation also requires the assistance of an external actuary whose calculations depend on certain assumptions, such as future salary rate increase, attrition and mortality rates, as well as discount rate, which could have a material impact on the results. The related plan assets include

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significant unquoted equity investments, which are measured at fair value using the discounted cash flow model. The model uses significant assumptions on revenue growth rate, capital expenditures, discount rate and the long-term growth rate as inputs. Thus, we considered the valuation of accrued pension benefit costs as a key audit matter.

The PLDT Group's disclosures on this matter are found in Notes 3 and 25 to the consolidated financial statements.

Audit response

On the valuation of the defined benefit obligation, we obtained an understanding of the process and tested the relevant controls. We involved our internal specialist in the review of the scope, bases, methodology and results of the work of PLDT Group's external actuary, whose professional qualifications and objectivity were considered. We also evaluated the key assumptions used by comparing the employee demographics and attrition rate against PLDT Group's human resources data, and comparing the discount rate and mortality rate against external data. Finally, we inquired about the basis of the salary rate increase from management and compared it against the future plans.

On the valuation of the plan assets, specifically the unquoted equity investments, we obtained an understanding of the process and tested the relevant controls. We compared the assumptions used in the discounted cash flow model (revenue growth rate, capital expenditures, discount rate and long-term growth rate) against the historical performance of the underlying assets, the business plans of the underlying entities, the industry/market outlook and other relevant external data when available. We also involved our internal specialist in reviewing management's discounted cash flow valuation model and in testing the parameters used in determining the discount rate and long-term growth rate against market data.

Estimating useful lives of property and equipment

Under PFRSs, the PLDT Group is required to review at least at each financial year-end the estimated useful lives of its property and equipment. As at December 31, 2018, the PLDT Group's property and equipment accounts for 41% of the consolidated total assets. Estimating the useful lives of the property and equipment involves the PLDT Group's collective assessment of the industry practice, internal and external technical evaluation and experience with the similar assets, among others. This is a key audit matter because of significance of the amount and estimating the useful lives of property and equipment involves significant management judgment and estimate.

The PLDT Group's disclosures on property and equipment and changes in the estimated useful lives are included in Notes 3 and 9 to the consolidated financial statements.

Audit Response

We obtained an understanding of the PLDT Group's process in estimating the useful lives of property and equipment and tested the relevant controls. We inquired with the PLDT Group's network operations and information technology engineers its technological roadmap for the next three years. We tested management assessment on the estimated useful lives of the property and equipment against industry data and practice, market outlook and other relevant external data.

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Provisions and Contingencies

The PLDT Group is involved in various proceedings. This matter is significant to our audit because the assessment of the estimation of potential liability resulting from these proceedings requires significant judgment by management. The inherent uncertainty over the outcome of these proceedings are brought about by the differences in the interpretation and implementation of existing the laws and regulations.

The PLDT Group's disclosures on this matter are included in Note 26 to the consolidated financial statements.

Audit Response

We involved our internal specialist in the evaluation of management's assessment on whether any provisions should be recognized, and the estimation of such amount. We discussed with management the status of the proceedings, examined correspondences and obtained legal opinions when relevant. We evaluated the position of management by considering the relevant laws, rulings and jurisprudence. We also reviewed the disclosures included in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and the Annual Report for the year ended December 31, 2018, which are expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Marydith C. Miguel.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-5 (Group A),
January 10, 2019, valid until January 9, 2022
Tax Identification No. 102-092-270
BIR Accreditation No. 08-001998-55-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332586, January 3, 2019, Makati City

March 21, 2019

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2018 and 2017
(in million pesos)

	2018	2017
ASSETS		
Noncurrent Assets		
Property and equipment (Notes 9 and 21)	**195,964**	186,907
Investments in associates and joint ventures (Note 10)	**55,427**	46,130
Available-for-sale financial investments (Notes 6 and 11)	**—**	15,165
Financial assets at fair value through profit or loss (Note 11)	**4,763**	—
Investment in debt securities and other long-term investments – net of current portion (Note 12)	**—**	150
Debt instruments at amortized cost (Note 12)	**150**	—
Investment properties (Notes 6 and 13)	**777**	1,635
Goodwill and intangible assets (Note 14)	**68,583**	69,583
Deferred income tax assets – net (Note 7)	**27,697**	30,466
Derivative financial assets – net of current portion (Note 27)	**140**	215
Prepayments – net of current portion (Note 18)	**6,255**	5,370
Advances and other noncurrent assets – net of current portion (Note 24)	**17,083**	14,154
Financial assets at fair value through other comprehensive income – net of current portion (Notes 6 and 24)	**2,749**	—
Contract assets – net of current portion (Note 5)	**1,083**	—
Other financial assets – net of current portion (Note 27)	**2,275**	—
Other non-financial assets – net of current portion	**230**	—
Total Noncurrent Assets	**383,176**	369,775
Current Assets		
Cash and cash equivalents (Note 15)	**51,654**	32,905
Short-term investments (Note 27)	**1,165**	1,074
Trade and other receivables (Note 16)	**24,056**	33,761
Inventories and supplies (Note 17)	**2,878**	3,933
Current portion of contract assets (Note 5)	**2,185**	—
Current portion of derivative financial assets (Note 27)	**183**	171
Current portion of investment in debt securities and other long-term investments (Note 12)	**—**	100
Current portion of prepayments (Note 18)	**7,760**	9,633
Current portion of advances and other noncurrent assets (Note 19)	**620**	8,092
Current portion of financial assets at fair value through other comprehensive income (Notes 6 and 24)	**1,604**	—
Current portion of other financial assets (Notes 19 and 27)	**7,008**	—
Current portion of other non-financial assets	**461**	—
Total Current Assets	**99,574**	89,669
TOTAL ASSETS	**482,750**	459,444
EQUITY AND LIABILITIES		
Equity		
Non-voting serial preferred stock (Note 19)	**360**	360
Voting preferred stock (Note 19)	**150**	150
Common stock (Note 19)	**1,093**	1,093
Treasury stock (Note 19)	**(6,505)**	(6,505)
Treasury shares under employee benefit trust (Note 25)	**(854)**	(940)
Capital in excess of par value (Note 19)	**130,526**	130,374
Other equity reserves (Note 25)	**697**	827
Retained earnings (Note 19)	**12,081**	634
Other comprehensive loss (Note 6)	**(25,190)**	(19,151)
Total Equity Attributable to Equity Holders of PLDT (Note 27)	**112,358**	106,842
Noncontrolling interests (Note 6)	**4,308**	4,341
TOTAL EQUITY	**116,666**	111,183

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(continued)*

As at December 31, 2018 and 2017

(in million pesos)

	2018	2017
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 20 and 27)	**155,835**	157,654
Deferred income tax liabilities (Note 7)	**2,981**	3,366
Derivative financial liabilities – net of current portion (Note 27)	**—**	8
Customers' deposits (Note 27)	**2,194**	2,443
Pension and other employee benefits (Note 25)	**7,182**	8,997
Deferred credits and other noncurrent liabilities (Note 21)	**5,284**	7,702
Total Noncurrent Liabilities	**173,476**	180,170
Current Liabilities		
Accounts payable (Note 22)	**74,610**	60,445
Accrued expenses and other current liabilities (Notes 23 and 26)	**95,724**	90,740
Current portion of interest-bearing financial liabilities (Notes 20, 24 and 27)	**20,441**	14,957
Dividends payable (Notes 19 and 28)	**1,533**	1,575
Current portion of derivative financial liabilities (Note 27)	**80**	141
Income tax payable	**220**	233
Total Current Liabilities	**192,608**	168,091
TOTAL LIABILITIES	**366,084**	348,261
TOTAL EQUITY AND LIABILITIES	**482,750**	459,444

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

For the Years Ended December 31, 2018, 2017 and 2016

(in million pesos, except earnings per common share amounts which are in pesos)

	2018	2017	2016
REVENUES			
Service revenues (Note 5)	**154,207**	151,165	157,210
Non-service revenues (Note 5)	**10,545**	8,761	8,052
	164,752	159,926	165,262
EXPENSES			
Selling, general and administrative expenses (Note 5)	**73,916**	68,990	67,196
Depreciation and amortization (Note 9)	**47,240**	51,915	34,455
Cost of sales and services (Note 5)	**14,427**	13,633	18,293
Interconnection costs	**7,331**	7,619	9,573
Asset impairment (Note 5)	**8,065**	8,258	11,042
	150,979	150,415	140,559
	13,773	9,511	24,703
OTHER INCOME (EXPENSES) – NET (Note 5)	**9,042**	5,058	(2,632)
INCOME BEFORE INCOME TAX	**22,815**	14,569	22,071
PROVISION FOR INCOME TAX (Note 7)	**3,842**	1,103	1,909
NET INCOME	**18,973**	13,466	20,162
ATTRIBUTABLE TO:			
Equity holders of PLDT (Note 8)	**18,916**	13,371	20,006
Noncontrolling interests	**57**	95	156
	18,973	13,466	20,162
Earnings Per Share Attributable to Common Equity Holders of PLDT (Note 8)			
Basic	**87.28**	61.61	92.33
Diluted	**87.28**	61.61	92.33

See accompanying Notes to Consolidated Financial Statements.
For the year ended December 31, 2018, the total of service and non-service revenues pertains to revenue from contracts with customers.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2018, 2017 and 2016
(in million pesos)

	2018	2017	2016
NET INCOME	**18,973**	13,466	20,162
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)			
Foreign currency translation differences of subsidiaries	**117**	(18)	79
Financial instrument at fair value through other comprehensive income (Note 24)	**(29)**	—	—
Net transactions on cash flow hedges:	**(271)**	(376)	10
Net fair value gains (losses) on cash flow hedges (Note 27)	**(286)**	(411)	76
Income tax related to fair value adjustments charged directly to equity (Note 7)	**15**	35	(66)
Net gains on available-for-sale financial investments:	**—**	3,364	860
Unrealized gains (losses) from changes in fair value adjustments recognized during the year (Note 11)	**—**	2,826	(4,520)
Impairment recognized in profit or loss (Note 11)	**—**	540	5,381
Income tax related to fair value adjustments charged directly to equity (Note 7)	**—**	(2)	(1)
Share in the other comprehensive income of associates and joint ventures accounted for using the equity method (Note 10)	**—**	112	151
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent years	**(183)**	3,082	1,100
Revaluation increment on investment properties:	**(2)**	1	17
Fair value adjustment to property and equipment transferred to investment properties during the year	**—**	4	26
Depreciation of revaluation increment in investment properties transferred to property and equipment (Note 9)	**(2)**	(2)	(2)
Income tax related to revaluation increment charged directly to equity (Note 7)	**—**	(1)	(7)
Actuarial losses on defined benefit obligations:	**(1,222)**	(1,091)	(3,571)
Remeasurement in actuarial losses on defined benefit obligations (Note 25)	**(1,788)**	(1,566)	(5,112)
Income tax related to remeasurement adjustments (Note 7)	**566**	475	1,541
Share in the other comprehensive income of associates and joint ventures accounted for using the equity method (Note 10)	**—**	194	—
Net other comprehensive loss not to be reclassified to profit or loss in subsequent years	**(1,224)**	(896)	(3,554)
Total Other Comprehensive Income (Loss) – Net of Tax	**(1,407)**	2,186	(2,454)
TOTAL COMPREHENSIVE INCOME	**17,566**	15,652	17,708
ATTRIBUTABLE TO:			
Equity holders of PLDT	**17,504**	15,550	17,557
Noncontrolling interests	**62**	102	151
	17,566	15,652	17,708

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2018, 2017 and 2016
(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 Income (Loss)	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
Balances as at January 1, 2018	**510**	**1,093**	**(6,505)**	**(940)**	**130,374**	**827**	**634**	**(19,151)**	**106,842**	**4,341**	**111,183**
Effect of adoption of PFRS 9 (Note 2)	–	–	–	–	–	–	**4,101**	**(4,627)**	**(526)**	–	**(526)**
Effect of adoption of PFRS 15 (Note 2)	–	–	–	–	–	–	**2,553**	–	**2,553**	–	**2,553**
Balances as at January 1, 2018 (as restated)	**510**	**1,093**	**(6,505)**	**(940)**	**130,374**	**827**	**7,288**	**(23,778)**	**108,869**	**4,341**	**113,210**
Total comprehensive income (loss):	–	–	–	–	–	–	**18,916**	**(1,412)**	**17,504**	**62**	**17,566**
Net income (Note 8)	–	–	–	–	–	–	**18,916**	–	**18,916**	**57**	**18,973**
Other comprehensive (loss) income (Note 6)	–	–	–	–	–	–	–	**(1,412)**	**(1,412)**	**5**	**(1,407)**
Cash dividends (Note 19)	–	–	–	–	–	–	**(13,887)**	–	**(13,887)**	**(15)**	**(13,902)**
Distribution charges on perpetual notes (Note 19)	–	–	–	–	–	–	**(236)**	–	**(236)**	–	**(236)**
Other equity reserves (Note 3)	–	–	–	–	–	**(130)**	–	–	**(130)**	–	**(130)**
Treasury shares under employee benefit trust	–	–	–	**86**	–	–	–	–	**86**	–	**86**
Acquisition and dilution of noncontrolling interests	–	–	–	–	**152**	–	–	–	**152**	**(80)**	**72**
Balances as at December 31, 2018	**510**	**1,093**	**(6,505)**	**(854)**	**130,526**	**697**	**12,081**	**(25,190)**	**112,358**	**4,308**	**116,666**
Balances as at January 1, 2017	510	1,093	(6,505)	–	130,488	–	3,483	(20,894)	108,175	362	108,537
Total comprehensive income:	–	–	–	–	–	–	13,807	1,743	15,550	102	15,652
Net income (Note 8)	–	–	–	–	–	–	13,371	–	13,371	95	13,466
Other comprehensive income (Note 6)	–	–	–	–	–	–	436	1,743	2,179	7	2,186
Cash dividends (Note 19)	–	–	–	–	–	–	(16,479)	–	(16,479)	(66)	(16,545)
Perpetual notes (Note 19)	–	–	–	–	–	–	–	–	–	4,165	4,165
Distribution charges on perpetual notes (Note 19)	–	–	–	–	–	–	(177)	–	(177)	–	(177)
Equity reserves	–	–	–	–	–	827	–	–	827	–	827
Treasury shares under employee benefit trust	–	–	–	(940)	–	–	–	–	(940)	–	(940)
Acquisition and dilution of noncontrolling interests	–	–	–	–	(114)	–	–	–	(114)	(222)	(336)
Balances as at December 31, 2017	510	1,093	(6,505)	(940)	130,374	827	634	(19,151)	106,842	4,341	111,183
Balances as at January 1, 2016	510	1,093	(6,505)	–	130,517	–	6,195	(18,202)	113,608	290	113,898
Total comprehensive income:	–	–	–	–	–	–	20,249	(2,692)	17,557	151	17,708
Net income (Note 8)	–	–	–	–	–	–	20,006	–	20,006	156	20,162
Other comprehensive income (loss) (Note 6)	–	–	–	–	–	–	243	(2,692)	(2,449)	(5)	(2,454)
Cash dividends (Note 19)	–	–	–	–	–	–	(22,961)	–	(22,961)	(81)	(23,042)
Perpetual notes (Note 19)	–	–	–	–	–	–	–	–	–	–	–
Distribution charges on perpetual notes (Note 19)	–	–	–	–	–	–	–	–	–	–	–
Equity reserves	–	–	–	–	–	–	–	–	–	–	–
Acquisition and dilution of noncontrolling interests	–	–	–	–	(29)	–	–	–	(29)	2	(27)
Balances as at December 31, 2016	510	1,093	(6,505)	–	130,488	–	3,483	(20,894)	108,175	362	108,537

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018, 2017 and 2016
(in million pesos)

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**22,815**	14,569	22,071
Adjustments for:			
Depreciation and amortization (Note 9)	**47,240**	51,915	34,455
Asset impairment (Note 5)	**8,065**	8,258	11,042
Interest on loans and other related items – net (Note 5)	**6,783**	7,014	6,956
Pension benefit costs (Notes 5 and 25)	**1,855**	1,607	1,775
Amortization of intangible assets (Notes 5 and 14)	**892**	835	929
Foreign exchange losses – net (Notes 5 and 9)	**771**	411	2,785
Incentive plan (Notes 5 and 25)	**208**	827	—
Impairment of investments (Notes 10 and 11)	**172**	2,562	5,515
Accretion on financial liabilities (Notes 5 and 20)	**145**	219	230
Equity share in net losses (earnings) of associates and joint ventures (Notes 5 and 10)	**87**	(2,906)	(1,181)
Losses (gains) on disposal of property and equipment (Note 9)	**(12)**	159	(1,360)
Gains on disposal of investment in associates and joint ventures (Note 10)	**(144)**	(6,512)	(7,365)
Gains on derivative financial instruments – net (Notes 5 and 27)	**(1,086)**	(533)	(996)
Interest income (Note 5)	**(1,943)**	(1,412)	(1,046)
Gains on deconsolidation of subsidiary (Note 10)	**(12,054)**	—	—
Gains on disposal of investment property (Note 13)	**—**	(80)	—
Others	**(1,076)**	(2,443)	(400)
Operating income before changes in assets and liabilities	**72,718**	74,490	73,410
Decrease (increase) in:			
Prepayments	**969**	(212)	(5,634)
Current portion of advances and other noncurrent assets	**(5,287)**	162	(99)
Trade and other receivables	**(12,175)**	(10,674)	(7,060)
Inventories and supplies	**26**	(542)	(917)
Contract assets	**390**	—	—
Increase (decrease) in:			
Customers' deposits	**(250)**	13	1
Pension and other employee benefits	**(5,733)**	(5,841)	(5,863)
Other noncurrent liabilities	**(11)**	38	(10)
Accounts payable	**7,729**	4,622	1,358
Accrued expenses and other current liabilities	**5,184**	(1,392)	755
Net cash flows generated from operations	**63,560**	60,664	55,941
Income taxes paid	**(2,444)**	(4,550)	(6,965)
Net cash flows from operating activities	**61,116**	56,114	48,976

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS *(continued)*

For the Years Ended December 31, 2018, 2017 and 2016
(in million pesos)

	2018	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	**1,115**	1,217	947
Proceeds from:			
Collection of notes receivable	**11,707**	2,001	—
Disposal of financial assets at fair value through profit or loss	**11,643**	—	—
Proceeds from maturity of short-term investments	**6,102**	20,254	1,557
Disposal of investments in associates and joint ventures (Note 10)	**1,710**	14,884	17,000
Disposal of property and equipment (Note 9)	**345**	484	1,889
Redemption of debt instruments at amortized cost	**105**	—	—
Disposal of available-for-sale financial investments	**—**	1,000	2,502
Redemption of investment in debt securities	**—**	456	609
Disposal of investment properties	**—**	290	—
Payments for:			
Acquisition of intangible assets (Note 14)	**(21)**	(137)	(159)
Purchase of investments in associates and joint ventures (Note 10)	**(111)**	(5,633)	(21,524)
Interest capitalized to property and equipment (Notes 5 and 9)	**(1,524)**	(816)	(566)
Purchase of investments - net of cash acquired	**(2,814)**	(266)	(22)
Purchase of short-term investments	**(5,992)**	(18,424)	(2,734)
Purchase of property and equipment (Note 9)	**(47,247)**	(36,616)	(42,259)
Purchase of available-for-sale financial investments	**—**	(76)	(3,500)
Purchase of investment properties	**—**	—	(6)
Purchase of investment in debt securities	**—**	—	(20)
Dividends received	**—**	833	4,409
Increase in advances and other noncurrent assets – net of current portion	**(72)**	(511)	(105)
Net cash flows used in investing activities	**(25,054)**	(21,060)	(41,982)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of long-term debt (Notes 20 and 28)	**20,500**	26,255	40,569
Derivative financial instruments (Note 27)	**886**	218	—
Issuance of perpetual notes (Note 19)	**—**	4,165	—
Issuance of capital stock	**—**	—	5
Payments for:			
Debt issuance costs (Notes 20 and 28)	**(38)**	(153)	(185)
Distribution charges on perpetual notes (Note 19)	**(236)**	(177)	—
Interest – net of capitalized portion (Notes 5 and 20)	**(6,614)**	(7,076)	(6,512)
Cash dividends (Notes 19 and 28)	**(13,928)**	(16,617)	(22,987)
Long-term debt (Notes 20 and 28)	**(18,740)**	(39,199)	(19,650)
Long-term financing for capital expenditures (Note 28)	**—**	(7,735)	(6,040)
Derivative financial instruments (Note 27)	**—**	—	(541)
Decrease in treasury shares under employee benefit trust	**26**	—	—
Net cash flows used in financing activities	**(18,144)**	(40,319)	(15,341)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**831**	(552)	614
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**18,749**	(5,817)	(7,733)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (Note 15)	**32,905**	38,722	46,455
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 15)	**51,654**	32,905	38,722

See accompanying Notes to Consolidated Financial Statements.

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 December 31, 2018. 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 December 31, 2018. 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 December 31, 2018, 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 December 31, 2018. See *Note 19 – Equity – Voting Preferred Stock* and *Note 26 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition*.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, Inc., or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued 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 25.7 million ADSs outstanding as at December 31, 2018.

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.

Our consolidated financial statements as at December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016 were approved and authorized for issuance by the Board of Directors on March 21, 2019 as reviewed for approval by the Audit Committee on March 19, 2019.

Amendments to the Articles of Incorporation of PLDT

On April 12, 2016 and June 14, 2016, the Board of Directors and stockholders of PLDT, respectively, approved the following actions: (i) change in the name of the Company from Philippine Long Distance Telephone Company to PLDT Inc.; (ii) expansion of the purpose clause to expressly provide for such other purposes and powers incidental to or in furtherance of the primary purpose, including the power to do or engage in such activities required, necessary or expedient in the pursuit of lawful businesses or for the protection or benefit of the Company; and (iii) corresponding amendments to the First Article and Second Article of the Articles of Incorporation of the Company.

On July 29, 2016, the Amended Articles of Incorporation of the Company containing the aforementioned amendments was approved by the Philippine Securities and Exchange Commission, or Philippine SEC.

Amendments to the By-Laws of PLDT

On August 30, 2016, the Board of Directors, exercising its own power and the authority duly delegated to it by the stockholders of PLDT to amend the By-Laws, authorized and approved the following amendments: (i) change in the name of the Parent Company from Philippine Long Distance Telephone Parent Company to PLDT Inc. both in the heading and Section 1, Article XV of the By-Laws; and (ii) change in the logo of the Company as stated in Section 1, Article XV of the By-Laws from desk telephone to the current triangle-shaped logo of the corporation. On November 14, 2016, the Amended By-Laws of the Parent Company containing the aforementioned amendments was approved by the Philippine SEC.

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2. Summary of Significant Accounting Policies

Basis of Preparation

Our consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards, or PFRSs, 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, certain available-for-sale financial investments and investment properties that are measured at fair values.

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 December 31, 2018 and 2017:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2018 Percentage of Ownership Direct	2018 Percentage of Ownership Indirect	2017 Percentage of Ownership Direct	2017 Percentage of Ownership 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**	—	67.0
netGames, Inc.[(b)]	Philippines	Gaming support services	**—**	**57.5**	—	57.5
MVP Rewards Loyalty Solutions, Inc., or MRSI[(c)]	Philippines	Full-services customer rewards and loyalty programs	**—**	**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	—
Pilipinas Global Network Limited, or PGNL, and Subsidiaries	British Virgin Islands	Internal distributor of Filipino channels and content	**64.6**	**—**	64.6	—

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2018 Percentage of Ownership Direct	2018 Indirect	2017 Direct	2017 Indirect
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
Voyager Innovations Holdings, Pte. Ltd., or VIH, (formerly eInnovations Holdings Pte. Ltd.)[(d)]:	Singapore	Investment company	**—**	**—**	—	100.0
Voyager Innovations Investments Pte. Ltd., or VII, (formerly Takatack Holdings Pte. Ltd.)[(e)]	Singapore	Investment company	**—**	**—**	—	100.0
Voyager Innovations Singapore Pte. Ltd., or VIS, (formerly Takatack Technologies Pte. Ltd.)[(f)]	Singapore	Development and maintenance of IT-based solutions for communications and e-Commerce platforms	**—**	**—**	—	100.0
Takatack Malaysia Sdn. Bhd., or Takatack Malaysia	Malaysia	Development, maintenance and support services to enable the digital commerce ecosystem	**—**	**—**	—	100.0
Voyager Innovations, Inc., or Voyager	Philippines	Mobile applications and digital platform developer	**—**	**—**	—	100.0
Voyager Innovations Pte. Ltd., or VIP, (formerly ePay Investments Pte. Ltd)[(g)]	Singapore	Investment company	**—**	**—**	—	100.0
PayMaya Philippines, Inc., or PayMaya	Philippines	Provide and market certain mobile payment services	**—**	**—**	—	100.0
PayMaya Operations Philippines, Inc., or PayMaya Ops	Philippines	Market, sell and distribute payment solutions and other related services	**—**	**—**	—	100.0
ePay Investments Myanmar, Ltd., or ePay Myanmar[(h)]	Myanmar	Investment company	**—**	**—**	—	100.0
3rd Brand Pte. Ltd., or 3rd Brand[(i)]	Singapore	Solutions and systems integration services	**—**	**—**	—	85.0
Voyager Fintech Ventures Pte. Ltd., or Fintech Ventures	Singapore	Investment company	**—**	**—**	—	100.0
Fintqnologies Corporation, or FINTQ	Philippines	Development of financial technology innovations	**—**	**—**	—	100.0
Fintq Inventures Insurance Agency Corporation	Philippines	Insurance company	**—**	**—**	—	100.0

(a) *Ceased commercial operations.*
(b) *Ceased commercial operations and under liquidation due to shortened corporate life to August 31, 2015.*
(c) *On September 14, 2018, MRSI was incorporated and ePLDT made an initial investment of Php50 million.*
(d) *On July 11, 2017, the Accounting and Corporate Regulatory Authority, or ACRA, of Singapore approved the change in business name of eInnovations Holdings Pte. Ltd. to Voyager Innovations Holdings Pte. Ltd. On April 16, 2018, the ACRA of Singapore approved the transfer of VIH to PCEV. On November 28, 2018, upon closing of the subscription agreements of PLDT, Tencent Holdings Limited, or Tencent, and KKR & Co., Inc., or KKR, PCEV's ownership in VIH was reduced to 53.87% and with only two board seats in the investee, the transaction resulted to a loss of control. On December 10, 2018, PCEV's ownership in VIH was further reduced to 48.74% upon receipt of the investments from International Finance Corp., or IFC, and IFC Emerging Asia Fund, or IFC EAF. PCEV accounts for its remaining interest in VIH as investment in associate starting December 2018.*
(e) *On December 29, 2017, the ACRA of Singapore approved the change in business name of Takatack Holdings Pte. Ltd. to Voyager Innovations Investments Pte. Ltd.*
(f) *On March 6, 2018, the ACRA of Singapore approved the change in business name of Takatack Technologies Pte. Ltd. to Voyager Innovations Singapore Pte. Ltd.*
(g) *On January 25, 2018, the ACRA of Singapore approved the change in business name of ePay Investments Pte. Ltd. to Voyager Innovations Pte. Ltd.*
(h) *On July 25, 2017, ePay Investments Myanmar, Ltd. was incorporated in Myanmar to engage in the business of providing support services on the development and provision of digital technology.*
(i) *On January 15, 2018, VIH purchased from Phenix Investment Management Ltd. (formerly Kolipri Communications Ltd.) its 15% minority interest of 3rd Brand for a consideration of SG\$1.00.*

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.

Incorporation of Talas

On June 9, 2015, the PLDT's Board of Directors approved the incorporation of Talas, a wholly-owned subsidiary of PLDT. Total subscription in Talas amounted to Php250 million, of which Php62.5 million was paid on May 25, 2015, for purposes of incorporation, and the balance of Php187.5 million was paid on May 16, 2016. PLDT provided Talas an additional equity investment of Php120 million, Php150 million and Php115 million on January 31, 2017, February 28, 2017 and March 31, 2017, respectively, as approved by PLDT's Board of Directors in June 2016.

Talas is tasked with unifying the digital data assets of the PLDT Group which involves the implementation of the Intelligent Data Fabric, exploration of revenue opportunities and the delivery of the big data capability platform.

Agreement between PLDT Capital and Gohopscotch, Inc., or Hopscotch

On April 15, 2016, PLDT Capital and Hopscotch entered into an agreement to market and exclusively distribute Hopscotch's mobile solutions in Southeast Asia through Gohopscotch Southeast Asia Pte. Ltd., a Singapore company incorporated on March 1, 2016, of which PLDT Capital and Hopscotch own 90% and 10% of the equity interests, respectively. The Hopscotch mobile-platform technology allows for the rapid development of custom mobile applications for sports teams, live events, and brands to create a memorable and monetizable fan experience and also increase mobile advertising revenue.

Transfer of DMPI's Sun Postpaid Cellular and Broadband Subscription Assets to Smart

On August 1, 2016, the Board of Directors of Smart and DMPI approved the sale/transfer of DMPI's trademark and subscribers (both individual and corporate) including all of DMPI's assets, rights and obligations directly or indirectly connected to its postpaid cellular and broadband subscribers. The transfer is in accordance with the integration of the wireless business to simplify business operations, as well as to provide flexibility in offering new bundled/converged products and enhanced customer experience. The transfer was completed on November 1, 2016, after which only its prepaid cellular business remains with DMPI. This transaction was eliminated in our consolidated financial statements.

Extension of Smart's Congressional Franchise

On March 27, 1992, Philippine Congress granted a legislative franchise to Smart under Republic Act, or R.A., No. 7294 to establish, install, maintain, lease and operate integrated telecommunications, computer, electronic services, and stations throughout the Philippines for public domestic and international telecommunications, and for other purposes. R.A. No. 7294 took effect on April 15, 1992, or 15 days from the date of its publication in at least two newspapers of general circulation in the Philippines.

On April 21, 2017, R.A. No. 10926, which effectively extends Smart's franchise until 2042, was signed into law by the President of the Republic of the Philippines. The law was published in a newspaper of general circulation on May 4, 2017 and took effect on May 19, 2017.

Decrease in Authorized Capital Stock and Amendment of the Articles of Incorporation of MIC

On May 30, 2017, the Board of Directors of MIC approved the (a) reduction of MIC's authorized capital stock from Php2,028 million divided into 20 million shares to Php1,602 million by decreasing the par value per share from Php100.00 to Php79.00, or the Decrease in Capital, and (b) the corresponding amendment to the Seventh Article of the Articles of Incorporation of MIC, or the Amendment of Articles. On the same date, the Decrease in Capital and Amendment of Articles were approved by the stockholders representing at least two thirds of the outstanding shares of MIC. The application for approval of the Decrease in Capital and Amendment of Articles was filed with the Philippine Securities and Exchange Commission, or Philippine SEC, on July 11, 2017 and was approved on December 18, 2017.

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.

Transfer of iCommerce Pte. Ltd., or iCommerce, to PLDT Online

On December 14, 2017, VIH and PLDT Online entered into a Sale and Purchase Agreement, or SPA, whereby VIH sold all of its 10 thousand ordinary 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. See *Note 10 – Investments in Associates and Joint Ventures – Investments in Joint Ventures – iCommerce's Investment in PHIH*.

Issuance of Perpetual Notes

In 2017, Smart issued various perpetual notes, including Php1,100 million perpetual notes to Rizal Commercial Banking Corporation, or RCBC, Trustee of PLDT's Redemption Trust Fund. See *Note 19 – Equity – Perpetual Notes*.

Agreement between PLDT, Smart and Amdocs Philippines, Inc., or Amdocs

On January 24, 2018, PLDT and Smart entered into a seven-year, US$300 million Managed Transformation Agreement with Amdocs, a leading provider of software and services to communications and media companies, to upgrade PLDT's business IT systems and improve its business processes and services, aimed at enhancing consumer satisfaction, reducing costs and generating increased revenues.

On September 28, 2018, PLDT and Amdocs expanded their strategic partnership under a new six-year service agreement to consolidate, modernize and manage PLDT and Smart's IT Infrastructure, to further enhance customer experience and engagement.

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 to purchase 53 million ordinary shares of 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 to a loss of control. Upon the loss of control, 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 carrying value of PCEV's investment in VIH amounted to Php10,487 million as at December 31, 2018. See *Note 10 – Investments in Associates and Joint Ventures – Investment of PCEV in VIH*.

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.

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 and amendments starting January 1, 2018. Except for the adoption of PFRS 9, *Financial Instruments (2014)*, and PFRS 15, *Revenue from Contract with Customers*, the adoption of these new standards and amendments did not have any significant impact on our financial position or performance.

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

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

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

- Philippine Interpretation to International Financial Reporting Interpretations Committee, or IFRIC, 22*, Foreign Currency Transactions and Advance Consideration*

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards, Deletion of Short-term Exemptions for First-time Adopters* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)

- PFRS 9

We have adopted PFRS 9 with a date of initial application of January 1, 2018. PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

We chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

- Comparative information for prior periods was not restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 were retained for the comparative periods. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9.

- We disclosed the accounting policies for both the current period and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as at December 31, 2017.

- The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application was recognized in the opening retained earnings or other component of equity, as appropriate.

- As comparative information was not restated, we are not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

As at January 1, 2018, we have reviewed and assessed all of our existing financial instruments. The following table reconciles the carrying amounts of financial instruments from their previous classification and measurement category in accordance with PAS 39 to their new classification and measurement categories upon transition to PFRS 9 on January 1, 2018.

		PAS 39			Remeasurement		PFRS 9	
	Reference	Category	Amount	Reclassification	ECL	Others	Amount	Category
				(in million pesos)				
Financial Assets								
Cash and cash equivalents		Loans and receivables	32,905	–	–	–	32,905	Amortized Cost
Short-term investments		Loans and receivables	1,074	–	–	–	1,074	Amortized Cost
Trade and other receivables	3, 5	Loans and receivables	33,761	(4,091)	(258)	–	29,412	Amortized Cost
Current portion of investment in debt securities and other long-term investments		Loans and receivables	100	–	–	–	100	Amortized Cost
Current portion of advances and other noncurrent assets	3, 5	Loans and receivables	6,824	(6,785)	–	–	39	Amortized Cost
Less: To Financial instruments at FVPL				(6,785)				
To financial instruments at FVOCI				(4,091)				
Advances and other noncurrent assets – net of current portion	3,5	Loans and receivables	13,855	(11,461)	(18)	–	2,376	Amortized Cost
Less: To financial instruments at FVOCI				(11,461)				
Investment in debt securities and other long-term investments – net of current portion	2		N/A	150	–	–	150	Amortized Cost
Add: From HTM investments				150				
		Loans and receivables	**88,519**	**(22,187)**	**(276)**	**–**	**66,056**	**Amortized Cost**
Investment in debt securities and other long-term investments – net of current portion	2	Held-to-maturity	150	(150)				
Less: To Financial instruments at amortized cost				(150)				
		Held-to-maturity	**150**	**(150)**				
Current portion of derivative financial assets	1	Derivatives used for hedging	171	(171)	–	–	–	
Derivative financial assets – net of current portion	1	Derivatives used for hedging	215	(215)	–	–	–	
Current portion of derivative financial liabilities	1	Derivatives used for hedging	(51)	51	–	–	–	
Derivative financial liabilities – net of current portion	1	Derivatives used for hedging	(8)	8	–	–	–	
Less: To Financial assets at FVPL				(327)				
		Derivatives used for hedging	**327**	**(327)**	**–**	**–**	**–**	
Available-for-sale financial investments	4	Available-for-sale financial investments	15,165	(15,165)	–	–	–	
Less: To Financial assets at FVPL				(15,165)				
		Available-for-sale financial investments	**15,165**	**(15,165)**	**–**	**–**	**–**	
Trade and other receivables	3, 5		N/A	4,091	–	(8)	4,083	FVOCI
Advances and other noncurrent assets – net of current portion	3, 5		N/A	11,461	–	(128)	11,333	FVOCI
Add: From Loans and receivables				15,552				
				15,552	**–**	**(136)**	**15,416**	**FVOCI**

	Reference	PAS 39 Category	PAS 39 Amount	Reclassification	Remeasurement ECL	Remeasurement Others	PFRS 9 Amount	PFRS 9 Category
				(in million pesos)				
Current portion of derivative financial assets	1		N/A	171	–	–	171	FVPL
Derivative financial assets – net of current portion	1		N/A	215	–	–	215	FVPL
Current portion of derivative financial liabilities	1		N/A	(51)	–	–	(51)	FVPL
Derivative financial liabilities – net of current portion	1		N/A	(8)	–	–	(8)	FVPL
Current portion of advances and other noncurrent assets	3		N/A	6,785	–	–	6,785	FVPL
Available-for-sale financial investments	4		N/A	15,165	–	–	15,165	FVPL
Add: From Loans and receivables				6,785	–	–	–	
From Available-for-sale financial investments				15,165	–	–	–	
From Derivatives used for hedging				327	–	–	–	
				22,277	**–**	**–**	**22,277**	**FVPL**

(1) *As at January 1, 2018, our analysis highlighted that certain complex structured products with separated embedded derivatives, based on the assessment of the combined instrument, did not meet the SPPI criterion. Therefore, we reclassified these loans along with the embedded derivatives – previously separated under PAS 39 – as financial assets at FVPL.*

(2) *As at January 1, 2018, we do not have any debt instruments that did not meet the SPPI criterion within the held-to-maturity, or HTM, portfolio. Therefore, we elected to classify these instruments as debt instruments measured at amortized cost.*

(3) *As at January 1, 2018, we have reclassified receivables from MPIC from loans and receivables to financial assets at FVOCI as this met the SPPI criterion and the business model is assessed as hold to collect contractual cash flows and sell financial assets.*

(4) *As at January 1, 2018, we have classified our AFS asset-backed securities as financial assets measured at FVPL as the payments did not meet the SPPI criterion.*

(5) *As at January 1, 2018, we have restated the beginning balance of allowance for doubtful accounts under PAS 39 incurred loss model and considered the new impairment model under PFRS 9 which requires to record lifetime losses on all financial assets which have experienced a significant increase in credit risk from initial recognition.*

Classification and measurement

Except for certain trade receivables, under PFRS 9, we initially measure a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Under PFRS 9, debt financial instruments are subsequently measured at FVPL, amortized cost, or FVOCI with recycling of gains or losses to profit or loss upon derecognition. The classification is based on two criteria: (1) whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding, or the SPPI criterion; and (2) our business model for managing the financial assets portfolio.

A debt instrument is measured at amortized cost if the cash flows are considered as SPPI and business model's objective is to hold assets to collect contractual cash flows, and is not designated as at FVPL. This category includes cash and cash equivalents, short-term investments, trade and other receivables, debt instruments at amortized cost and other financial assets – net of current portion.

A debt instrument is measured at FVOCI if the cash flows are considered as SPPI and business model's objective is both hold assets to collect contractual cash flows and sell financial assets, and is not designated as at FVPL.

On initial recognition of equity instruments that are not held for trading, we may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified and measured at amortized cost or FVOCI as described above are measured at FVPL. Financial assets at FVPL include all derivative instruments, equity instruments that are held for trading and equity instruments that are not held for trading which we have not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category also include debt instruments whose cash flow characteristic meet the SPPI criterion, but business model is neither hold assets to collect contractual cash flows nor collecting contractual cash flows and selling financial assets.

We have not elected the option to irrevocably designate previous available-for-sale equity instruments as equity instruments at FVOCI.

Quoted and unquoted equity securities that were previously classified as AFS financial assets under PAS 39 were reclassified as financial assets at FVPL upon adoption of PFRS 9. Upon transition, the AFS reserve relating to these equity securities, which had been previously accumulated under other comprehensive income, was reclassified to retained earnings.

The assessment of our business models was made as at the date of initial application, January 1, 2018, and applied modified retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely payments of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The effect of adopting PFRS 9 as at January 1, 2018 were, as follows:

	Reference	Increase (Decrease)
		(in million pesos)
Assets:		
Financial assets at FVOCI	3	(136)
Total assets		**(136)**
Total adjustment on equity:		
Retained earnings	4	4,491
Other comprehensive income	4	(4,627)
		(136)

Impairment

PFRS 9 requires recording of expected credit losses, or ECL, for all debt securities not classified as at FVPL, together with contract assets, lease receivables, loan commitments and financial guarantee contracts. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. In comparison, the incurred loss model under PAS 39 recognizes lifetime credit losses only when there is objective evidence of impairment. The ECL model eliminates the loss event required under the incurred loss model, and lifetime ECL is recognized earlier under PFRS 9.

The objective of the new impairment model is to record lifetime losses on all financial assets which have experienced a significant increase in credit risk from initial recognition. As a result, ECL allowances will be measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on our internal credit assessment, the counterparty is determined to require close monitoring or with well-defined credit weakness.

Financial assets have the following staging assessments, depending on the quality of the credit exposures:

For non-credit-impaired financial assets:

- Stage 1 financial assets are comprised of all non-impaired financial instruments which have not experienced a significant increase in credit risk since initial recognition. We recognize a 12-month ECL for Stage 1 financial assets.

- Stage 2 financial assets are comprised of all non-impaired financial assets which have experienced a significant increase in credit risk since initial recognition. We recognize a lifetime ECL for Stage 2 financial assets.

For credit-impaired financial assets:

- Financial assets are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial assets.

PFRS 9 provides some operational simplifications for trade receivables, lease receivables and contract assets by introducing an alternative simplified approach. Under the simplified approach, there is no more requirement to determine at reporting date whether a credit exposure has significantly increased in credit risk or not. Credit exposures under the simplified approach will be subject only to lifetime ECL. In addition, PFRS 9 allows the use of a provision matrix approach or a loss rate approach as a practical expedient when measuring ECL for certain short-term financial assets, so long as these methodologies reflects a probability-weighted outcome, 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.

The risk of a default occurring represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month ECL for Stage 1 assets or lifetime ECL for Stages 2 and 3 assets. The risk of a default occurring for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. We segmented the credit exposures based on homogenous risk characteristics and applied a specific ECL methodology for each portfolio. The methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, payment patterns and materiality of the segment as compared to the total portfolio.

The magnitude of default represents the amount that may not be recovered in the event of default and is determined based on the historical cash flow recoveries and reasonable and supportable information about future economic conditions, where appropriate.

We applied the simplified approach and record lifetime ECL on all trade receivables and contract assets. For other debt financial assets measured at amortized cost, the general approach was applied, measuring either a 12-month or lifetime ECL, depending on the extent of the deterioration of the credit quality from origination.

The table below presents a reconciliation of the prior period's closing impairment allowance measured in accordance with PAS 39 to the opening impairment allowance determined in accordance with PFRS 9 as at January 1, 2018.

Measurement category	Reference	Impairment allowance under PAS 39	Retained earnings, beginning Remeasurement	Impairment allowance under PFRS 9
			(in million pesos)	
Loans and receivables (PAS 39)/ Financial assets at amortized cost (PFRS 9)				
Trade and other receivables	5	14,501	258	14,759
Contract assets	5	—	114	114
Other financial assets	5	—	18	18
		14,501	**390**	**14,891**

Under PFRS 9, the level of provision for credit and impairment losses has generally increased due to the incorporation of a more forward-looking approach in determining provisions. Further, since the implementation of PFRS 9, all financial assets except those measured at FVPL and equity instruments at FVOCI are assessed for at least 12-month ECL and the population of financial assets to which the lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with PAS 39.

Hedge accounting

The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting.

We determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under PFRS 9. We have chosen not to retrospectively apply PFRS 9 on transition to the hedges where we excluded the forward points from the hedge designation under PAS 39.

- PFRS 15, *Revenues from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. PFRS 15 establishes a five-step model that will apply to revenue arising from contracts with customers. The five-step model is as follows:

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with the customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If we perform by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. Contract assets are reclassified to trade receivables when billed.

Contract liabilities and unearned revenues

A contract liability is the obligation to transfer goods or services to a customer for which the 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 the we perform under the contract.

We adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. We elected to apply the standard to all contracts that are not completed as at the date of initial application, that is, January 1, 2018.

The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under PAS 18, PAS 11 and related interpretations.

The effect of adopting PFRS 15 as at January 1, 2018 is as follows:

	Reference	Increase (Decrease)
		(in millions)
Assets		
Trade and other receivables	C	(37)
Contract assets	B and C	3,880
Deferred income tax assets	B and C	(918)
Total assets		**2,925**
Liabilities		
Contract liabilities and unearned revenues	B and C	178
Deferred income tax liabilities	B and C	194
Total liabilities		**372**
Net impact on equity		
Retained earnings	B and C	**2,553**

Set out below are the amounts by which each financial statement line item is affected as at and for the year ended December 31, 2018 as a result of the adoption of PFRS 15. The adoption of PFRS 15 did not have a material impact on other comprehensive income or on our operating, investing and financing cash flows. The first column shows amounts prepared under PFRS 15 and the second column shows what the amounts would have been had PFRS 15 not been adopted.

Consolidated statement of profit or loss for the year ended December 31, 2018

	Reference	PFRS 15	PAS 18	Increase (Decrease)
			(in millions)	
Revenue from contracts with customers				
Service revenues	A and C	154,207	157,845	(3,638)
Nonservice revenues	A, B and C	10,545	7,602	2,943
Revenues		**164,752**	**165,447**	**(695)**
Interest income	C	1,943	1,486	457
Impairment loss	B and C	(206)	—	(206)
Provision for income tax	B and C	(3,842)	(3,976)	134
Net impact on profit for the year		**162,647**	**162,957**	**(310)**
Attributable to:				
Equity holders of parent	B and C	162,590	162,900	(310)
Noncontrolling interests		57	57	—

Consolidated statement of financial position for the year ended December 31, 2018

	Reference	PFRS 15	PAS 18	Increase (Decrease)
			(in millions)	
Assets				
Noncurrent Assets				
Property and equipment		195,964	195,964	—
Investments and advances		55,427	55,427	—
Financial assets at fair value through profit or loss		4,763	4,763	—
Debt instruments at amortized cost		150	150	—
Investment properties		777	777	—
Goodwill and intangible assets		68,583	68,583	—
Deferred income tax assets – net		27,697	28,530	(833)
Derivative financial assets – net of current portion		140	140	—
Prepayments – net of current portion		6,255	6,255	—
Advances and other noncurrent assets – net of current portion		17,083	17,083	—
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	—
Contract assets – net of current portion	B and C	1,083	—	1,083
Other non-financial assets – net of current portion		230	230	—
Total Noncurrent Assets		**383,176**	**382,926**	250
Current Assets				
Cash and cash equivalents		51,654	51,654	—
Short-term investments		1,165	1,165	—
Trade and other receivables	C	24,056	23,958	98
Inventories and supplies		2,878	2,878	—
Current portion of contract assets	B and C	2,185	—	2,185
Current portion of derivative financial assets		183	183	—
Current portion of prepayments		7,760	7,760	—
Current portion of advances and other noncurrent assets		620	620	—
Current portion of financial assets at fair value through profit or loss		1,604	1,604	—
Current portion of other financial assets		7,008	7,008	—
Current portion of other non-financial assets		461	461	—
Total Current Assets		**99,574**	**97,291**	**2,283**
TOTAL ASSETS		**482,750**	**480,217**	**2,533**
Liabilities and Equity				
Equity				
Equity attributable to equity holders of PLDT	B and C	112,358	110,115	2,243
Non-controlling interests		4,308	4,308	—
Total Equity		**116,666**	**114,423**	**2,243**
Noncurrent Liabilities				
Interest-bearing financial liabilities – net of current portion		155,835	155,835	—
Deferred income tax liabilities		2,981	2,836	145
Customers' deposits		2,194	2,194	—
Pension and other employee benefits		7,182	7,182	—
Deferred credits and other noncurrent liabilities	B and C	5,284	5,226	58
Total Noncurrent Liabilities		**173,476**	**173,273**	**203**
Current Liabilities				
Accounts payable	B and C	74,610	74,610	—
Accrued expenses and other current liabilities		95,724	95,637	87
Current portion of interest-bearing financial liabilities		20,441	20,441	—
Dividends payable		1,533	1,533	—
Derivative financial liabilities		80	80	—
Income tax payable		220	220	—
Total Current Liabilities		**192,608**	**192,521**	**87**
Total Liabilities		**366,084**	**365,794**	**290**
TOTAL EQUITY AND LIABILITIES		**482,750**	**480,217**	**2,533**

The nature of the adjustments as at January 1, 2018 and the reasons for the significant changes in our consolidated statement of financial position as at December 31, 2018 and the statement of profit or loss for the year ended December 31, 2018 are described below:

Type of product/service	Reference	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Bundled plans	A	Revenues are recognized based on the allocation of the transaction price to the different performance obligations based on their stand-alone selling prices.	PFRS 15 will have an impact on our accounting policies in the recognition of revenue between service and non-service components.
Sale of handset/equipments	B	Customers obtain control when the goods are delivered to and have been accepted at their premises.	Under PAS 18, non-service revenues are recognized to the extent of monthly amortization / installment plus cash-out for the handset / equipment once they are delivered to the customer. Under PFRS 15, revenue shall be recognized as the performance obligations are satisfied by transferring a promised good or service. The impact of these changes on items other than revenue are recognition of contract assets and contract liabilities and unearned revenues.
Significant financing component	C	We assessed that the non-service component included in contracts with customers have significant financing component considering the period between the customer's payment of the price of the handset and the timing of the transfer of control over the handset, which is more than one year.	Under PFRS 15, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. The impact of these changes on items other than revenue are discounting of contract assets and unbilled trade receivables.

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.

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, we reassess whether we correctly identified all of the assets acquired and all of the liabilities assumed and review the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain 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 10 – 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 statement reflects our share in the financial performance of our associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our consolidated 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 statement.

Upon loss of significant influence over the associate, we measure and recognize any retained investment at its fair value. Any difference between the carrying amounts of our investment in the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in 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 10 – 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 statement 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.

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, Digitel Capital Philippines Ltd., or DCPL, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC is the U.S. dollar; the functional currency of VIP, VIH, VII, VIS, iCommerce, Fintech Ventures, 3rd Brand, Chikka Pte. Ltd., or CPL, and ABM Global Solutions Pte. Ltd., or AGSPL, is the Singaporean dollar; the functional currency of Chikka Communications Consulting (Beijing) Co. Ltd., or CCCBL, is the Chinese renminbi; the functional currency of ABMGS Sdn. Bhd., or AGS Malaysia, and Takatack Malaysia, is the Malaysian ringgit; the functional currency of PT Advance Business Microsystems Global Solutions, or AGS Indonesia, is the Indonesian rupiah; and the functional currency of ePay Myanmar is the Myanmar kyat. 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

Beginning January 1, 2018

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, an 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, both 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 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 portions of investment in debt securities and other long-term investments, cash and cash equivalents, short-term investments, trade and other receivables, and portions of advances and other noncurrent assets as at December 31, 2018. See *Note 12 – Debt Instruments at Amortized Cost/Investment in Debt Securities and Other Long-term Investments, Note 15 – Cash and Cash Equivalents, Note 16 – Trade and Other Receivables* and *Note 27 – 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 December 31, 2018. See *Note 24 – Related Party Transactions* and *Note 27 – 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 December 31, 2018. See *Note 11 – Financial Assets at FVPL/Available-for-Sale Financial Investments* and *Note 27 – 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 long-term principal only-currency swaps and interest rate swaps as at December 31, 2018. See *Note 27 – Financial Assets and Liabilities.*

Our other financial liabilities include interest-bearing financial liabilities, customers' deposits, dividends payable, and accrual for long-term capital expenditures, (except for statutory payables) as at December 31, 2018. See *Note 20 – Interest-bearing Financial 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 designated and as 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 the following financial assets that are not measured at FVPL:

- 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 effective interest rate, or EIR, to the amortized cost of the financial asset.

Loss allowance

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 allowance 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 the 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.

Prior to January 1, 2018

Financial Instruments – Initial recognition and subsequent measurement

Financial Assets

Initial recognition and measurement

Financial assets within the scope of PAS 39 are classified as financial assets at FVPL, loans and receivables, HTM investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each reporting date.

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

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

Subsequent measurement

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

Financial assets at FVPL

Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivative assets, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments as defined by PAS 39. Financial assets at FVPL are carried in our consolidated statement of financial position at fair value with net changes in fair value recognized in our consolidated income statement under "Other income (expenses) – Gains (losses) on derivative financial instruments – net" for derivative instruments and "Other income (expenses) – Others" for non-derivative financial assets. Interest earned and dividends received from financial assets at FVPL are recognized in our consolidated income statement under "Other income (expenses) – Interest income" and "Other income (expenses) – Others", respectively.

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

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in our consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Our financial assets at FVPL include listed and unlisted equity securities and portions of derivative financial assets as at December 31, 2017. See *Note 27 – Financial Assets and Liabilities.*

Loans and receivables

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

Our loans and receivables include portions of investment in debt securities and other long-term investments, cash and cash equivalents, short-term investments, trade and other receivables, and portions of advances and other noncurrent assets as at December 31, 2017. See *Note 12 – Debt Instruments at Amortized Cost/ Investment in Debt Securities and Other Long-term Investments, Note 15 – Cash and Cash Equivalents, Note 16 – Trade and Other Receivables* and *Note 27 – Financial Assets and Liabilities.*

HTM investments

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

Our HTM investments include portions of investment in debt securities and other long-term investments as at December 31, 2017. See *Note 12 – Debt Instruments at Amortized Cost/Investment in Debt Securities and Other Long-term Investments* and *Note 27 – Financial Assets and Liabilities.*

Available-for-sale financial investments

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

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income in the "Net gains (losses) on available-for-sale financial investments – net of tax" account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in our consolidated income statement; or the investment is determined to be impaired, at which time the cumulative loss recorded in other comprehensive income is recognized in "Other income (expense) – net" in our consolidated income statement. Available-for-sale investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured shall be measured at cost.

Interest earned on holding available-for-sale financial investments are included under "Other income (expenses) – Interest income" using the EIR method in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under "Other income (expenses) – net" when the right to receive payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months from the end of the reporting period.

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

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

Our available-for-sale financial investments include listed and unlisted equity securities as at December 31, 2017. See *Note 11 – Financial Assets at FVPL/Available-for-Sale Financial Investments* and *Note 27 – Financial Assets and Liabilities.*

Financial Liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative liabilities, including separated embedded derivatives are also classified as at FVPL unless they are designated as effective hedging instruments as defined by PAS 39. Financial liabilities at FVPL are carried in our consolidated statement of financial position at fair value with gains or losses on liabilities held-for-trading recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments and "Other income (expenses) – net" for non-derivative financial liabilities.

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

Our financial liabilities at FVPL include long-term principal only-currency swaps and interest rate swaps as at December 31, 2017. See *Note 27 – Financial Assets and Liabilities.*

Other financial liabilities

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

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

Our other financial liabilities include interest-bearing financial liabilities, customers' deposits, dividends payable, and accrual for long-term capital expenditures, accounts payable, and accrued expenses and other current liabilities (except for statutory payables) as at December 31, 2017. See *Note 20 – Interest-bearing Financial Liabilities, Note 21 – Deferred Credits and Other Noncurrent Liabilities, Note 22 – Accounts Payable* and *Note 23 – Accrued Expenses and Other Current Liabilities.*

Offsetting of financial instruments

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

Amortized cost of financial instruments

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

"Day 1" difference

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

Impairment of Financial Assets

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

Impairment of Trade and Other Receivables

Individual impairment

Retail subscribers

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

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

Corporate subscribers

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

Foreign administrations and domestic carriers

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

Dealers, agents and others

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

Collective impairment

Postpaid wireless and fixed line subscribers

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

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

Other subscribers

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

See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Allowance for Doubtful Accounts, Note 16 – Trade and Other Receivables* and *Note 27 – Financial Assets and Liabilities – Impairment Assessments* for further disclosures relating to impairment of financial assets.

Financial assets at amortized cost

For financial assets at amortized cost, we first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future ECL that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "Asset impairment" in our consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. The financial asset together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in our consolidated income statement, to the extent that the carrying value of the asset does not exceed its original amortized cost at the reversal date. If a write-off is later recovered, the recovery is recognized in profit or loss.

Available-for-sale financial investments

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

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

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

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or where applicable 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 27 – Financial Assets and Liabilities*.

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

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

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

Hedges which meet the 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 statement 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 statement.

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 statement.

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 statement. See *Note 27 – Financial Assets and Liabilities* for more details.

Amounts taken to other comprehensive income are transferred to our consolidated income statement when the hedged transaction affects our consolidated income statement, such as when the hedged financial income or financial expense is recognized or when a forecast 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 27 – 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 21 – 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 statement.

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 14 – Goodwill and Intangible Assets*.

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

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 statement.

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 statement. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

The following assets have specific characteristics for impairment testing:

Property and equipment and intangible assets with definite useful lives

For property and equipment, 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* and *Note 14 – 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 statement. See *Note 10 – 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 14 – 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 statement. 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 14 – 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 statement.

Cash and Cash Equivalents

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

Short-term Investments

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

Fair Value Measurement

We measure financial instruments such as derivatives, available-for-sale financial investments and certain short-term investments 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 27 – Financial Assets and Liabilities*. The fair values of investment properties are disclosed in *Note 13 – 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 available-for-sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for valuation of significant assets, such as 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

Beginning January 1, 2018

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 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% over the next two years.

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 acting as a principal when we have control over the specified goods or services before transferring or rendering those to customers. We are a principal and record revenue on a gross basis if it controls the promised goods or services before transferring them 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 it retains for its agency services.

The disclosures of significant accounting judgments, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

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 Broadbrand* 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 customer's payment of the price of the mobile device and time of the transfer of control over 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 customer's payment and the transfer of mobile device to the customer, 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.

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 statement. 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 MMS, downloading and streaming of content, applications and other digital services and infotext 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 the right to consideration in exchange for goods or services transferred to the customer. If we perform by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. Contract assets are reclassified to trade receivables when billed.

Trade receivables

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

Contract 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 quota on new connect based on 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.

Prior to January 1, 2018

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding value-added tax, or VAT, or overseas communication tax, or OCT, where applicable. When deciding the most appropriate basis for presenting revenue and cost of revenue, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. We are acting as a principal when we have the significant risks and rewards associated with the rendering of telecommunication services. When our role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

Service revenues from continuing operations

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

Subscribers

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

Postpaid service arrangements include fixed monthly charges (including excess of consumable fixed monthly service fees) generated from postpaid cellular voice, short messaging services, or SMS, and data services through the postpaid plans of *Smart* and *Sun*, from cellular and local exchange services primarily through wireless, landline and related services, and from data and other network services primarily through broadband and leased line services, which we 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 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, TNT, SmartBro* and *Sun Broadband* brands. Proceeds from over-the-air reloading channels and prepaid cards are initially recognized as unearned revenue and realized upon actual usage of the airtime value (i.e., the pre-loaded airtime value of subscriber identification module, or SIM, cards and subsequent top-ups) for voice, SMS, multimedia messaging services, or MMS, content downloading (inclusive of browsing), infotext services and prepaid unlimited and bucket-priced SMS and call subscriptions, net of free SMS allocation and bonus credits (load package purchased, i.e., free additional SMS or minute calls or Peso credits), or upon expiration of the usage period, whichever comes earlier. Interconnection fees and charges arising from the actual usage of 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.

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

Connecting carriers

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 statement. Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers.

Value-Added Services, or VAS

Revenues from VAS include MMS, downloading and streaming of content, applications and other digital services and infotext services. The amount of revenue recognized is net of payout to content provider's share in revenue. Revenue is recognized upon service availment.

Incentives

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

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

Multiple-deliverable arrangements

In revenue arrangements, which involve bundled sales of mobile devices, SIM cards/packs and accessories (non-service component) and telecommunication services (service component), the total arrangement consideration is allocated to each component based on their relative fair value to reflect the substance of the transaction. Revenue from the sale of non-service component are recognized when the goods are delivered while revenues from telecommunication services component are recognized when the services are provided to subscribers. When fair value is not directly observable, the total consideration is allocated using residual method.

Other services

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

Non-service revenues

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

Interest income

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

Dividend income

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

Expenses

Expenses are recognized as incurred.

Provisions

We recognize a provision when we have a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain to be received if the entity settles the obligation. The expense relating to any provision is presented in our consolidated income statement, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense in our consolidated income statement.

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 statement. 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 statement of financial position.

Remeasurements, comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they 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 25 – Employee Benefits – Defined Benefit Pension Plans* for more details.

Defined contribution plans

Smart and certain of its subsidiaries maintain a defined contribution plan that covers all regular full-time employees under which it pays fixed contributions based on the employees' monthly salaries 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 25 – 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 25 – 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

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 statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest income is accrued over the lease term 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 statement on a straight-line basis over the lease term.

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

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 statement of comprehensive income and not in our consolidated income statement.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in 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 statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in our consolidated statement 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 statement on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value in our consolidated statement of changes in equity and consolidated statement 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, 2019

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

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

The interpretation specifically addresses the following:

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

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

We are currently assessing the impact of adopting this interpretation.

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

Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

These amendments have no impact on our consolidated financial statements.

- PFRS 16, *Leases*

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

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

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

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

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 plan to apply the modified retrospective approach upon adoption of PFRS 16 on January 1, 2019 and elect to apply 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 will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC 4.

During 2018, we have performed a detailed impact assessment of PFRS 16. This assessment is based on current available information and may be subject to changes arising from further reasonable and supportable information being made available in 2019 and when we adopt PFRS 16.

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

Moving forward, our cash flows from operating activities will increase and cash flows from financing cash flows will decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. In addition, our total assets and total liabilities will increase 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. We are currently finalizing the quantitative impact of adopting this standard.

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

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since we do not have such long-term interests in associate and joint venture, the amendments will not have an impact on our consolidated financial statements.

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

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

1. Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after the event; and

2. Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amount included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any of our future plan amendments, curtailments, or settlements.

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

The amendments clarify that when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to us but may apply to future transactions.

- 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)

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. These amendments are not relevant to us because the dividends we declared do not give rise to tax obligations under the current tax laws.

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

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since our current practice is in line with these amendments, we do not expect any effect on our consolidated financial statements upon adoption.

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, *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 9 and PFRS 15. 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 – Beginning January 1, 2018

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 its 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 it is a 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 customer's payment of the price of the handset and time of the transfer of control over 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 the handset 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 as compared to our old practice. 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 – Beginning January 1, 2018

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, investment in debt securities and other long-term investments (*Note 12 – Debt Instruments at Amortized Cost/Investment in Debt Securities and Other Long-term Investments*), and trade 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-months 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.

Impairment of available-for-sale equity investments – Prior to January 1, 2018

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

In the case of equity investments classified as available-for-sale financial investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. We treat "significant" generally as decline of 20% or more below the original cost of investment, and "prolonged" as greater than 12 months assessed against the period in which the fair value has been below its original cost.

Based on our judgment, the decline in fair value of our investment in Rocket Internet SE, or Rocket Internet, was considered significant as the cumulative net losses from changes in fair value represented more than 20% decline in value below cost. As a result, total cumulative impairment losses recognized on our investment in Rocket Internet amounted to Php11,045 million as at December 31, 2017. Impairment losses charged in our consolidated income statements amounted to Php540 million and Php5,381 million for the years ended December 31, 2017 and 2016, respectively. See related discussion on *Note 11 – Financial Assets at FVPL/Available-for-Sale Financial Investments – Investment of PLDT Online in Rocket Internet.*

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, DCPL, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC, which uses the U.S. dollar; (b) VIP, VIH, VII, VIS, iCommerce, Fintech Ventures, 3rd Brand, CPL and AGSPL, which uses the Singaporean dollar; (c) CCCBL, which uses the Chinese renminbi; (d) AGS Malaysia and Takatack Malaysia, which uses the Malaysian ringgit; (e) AGS Indonesia, which uses the Indonesian rupiah; and (f) ePay Myanmar, which uses the Myanmar kyat.

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. Then 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.

Leases

As a lessee, we have various lease agreements in respect of certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on PAS 17. Total lease expense amounted to Php7,321 million, Php7,016 million and Php6,632 million for the years ended December 31, 2018, 2017 and 2016, respectively. Total finance lease obligations amounted to Php514 thousand and Php679 thousand as at December 31, 2018 and 2017, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 5 – Income and Expenses – Selling, General and Administrative Expenses, Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases* and *Note 27 – 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. PGIH paid Php523 million to the owner of Multisys for the acquisition of existing shares and 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.

Based on our judgment, at the PLDT Group level, PGIH's investments in Multisys gives PGIH a joint control in Multisys and thus are accounted for as investments in joint ventures using the equity method.

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 10 – Investments in Associates and Joint Ventures – Investments in Associates – Investment 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 48.5% 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 10 – Investments in Associates and Joint Ventures – 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 10 – 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.

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

PAS 28 provides that where an entity holds 50% 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. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

- Representation on Board of Directors or equivalent governing body of the investee;
- Participation in the policy-making process, including participation in decisions about dividends or other distributions;
- Material transactions between the entity and the investee;
- Interchange of managerial personnel; or
- Provision of essential technical information

On May 30, 2016, PCEV's Board of Directors approved the sale of 646 million shares of common stock and 458 million shares of preferred stock of Beacon, representing 25% equity interest in Beacon to MPIC. After the sale, PCEV's equity ownership in Beacon was reduced from 50% to 25% and PCEV's effective interest in Meralco through Beacon was reduced to 8.74% (i.e., 25% x 34.96%). 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.

As at December 31, 2016, Beacon owns 3894 million shares of stock representing approximately 34.96% equity interest in Meralco. See *Note 10 – Investments in Associates and Joint Ventures – Investment of PCEV in Beacon*.

On June 13, 2017, PCEV entered into another Share Purchase Agreement with MPIC to sell its remaining 25% equity interest in Beacon for a total consideration of Php21,800 million. MPIC settled a portion of the consideration amounting to Php12,000 million upon closing and the balance of Php9,800 million will be paid in annual installments from June 2018 to June 2021. The unpaid balance from MPIC is measured at fair value using a discounted cash flow valuation method, with interest income to be accreted over the term of the receivable.

After the sale of PCEV's remaining 25% interest in Beacon, PCEV continues to hold its representation in the Board and participate in decision making. As set forth in the Share Purchase Agreement: (a) the Seller shall be entitled to nominate one director to the Board of Directors of PCEV, or Seller's Director, and MPIC agrees to vote its shares in PCEV in favor of such Seller's Director; and (b) the Buyer shall cede to the Seller the right to vote all of the Shares, or Proxy Shares. The parties agreed that with respect to decisions or policies affecting dividend payouts to be made by Beacon, the Seller's Director shall exercise its voting rights, and shall vote, in accordance with the recommendation of the Buyer on such matter. As a result, PCEV's previously joint control over Beacon has become significant influence.

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 December 31, 2018 and 2017.

Material associates and joint ventures

Our consolidated financial statements include additional information about associates and joint ventures that are material to us. See *Note 10 – 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 December 31, 2018 and 2017.

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.

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 14 – 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, 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.

Total asset impairment recognized on noncurrent assets amounted to Php2,122 million, Php3,913 million and Php1,074 million for the years ended December 31, 2018, 2017 and 2016, 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* and *Note 10 – Investments in Associates and Joint Ventures*.

The carrying values of our property and equipment, investments in associates and joint ventures, goodwill and intangible assets, and prepayments are separately disclosed in *Note 9 – Property and Equipment, Note 10 – Investments in Associates and Joint Ventures, Note 14 – Goodwill and Intangible Assets* and *Note 18 – 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 and 2017, 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 Php15,807 million and Php19,481 million for the years ended December 31, 2018 and 2017, respectively. We expect additional depreciation in 2019 arising from the acceleration of the 2018 technology equipment amounting Php540 million.

The total depreciation and amortization of property and equipment amounted to Php47,240 million, Php51,915 million and Php34,455 million for the years ended December 31, 2018, 2017 and 2016, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php195,964 million and Php186,907 million as at December 31, 2018 and 2017, 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 statement.

The total amortization of intangible assets with finite lives amounted to Php892 million, Php835 million and Php929 million for the years ended December 31, 2018, 2017 and 2016, respectively. Total carrying values of intangible assets with finite lives amounted to Php2,699 million and Php3,699 million as at December 31, 2018 and 2017, 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 14 – Goodwill and Intangible Assets*.

Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. 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 Php3,227 million and Php5,561 million as at December 31, 2018 and 2017, respectively. Total consolidated provision from deferred income tax amounted to Php1,375 million for the year ended December 31, 2018, while total consolidated benefit from deferred income tax amounted to Php2,738 million and Php4,134 million for the years ended December 31, 2017 and 2016, respectively. Total consolidated recognized net deferred income tax assets amounted to Php27,697 million and Php30,466 million as at December 31, 2018 and 2017, 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 – Beginning January 1, 2018

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, certain trade receivables, 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 macroeconoemic 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 we have 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 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 16 – Trade and Other Receivables – Grouping of instruments for losses measured on collective basis*.

- *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 allowance for doubtful accounts – Prior to January 1, 2018

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

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

Total provision for doubtful accounts for trade and other receivables amounted to Php3,438 million and Php8,027 million for the years ended December 31, 2017 and 2016, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php33,761 million as at December 31, 2017. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses* and *Note 16 – Trade and Other Receivables*.

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, directs costs, capital expenditures, discount rates and terminal growth rates. See *Note 25 – Employee Benefits*. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed every year-end.

Net consolidated pension benefit costs amounted to Php1,855 million, Php1,610 million and Php1,775 million for the years ended December 31, 2018, 2017 and 2016, respectively. The prepaid benefit costs amounted to Php393 million and Php400 million as at December 31, 2018 and 2017, respectively. The accrued benefit costs amounted to Php7,182 million and Php8,997 million as at December 31, 2018 and 2017, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 18 – Prepayments* and *Note 25 – 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 March 21, 2019, a total of 757 thousand PLDT common shares have been acquired by the Trustee, of which 204 thousand PLDT common shares have been released to the eligible participants on April 5, 2018 for the 2017 annual grant. The TIP is administered by the ECC of the Board. The expense accrued for the TIP amounted to Php208 million and Php827 million for the years ended December 31, 2018 and 2017, respectively, and is presented as equity reserves in our consolidated statement of financial position. See *Note 5 – Income and Expenses – Compensation and Employee Benefits* and *Note 25 – Employee Benefits – Other Long-term Employee Benefits*.

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which 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 Php1,656 million and Php1,630 million as at December 31, 2018 and 2017, respectively. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

Provision for legal contingencies and tax assessments

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

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

Revenue recognition – Prior to January 1, 2018

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

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

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

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

Determination of fair values of financial assets and financial liabilities

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

Other than those whose carrying amounts are reasonable approximations of fair values, total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2018 amounted to Php2,168 million and Php143,392 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2017 amounted to Php13,846 million and Php157,711 million, respectively. See *Note 27 – 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; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation through Talas; and distribution of Filipino channels and content through PGNL and its subsidiaries; and

- Others – VIH and certain subsidiaries, our mobile applications and digital platforms developers and mobile financial services provider; 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 as at and for the years ended December 31, 2018, 2017 and 2016, and are as follows:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
		(in million pesos, except for EBITDA margin)			
December 31, 2018					
Revenues					
External customers	**87,193**	**76,431**	**1,128**	**—**	**164,752**
Service revenues	**80,265**	**72,858**	**1,084**	**—**	**154,207**
Non-service revenues	**6,928**	**3,573**	**44**	**—**	**10,545**
Inter-segment transactions	**2,736**	**8,791**	**10**	**(11,537)**	**—**
Service revenues	**2,736**	**8,790**	**10**	**(11,536)**	**—**
Non-service revenues	**—**	**1**	**—**	**(1)**	**—**
Total revenues	**89,929**	**85,222**	**1,138**	**(11,537)**	**164,752**
Results					
Depreciation and amortization	**24,778**	**22,303**	**159**	**—**	**47,240**
Asset impairment	**3,319**	**4,746**	**—**	**—**	**8,065**
Impairment of investments	**60**	**—**	**112**	**—**	**172**
Interest income	**719**	**812**	**536**	**(124)**	**1,943**
Equity share in net earnings (losses) of associates and joint ventures	**62**	**171**	**(320)**	**—**	**(87)**
Financing costs	**1,865**	**5,195**	**131**	**(124)**	**7,067**
Provision for income tax	**1,333**	**1,336**	**1,173**	**—**	**3,842**
Net income (loss) / Segment profit (loss)	**5,725**	**6,059**	**7,971**	**(782)**	**18,973**
EBITDA	**34,235**	**30,875**	**(2,688)**	**1,605**	**64,027**
EBITDA margin	**41%**	**38%**	**(246%)**	**(14%)**	**42%**
Core income	**9,760**	**6,925**	**9,952**	**(782)**	**25,855**
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 – net	**2,321**	**482**	**367**	**(189)**	**2,981**
Total liabilities	**171,158**	**207,294**	**17,140**	**(29,508)**	**366,084**
Other segment information					
Capital expenditures, including capitalized interest (Note 9)	**32,248**	**26,242**	**—**	**—**	**58,490**
December 31, 2017					
Revenues					
External customers	91,288	67,389	1,249	—	159,926
Service revenues	86,128	63,811	1,226	—	151,165
Non-service revenues	5,160	3,578	23	—	8,761
Inter-segment transactions	1,284	10,952	30	(12,266)	—
Service revenues	1,284	10,946	30	(12,260)	—
Non-service revenues	—	6	—	(6)	—
Total revenues	92,572	78,341	1,279	(12,266)	159,926
Results					
Depreciation and amortization	36,776	15,001	138	—	51,915
Asset impairment	6,104	2,098	56	—	8,258
Impairment of investments	439	1,583	540	—	2,562
Equity share in net earnings (losses) of associates and joint ventures	(129)	44	2,991	—	2,906
Interest income	305	695	655	(243)	1,412
Financing costs	2,247	5,106	214	(197)	7,370
Provision for income tax	(2,787)	3,680	210	—	1,103
Net income (loss) / Segment profit (loss)	(2,215)	7,474	8,825	(618)	13,466
EBITDA	36,395	29,478	(1,307)	1,608	66,174
EBITDA margin	42%	39%	(104%)	(13%)	44%
Core income	9,812	8,846	9,628	(618)	27,668
Assets and liabilities					
Operating assets	211,983	174,217	34,504	(37,856)	382,848
Investments in associates and joint ventures	—	44,867	1,263	—	46,130
Deferred income tax assets – net	18,826	11,994	—	(354)	30,466
Total assets	230,809	231,078	35,767	(38,210)	459,444
Operating liabilities	153,622	196,451	13,624	(18,802)	344,895
Deferred income tax liabilities – net	2,656	286	424	—	3,366
Total liabilities	156,278	196,737	14,048	(18,802)	348,261

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
	(in million pesos, except for EBITDA margin)				
Other segment information					
Capital expenditures, including capitalized interest (Note 9)	27,305	12,994	—	—	40,299
December 31, 2016					
Revenues					
External customers	102,639	61,806	817	—	165,262
Service revenues	98,406	58,086	718	—	157,210
Non-service revenues	4,233	3,720	99	—	8,052
Inter-segment transactions	1,448	10,922	30	(12,400)	—
Service revenues	1,448	10,920	30	(12,398)	—
Non-service revenues	—	2	—	(2)	—
Total revenues	104,087	72,728	847	(12,400)	165,262
Results					
Depreciation and amortization	18,767	15,471	217	—	34,455
Asset impairment	9,016	1,758	268	—	11,042
Impairment of investments	—	134	5,381	—	5,515
Interest income	269	707	307	(237)	1,046
Equity share in net earnings (losses) of associates and joint ventures	(127)	(40)	1,348	—	1,181
Financing costs	2,482	4,917	192	(237)	7,354
Provision for income tax	(1,257)	3,018	148	—	1,909
Net income (loss) / Segment profit (loss)	10,618	8,134	1,410	—	20,162
EBITDA	32,915	26,950	(276)	1,572	61,161
EBITDA margin	33%	39%	(37%)	(13%)	39%
Core income	12,275	7,746	7,836	—	27,857
Assets and liabilities					
Operating assets	217,964	183,533	22,804	(33,388)	390,913
Investments in associates and joint ventures	1,945	40,874	14,039	—	56,858
Deferred income tax assets – net	13,985	13,363	—	—	27,348
Total assets	233,894	237,770	36,843	(33,388)	475,119
Operating liabilities	161,480	203,777	12,637	(14,879)	363,015
Deferred income tax liabilities – net	2,923	384	260	—	3,567
Total liabilities	164,403	204,161	12,897	(14,879)	366,582
Other segment information					
Capital expenditures, including capitalized interest (Note 9)	32,097	10,728	—	—	42,825

Certain revenues and expenses in 2017 and 2016 were reclassified to conform with the 2018 presentation.

The following table shows the reconciliation of our consolidated net income to our consolidated EBITDA for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
		(in million pesos)	
Consolidated net income	**18,973**	13,466	20,162
Add (deduct) adjustments:			
Depreciation and amortization	**47,240**	51,915	34,455
Financing costs	**7,067**	7,370	7,354
Provision for income tax	**3,842**	1,103	1,909
Noncurrent asset impairment	**2,122**	3,913	1,074
Amortization of intangible assets	**892**	835	929
Foreign exchange losses – net	**771**	411	2,785
Impairment of investments (Note 10)	**172**	2,562	5,515
Equity share in net losses (earnings) of associates and joint ventures	**87**	(2,906)	(1,181)
Gains on derivative financial instruments – net	**(1,086)**	(533)	(996)
Interest income	**(1,943)**	(1,412)	(1,046)
Other income – net	**(14,110)**	(10,550)	(9,799)
Total adjustments	**45,054**	52,708	40,999
Consolidated EBITDA	**64,027**	66,174	61,161

The following table shows the reconciliation of our consolidated net income to our consolidated core income for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
		(in million pesos)	
Consolidated net income	**18,973**	13,466	20,162
Add (deduct) adjustments:			
Depreciation due to shortened life of property and equipment	**4,564**	12,816	–
Noncurrent asset impairment	**2,122**	3,913	1,074
Manpower rightsizing program, or MRP	**1,703**	–	–
Loss in fair value of investments	**1,154**	–	–
Foreign exchange losses – net	**771**	411	2,785
Investment written-off	**362**	–	–
Impairment of investments (Note 10)	**172**	2,562	5,515
Core income adjustment on equity share in net losses of associates and joint ventures	**23**	60	95
Net income attributable to noncontrolling interests	**(57)**	(95)	(156)
Other nonrecurring income	**(1,018)**	–	–
Gains on derivative financial instruments – net, excluding hedge costs (Note 27)	**(1,135)**	(724)	(1,539)
Net tax effect of aforementioned adjustments	**(1,779)**	(4,741)	(79)
Total adjustments	**6,882**	14,202	7,695
Consolidated core income	**25,855**	27,668	27,857

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 years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Consolidated core EPS	**119.39**	**119.39**	127.79	127.79	128.66	128.66
Add (deduct) adjustments:						
Gains on derivative financial instruments – net, excluding hedge costs	**4.08**	**4.08**	2.34	2.34	4.99	4.99
Core income adjustment on equity share in net losses associates and joint ventures	**(0.11)**	**(0.11)**	(0.28)	(0.28)	(0.44)	(0.44)
Impairment of investment	**(0.80)**	**(0.80)**	(11.86)	(11.86)	(25.52)	(25.52)
Investment written-off	**(1.68)**	**(1.68)**	–	–	–	–
Foreign exchange losses – net	**(3.57)**	**(3.57)**	(1.74)	(1.74)	(10.40)	(10.40)
Loss in fair value of investments	**(5.34)**	**(5.34)**	–	–	–	–
MRP	**(5.52)**	**(5.52)**	–	–	–	–
Asset impairment	**(9.82)**	**(9.82)**	(13.12)	(13.12)	(4.96)	(4.96)
Depreciation due to shortened life of property and equipment	**(14.06)**	**(14.06)**	(41.52)	(41.52)	–	–
Other nonrecurring income and others	**4.71**	**4.71**	–	–	–	–
Total adjustments	**(32.11)**	**(32.11)**	(66.18)	(66.18)	(36.33)	(36.33)
Consolidated EPS attributable to common equity holders of PLDT	**87.28**	**87.28**	61.61	61.61	92.33	92.33

The following table presents our revenues from external customers by category of products and services for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
		(in million pesos)	
Wireless services			
Service revenues:			
Mobile	**79,904**	83,166	95,066
Home broadband	**155**	2,547	2,758
MVNO and others	**206**	415	582
	80,265	86,128	98,406
Non-service revenues:			
Sale of mobile handsets and broadband data modems	**6,928**	5,160	4,233
Total wireless revenues	**87,193**	91,288	102,639
Fixed line services			
Service revenues:			
Voice	**22,986**	25,296	25,502
Data	**48,858**	37,445	31,727
Miscellaneous	**1,014**	1,070	857
	72,858	63,811	58,086
Non-service revenues:			
Sale of computers, phone units and SIM cards	**3,056**	2,706	2,907
Point-product-sales	**517**	872	813
	3,573	3,578	3,720
Total fixed line revenues	**76,431**	67,389	61,806
Other services	**1,128**	1,249	817
Total revenues	**164,752**	159,926	165,262

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 years ended December 31, 2018, 2017 and 2016.

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 for the year ended December 31, 2018:

Revenue Streams	**Wireless**	**Fixed Line**	**Others**	**Inter-segment Transactions**	**Consolidated**
			(in million pesos)		
December 31, 2018					
Type of good or service					
Service revenue	**83,001**	**81,648**	**1,094**	**(11,536)**	**154,207**
Non-service revenue	**6,928**	**3,574**	**44**	**(1)**	**10,545**
Total revenue from contracts with customers	**89,929**	**85,222**	**1,138**	**(11,537)**	**164,752**
Timing of revenue recognition					
Transferred over time	**83,001**	**81,648**	**1,094**	**(11,536)**	**154,207**
Transferred at a point time	**6,928**	**3,574**	**44**	**(1)**	**10,545**
Total revenue from contracts with customers	**89,929**	**85,222**	**1,138**	**(11,537)**	**164,752**

Contract Balances

Contract balances as at December 31, 2018 and 2017 consists of the following:

	2018	2017
	(in million pesos)	
Trade and other receivables (Note 16)	**40,559**	48,262
Contract assets	**3,399**	—
Contract liabilities and unearned revenues	**7,182**	8,363

The decrease in trade and other receivables of Php7,703 million in 2018 was primarily due to decline in wireless postpaid subscriber base.

The decrease of Php481 million in contract assets in 2018 compared to the balance as at January 1, 2018 is the result of fewer postpaid new connections during the year.

The decrease of Php1,181 million in contract liabilities and unearned revenues compared to the beginning balance in 2018 is due to lower amortization for handsets bundled in certain postpaid plans and lower realized revenues, net of new advance payments from customer contracts.

Set out below is the movement in the allowance for expected credit losses of contracts assets.

	2018
	(in million pesos)
Balance at beginning of the year	**114**
Provisions during the year	**17**
Balance at end of the year	**131**

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

	2018
	(in million pesos)
Balances as at January 1, 2018, as restated	**8,541**
Deferred during the year	**102,288**
Recognized as revenue during the year	**(103,647)**
Balance at end of the year	**7,182**

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

	2018
	(in million pesos)
Long-term advances from postpaid subscribers	**145**
Short-term advances for installation services	**558**
Leased facilities	**34**
Advance monthly service fees	**2,386**
Unearned revenues from prepaid contracts	**4,059**
Total contract liabilities and unearned revenues	**7,182**
Contract liabilities:	
Current	**87**
Noncurrent	**58**
Unearned revenues:	
Current	**6,563**
Noncurrent	**474**

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

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2018, 2017 and 2016 consist of the following:

	2018	2017	2016
		(in million pesos)	
Compensation and employee benefits	**23,543**	22,782	19,928
Repairs and maintenance (Notes 13, 17 and 24)	**14,331**	12,744	14,706
Professional and other contracted services (Note 24)	**12,809**	12,168	9,386
Rent (Note 24)	**7,321**	7,016	6,632
Selling and promotions (Note 24)	**6,340**	5,908	7,687
Taxes and licenses (Note 26)	**4,974**	3,970	3,782
Insurance and security services (Note 24)	**1,499**	1,519	1,736
Communication, training and travel (Note 24)	**1,069**	1,166	1,249
Amortization of intangible assets (Note 14)	**892**	835	929
Other expenses	**1,138**	882	1,161
Total selling, general and administrative expenses	**73,916**	68,990	67,196

Compensation and Employee Benefits

Compensation and employee benefits for the years ended December 31, 2018, 2017 and 2016 consist of the following:

	2018	2017	2016
		(in million pesos)	
Salaries and other employee benefits	**19,777**	18,598	17,734
Pension benefit costs (Note 25)	**1,855**	1,610	1,775
MRP	**1,703**	1,747	419
Incentive plan (Note 25)	**208**	827	—
Total compensation and employee benefits	**23,543**	22,782	19,928

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 years ended December 31, 2018, 2017 and 2016 consist of the following:

	2018	2017	2016
		(in million pesos)	
Cost of computers, mobile handsets and broadband data modems (Note 17)	**10,513**	10,277	16,053
Cost of services (Note 17)	**3,429**	2,572	1,540
Cost of point-product-sales (Note 17)	**485**	784	700
Total cost of sales and services	**14,427**	13,633	18,293

Asset Impairment

Asset impairment for the years ended December 31, 2018, 2017 and 2016 consist of the following:

	2018	2017	2016
		(in million pesos)	
Trade and other receivables (Note 16)	**4,192**	3,438	8,027
Property and equipment (Note 9)	**1,958**	3,913	—
Inventories and supplies (Note 17)	**1,528**	907	1,941
Contract assets	**223**	—	—
Goodwill and intangible assets (Note 14)	**—**	—	1,038
Other assets	**164**	—	36
Total asset impairment	**8,065**	8,258	11,042

Other Income (Expenses) – Net

Other income (expenses) – net for the years ended December 31, 2018, 2017 and 2016 consist of the following:

	2018	2017	2016
		(in million pesos)	
Gain on deconsolidation of VIH (Note 2)	**12,054**	—	—
Interest income	**1,943**	1,412	1,046
Gains on derivative financial instruments – net (Note 27)	**1,086**	533	996
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	**(87)**	2,906	1,181
Foreign exchange losses – net (Note 9)	**(771)**	(411)	(2,785)
Financing costs	**(7,067)**	(7,370)	(7,354)
Others – net (Notes 10, 11 and 13)	**1,884**	7,988	4,284
Total other income (expenses) – net	**9,042**	5,058	(2,632)

Interest Income

Interest income for the years ended December 31, 2018, 2017 and 2016 consist of the following:

	2018	2017	2016
		(in million pesos)	
Interest income on financial instruments at amortized cost (Notes 12 and 15)	**1,486**	—	—
Interest income arising from revenue contracts with customers	**457**	—	—
Interest income on loans and receivables (Notes 15 and 16)	**—**	1,404	980
Interest income on HTM investments (Note 12)	**—**	8	36
Interest income on financial instruments at FVPL	**—**	—	30
Total interest income	**1,943**	1,412	1,046

Financing Costs

Financing costs for the years ended December 31, 2018, 2017 and 2016 consist of the following:

	2018	2017	2016
		(in million pesos)	
Interest on loans and other related items (Notes 20 and 27)	**8,307**	7,830	7,522
Accretion on financial liabilities (Note 20)	**145**	219	230
Financing charges	**139**	137	168
Capitalized interest (Note 9)	**(1,524)**	(816)	(566)
Total financing costs	**7,067**	7,370	7,354

6. Components of Other Comprehensive Loss

Changes in other comprehensive loss under equity of our consolidated statements of financial position for the years ended December 31, 2018, 2017 and 2016 are as follows:

	Foreign currency translation differences of subsidiaries	Net gains (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 of associates and joint ventures accounted for using the equity method	Financial instrument at FVOCI	Total other comprehensive income (loss) attributable to equity holders of PLDT	Share of noncontrolling interests	Total other comprehensive income (loss) – net of tax
					(in million pesos)					
Balances as at January 1, 2018	**583**	**4,300**	**(369)**	**620**	**(24,467)**	**182**	**—**	**(19,151)**	**14**	**(19,137)**
Change on initial application of PFRS 9 (Note 2)	**—**	**(4,309)**	**—**	**—**	**—**	**(182)**	**(136)**	**(4,627)**	**—**	**(4,627)**
Balances as at January 1, 2018, as restated	**583**	**(9)**	**(369)**	**620**	**(24,467)**	**—**	**(136)**	**(23,778)**	**14**	**(23,764)**
Other comprehensive income (loss)	**112**	**—**	**(271)**	**(2)**	**(1,222)**	**—**	**(29)**	**(1,412)**	**5**	**(1,407)**
Balances as at December 31, 2018	**695**	**(9)**	**(640)**	**618**	**(25,689)**	**—**	**(165)**	**(25,190)**	**19**	**(25,171)**
Balances as at January 1, 2017	608	936	7	619	(23,376)	312	—	(20,894)	7	(20,887)
Other comprehensive income (loss)	(25)	3,364	(376)	1	(1,091)	306	—	2,179	7	2,186
Recycled to retained earnings	—	—	—	—	—	(436)	—	(436)	—	(436)
Balances as at December 31, 2017	583	4,300	(369)	620	(24,467)	182	—	(19,151)	14	(19,137)
Balances as at January 1, 2016	524	76	(3)	602	(19,805)	404	—	(18,202)	12	(18,190)
Other comprehensive income (loss)	84	860	10	17	(3,571)	151	—	(2,449)	(5)	(2,454)
Recycled to retained earnings	—	—	—	—	—	(243)	—	(243)	—	(243)
Balances as at December 31, 2016	608	936	7	619	(23,376)	312	—	(20,894)	7	(20,887)

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 December 31, 2018 and 2017 are as follows:

	2018	2017
	(in million pesos)	
Net deferred income tax assets	**27,697**	30,466
Net deferred income tax liabilities	**2,981**	3,366

The components of our consolidated net deferred income tax assets and liabilities as at December 31, 2018 and 2017 are as follows:

	2018	2017
	(in million pesos)	
Net deferred income tax assets:		
Unamortized past service pension costs	**5,252**	5,098
NOLCO	**3,231**	243
Customer list and trademark	**4,670**	6,760
Pension and other employee benefits	**4,296**	3,620
Accumulated provision for expected credit losses/doubtful accounts	**3,709**	3,102
Unearned revenues	**1,776**	1,778
Provision for other assets	**1,595**	2,523
Unrealized foreign exchange losses	**1,092**	746
Accumulated provision for inventory obsolescence and write-down	**916**	669
MCIT	**905**	607
Fixed asset impairment/depreciation due to shortened life of property and equipment	**1,870**	5,597
Derivative financial instruments	**(58)**	(30)
Others	**(1,557)**	(247)
Total deferred income tax assets – net	**27,697**	30,466

	2018	2017
	(in million pesos)	
Net deferred income tax liabilities:		
Intangible assets and fair value adjustment on assets acquired – net of amortization	**2,175**	2,387
Unrealized foreign exchange gains	**366**	269
Investment property	**277**	207
Undepreciated capitalized interest charges	**7**	8
Unamortized fair value adjustment on fixed assets from business combination	**—**	338
Others	**156**	157
Total deferred income tax liabilities	**2,981**	3,366

Changes in our consolidated net deferred income tax assets (liabilities) as at December 31, 2018 and 2017 are as follows:

	2018	2017
	(in million pesos)	
Net deferred income tax assets – balance at beginning of the year	**30,466**	27,348
Net deferred income tax liabilities – balance at beginning of the year	**(3,366)**	(3,567)
Net balance at beginning of the year	**27,100**	23,781
Movement charged directly to other comprehensive income	**591**	507
Excess MCIT deducted against RCIT due	**(370)**	—
Adjustments due to adoption of PFRS 15	**(1,166)**	—
Benefit from (provision for) deferred income tax	**(1,375)**	2,738
Others	**(64)**	74
Net balance at end of the year	**24,716**	27,100
Net deferred income tax assets – balance at end of the year	**27,697**	30,466
Net deferred income tax liabilities – balance at end of the year	**(2,981)**	(3,366)

The analysis of our consolidated net deferred income tax assets as at December 31, 2018 and 2017 are as follows:

	2018	2017
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	**25,163**	26,246
Deferred income tax assets to be recovered within 12 months	**4,872**	5,602
	30,035	31,848
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(1,992)**	(1,206)
Deferred income tax liabilities to be settled within 12 months	**(346)**	(176)
	(2,338)	(1,382)
Net deferred income tax assets	**27,697**	30,466

The analysis of our consolidated net deferred income tax liabilities as at December 31, 2018 and 2017 are as follows:

	2018	2017
	(in million pesos)	
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(2,743)**	(3,026)
Deferred income tax liabilities to be settled within 12 months	**(238)**	(340)
Net deferred income tax liabilities	**(2,981)**	(3,366)

The consolidated provision for (benefit from) income tax for the years ended December 31, 2018, 2017 and 2016 consist of:

	2018	2017	2016
		(in million pesos)	
Current	**2,467**	3,841	6,043
Deferred	**1,375**	(2,738)	(4,134)
	3,842	1,103	1,909

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for corporate income tax for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
		(in million pesos)	
Provision for income tax at the applicable statutory tax rate	**6,845**	4,371	6,621
Tax effects of:			
Nondeductible expenses	**1,235**	784	3,239
Equity share in net losses (earnings) of associates and joint ventures	**26**	(872)	(354)
Difference between Optional Standard Deduction, or OSD, and itemized deductions	**(22)**	(22)	(20)
Income subject to final tax	**(297)**	(2,545)	(2,879)
Income subject to lower tax rate	**(750)**	(520)	(168)
Income not subject to income tax	**(1,827)**	(301)	(35)
Net movement in unrecognized deferred income tax assets and other adjustments	**(1,368)**	208	(4,495)
Actual provision for income tax	**3,842**	1,103	1,909

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 December 31, 2018 and 2017 are as follows:

	2018	2017
	(in million pesos)	
NOLCO	**4,289**	7,151
Accumulated provision for doubtful accounts	**3,144**	3,014
Provisions for other assets	**1,881**	3,735
Fixed asset impairment	**1,148**	43
Pension and other employee benefits	**13**	1,740
Asset retirement obligation	**–**	621
Unearned revenues	**25**	1,314
Gain on disposal of asset	**106**	—
Unrealized foreign exchange losses	**49**	105
MCIT	**27**	111
Accumulated write-down of inventories to net realizable values	**11**	303
Derivative financial instruments and others	**–**	139
	10,693	18,276
Unrecognized deferred income tax assets	**3,227**	5,561

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 Php1,421 million as at December 31, 2018, while Digitel and DMPI's unrecognized deferred income tax assets amounted to Php2,798 million as at December 31, 2017.

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 December 31, 2018 are as follows:

Date Incurred	**Expiry Date**	**MCIT**	**NOLCO**
		(in million pesos)	
December 31, 2016	December 31, 2019	108	1,133
December 31, 2017	December 31, 2020	113	2,203
December 31, 2018	December 31, 2021	711	11,724
		932	15,060
Consolidated tax benefits		932	4,518
Consolidated unrecognized deferred income tax assets		(27)	(1,287)
Consolidated recognized deferred income tax assets		905	3,231

The excess MCIT totaling Php932 million as at December 31, 2018 can be deducted against future RCIT liability. The excess MCIT that was deducted against RCIT amounted to Php488 million, Php15 million and nil for the years ended December 31, 2018, 2017 and 2016, respectively. The amount of expired portion of excess MCIT amounted to Php1 million, Php72 million and Php232 million for the years ended December 31, 2018, 2017 and 2016, respectively. Due to the loss of control of VIH, excess MCIT amounting to Php8 million was derecognized as at December 31, 2018. See *Note 2 – Summary of Significant Accounting Policies – External Funding in VIH*.

NOLCO totaling Php15,060 million as at December 31, 2018 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php1,094 million, Php4,241 million and Php8,531 million for the years ended December 31, 2018, 2017 and 2016, respectively. The amount of expired NOLCO amounted to Php1,272 million, Php354 million and Php571 million for the years ended December 31, 2018, 2017 and 2016, respectively. Due to the loss of control of VIH, excess NOLCO amounting to Php2,518 million was derecognized as at December 31, 2018. See *Note 2 – Summary of Significant Accounting Policies – External Funding in VIH*.

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 years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
			(in million pesos)			
Consolidated net income attributable to equity holders of PLDT	**18,916**	**18,916**	13,371	13,371	20,006	20,006
Dividends on preferred shares (Note 19)	**(59)**	**(59)**	(59)	(59)	(59)	(59)
Consolidated net income attributable to common equity holders of PLDT	**18,857**	**18,857**	13,312	13,312	19,947	19,947
	(in thousands, except per share amounts which are in pesos)					
Weighted average number of common shares	**216,056**	**216,056**	216,056	216,056	216,056	216,056
EPS attributable to common equity holders of PLDT	**87.28**	**87.28**	61.61	61.61	92.33	92.33

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 years ended December 31, 2018 and 2017 are as follows:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, aircraft, furniture and other network equipment	Communications satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
						(in million pesos)				
As at December 31, 2016										
Cost	196,652	115,461	202,581	25,914	55,973	966	14,596	3,440	50,070	665,653
Accumulated depreciation, impairment and amortization	(148,622)	(96,793)	(138,189)	(16,992)	(48,300)	(966)	(12,338)	(265)	–	(462,465)
Net book value	**48,030**	**18,668**	**64,392**	**8,922**	**7,673**	–	**2,258**	**3,175**	**50,070**	**203,188**
Year ended December 31, 2017										
Net book value at beginning of the year	48,030	18,668	64,392	8,922	7,673	–	2,258	3,175	50,070	203,188
Additions (Note 4)	3,410	687	6,512	159	2,682	–	1,878	1	24,970	40,299
Disposals/Retirements	(8)	–	(123)	(38)	(316)	–	–	–	(134)	(619)
Reclassifications (Note 13)	5	3	–	3	(7)	–	–	14	(143)	(125)
Impairment losses recognized during the year (Note 5)	–	–	(389)	–	–	–	–	–	(3,524)	(3,913)
Transfers and others	7,612	3,945	8,031	1,285	1,959	–	1,343	3	(24,178)	–
Translation differences charged directly to cumulative translation adjustments	–	(1)	–	(1)	(4)	–	–	–	–	(6)
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	–	–	–	(2)	–	–	–	–	–	(2)
Depreciation and amortization	(11,594)	(5,340)	(28,242)	(1,274)	(4,106)	–	(1,357)	(2)	–	(51,915)
Net book value at end of the year	**47,455**	**17,962**	**50,181**	**9,054**	**7,881**	–	**4,122**	**3,191**	**47,061**	**186,907**
As at December 31, 2017										
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**

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, aircraft, furniture and other network equipment	Communications satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
						(in million pesos)				
Year ended December 31, 2018										
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 13)	**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										
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**

Interest capitalized to property and equipment that qualified as borrowing costs amounted to Php1,524 million, Php816 million and Php566 million for the years ended December 31, 2018, 2017 and 2016, respectively. See *Note 5 – Income and Expenses – Financing Costs*. The average interest capitalization rate used was approximately 5% each for the years ended December 31, 2018, 2017 and 2016.

Our net foreign exchange differences, which qualified as borrowing costs, amounted to Php411 million, Php106 million and Php111 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The cost of fully depreciated property and equipment that are still being used in the Group's operations amounted to Php171,867 million and Php196,612 million as at December 31, 2018 and 2017, respectively.

As at December 31, 2018 and 2017, the estimated useful lives of our property and equipment are estimated as follows:

Cable and wire facilities	10 – 15 years
Central office equipment	3 – 15 years
Cellular facilities	3 – 10 years
Buildings	25 – 50 years
Vehicles, aircraft, furniture and other network equipment	3 – 7 years
Information origination and termination equipment	3 – 5 years
Leasehold improvements	3 – 5 years or the term of the lease, whichever is shorter
Land improvements	10 years

Impairment of Certain Wireless Network Equipment and Facilities

In December 2017, Smart and DMPI recognized an impairment loss of Php3,913 million pertaining to network improvement project involving spectrum refarm and long-term evolution rollout. These assets include Radio Access Network, or RAN, equipment such as base transceiver sets, base station controllers, access radios, antennas, radio network controllers, power and related support facilities, among others, including software licenses and implementation services affecting the Quezon City and Marikina areas.

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*.

10. Investments in Associates and Joint Ventures

As at December 31, 2018 and 2017, this account consists of:

	2018	2017
	(in million pesos)	
Carrying value of investments in associates:		
VIH	**10,487**	—
MediaQuest PDRs	**9,262**	10,835
Digitel Crossing, Inc., or DCI	**591**	510
AppCard, Inc.	**122**	234
Asia Outsourcing Beta Limited, or Beta	**36**	78
Phunware, Inc., or Phunware	**—**	384
AF Payments, Inc., or AFPI	**—**	—
ACeS International Limited, or AIL	**—**	—
Asia Netcom Philippines Corp., or ANPC	**—**	—
	20,498	12,041
Carrying value of investments in joint ventures:		
VTI, Bow Arken and Brightshare	**32,541**	32,550
Multisys	**2,388**	—
Philippines Internet Holding S.à.r.l., or PHIH	**—**	1,539
Beacon	**—**	—
	34,929	34,089
Total carrying value of investments in associates and joint ventures	**55,427**	46,130

Changes in the cost of investments for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
	(in million pesos)	
Balance at beginning of the year	**51,487**	57,465
Additions during the year	**13,247**	5,633
Disposals	**(5,230)**	(11,612)
Translation and other adjustments	**15**	1
Balance at end of the year	**59,519**	51,487

Changes in the accumulated impairment losses for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
	(in million pesos)	
Balance at beginning of the year	**4,118**	1,892
Additional impairment (Note 4)	**172**	2,223
Translation and other adjustments	**(1,781)**	3
Balance at end of the year	**2,509**	4,118

Changes in the accumulated equity share in net earnings (losses) of associates and joint ventures for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
	(in million pesos)	
Balance at beginning of the year	**(1,239)**	1,285
Equity share in net earnings (losses) of associates and joint ventures:	**(87)**	2,906
MediaQuest PDRs	**90**	(27)
DCI	**81**	71
AFPI	**62**	(130)
VTI, Bow Arken and Brightshare	**(60)**	55
VIH	**(260)**	—
Beta	**—**	2,050
Beacon	**—**	886
PHIH	**—**	1
Share in the other comprehensive loss of associates and joint ventures accounted for using the equity method	**(1)**	(312)
Disposals	**(187)**	(9,610)
Reversal of impairment	**—**	201
Realized portion of deferred gain on the transfer of Beacon and Manila Electric Company, or Meralco, shares	**—**	4,962
Dividends	**—**	(791)
Translation and other adjustments	**(69)**	120
Balance at end of the year	**(1,583)**	(1,239)

Investments in Associates

Investment of PCEV in VIH

The gain on deemed disposal resulting in a loss of control and accordingly the deconsolidation of VIH is reported as part of "Other income (expenses)" in our statement of income. The related gain on remeasurement of retained interest in VIH amounted to Php12,054 million. See related discussion on *Note 2 – Summary of Significant Accounting Policies – Loss of Control of PCEV over VIH.*

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

	2018
	(in million pesos)
Statement of Financial Position:	
Noncurrent assets	**1,318**
Current assets	**11,152**
Noncurrent liabilities	**42**
Current liabilities	**2,926**
Equity	**9,502**
Income Statement:	
Revenues	**136**
Depreciation and amortization	**(19)**
Interest income	**14**
Benefit from income tax	**(1)**
Net loss	**(535)**
Other comprehensive loss	**(2)**
Total comprehensive loss	**(537)**
Equity share in net loss of VIH	**(262)**

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 25 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest*.

The Php6 billion Cignal TV PDRs and Php3.6 billion Satventures PDRs were issued on September 27, 2013. These PDRs 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 25 – 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 25 – 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 Php9,262 million as at December 31, 2018 and Php10,835 million, net of allowance for impairment of Php1,784 million, as at December 31, 2017. 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 December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016:

	2018	2017
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**20,712**	20,055
Current assets	**2,606**	2,820
Noncurrent liabilities	**3,297**	3,292
Current liabilities	**5,549**	5,253
Equity	**14,472**	14,330
Carrying amount of interest in Satventures	**9,262**	9,171
Additional Information:		
Cash and cash equivalents	**611**	1,211
Current financial liabilities*	**487**	397
Noncurrent financial liabilities*	**2,239**	2,097

* *Excluding trade, other payables and provisions.*

	2018	2017	2016
		(in million pesos)	
Income Statements:			
Revenues	**7,339**	6,650	5,925
Depreciation and amortization	**936**	772	1,217
Interest income	**8**	3	2
Interest expense	**274**	249	259
Provision for (benefit from) income tax	**112**	71	(69)
Net income (loss)	**142**	4	(344)
Other comprehensive income	**—**	—	—
Total comprehensive income (loss)	**142**	4	(344)
Equity share in net income (loss) of Satventures	**90**	3	(220)

The table below presents the summarized financial information of Hastings as at December 31, 2017 and for the years ended December 31, 2017 and 2016:

	2017
	(in million pesos)
Statements of Financial Position:	
Noncurrent assets	1,803
Current assets	2,360
Noncurrent liabilities	151
Current liabilities	336
Equity	3,676
Carrying amount of interest in Hastings	1,664
Additional Information:	
Cash and cash equivalents	1,304
Current financial liabilities*	—
Noncurrent financial liabilities*	—

* *Excluding trade, other payables and provisions.*

	2017	2016
	(in million pesos)	
Income Statements:		
Revenues	2,129	2,394
Depreciation and amortization	153	153
Interest income	12	18
Interest expense	19	19
Provision for income tax	22	70
Net income (loss)	(43)	169
Other comprehensive income	—	—
Total comprehensive income (loss)	(43)	169
Equity share in net income (loss) of Hastings	(30)	118

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 March 20, 2019, Digitel management is ready to conclude the transfer of its investment in DCI, subject to PNPI's ability to meet certain regulatory and valuation requirements. 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 management.

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 a total of 27 ordinary shares and 9,643 preferred shares to certain employees of Beta for a total net payment of US$81 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$180.9 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 carrying value of investment in common shares in Beta amounted to Php36 million and Php78 million as at December 31, 2018 and 2017, respectively. The economic interests of PGIC in Beta remained at 18.32% as at December 31, 2018 and 2017.

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

Investment of PLDT Capital in Phunware

See related discussion on *Note 11 – Financial Assets at FVPL/Available-for-Sale Financial Investments – Investment of PLDT Capital in Phunware*.

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:

Date	Transaction	Number of Shares Subscribed	Actual Capital Infusion (Php)
		(in millions)	(in millions)
2014	Smart subscription to AFPI Common Shares	503.2 AFPI Common Shares	300
2015	Smart subscription to AFPI Common Shares	122.5 AFPI Common Shares	160
2016	Capital infusion on unpaid subscription	—	130
2017	Smart subscription to AFPI Preferred Shares	100.0 AFPI Preferred Shares	100
2018	Smart subscription to AFPI Preferred Shares	60.0 AFPI Preferred Shares	60

In June 2017, Smart recognized Php439 million impairment representing the carrying value of investment in AFPI as at June 30, 2017. Consequently, Smart discontinued recognizing its equity share in net losses of AFPI.

In March 2018, Smart recognized additional impairment of Php60 million, representing the capital infusion made during the year. Unrecognized share in net losses of AFPI amounted to Php122 million for the year ended December 31, 2018. Accumulated share in net losses amounting to Php183 million and Php61 million as at December 31, 2018 and 2017, 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.

Investment of ACeS Philippines in AIL

As at December 31, 2018, 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 years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
		(in million pesos)	
Income Statements:			
Revenues	**104**	107	1,960
Net income (loss)	**(80)**	59	526
Other comprehensive loss	**—**	(1)	—
Total comprehensive income (loss)	**(80)**	58	526

We did not receive any dividends from our associates for the years ended December 31, 2018, 2017 and 2016.

We have no outstanding contingent liabilities or capital commitments with our associates as at December 31, 2018 and 2017.

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 27 – 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.

As at December 31, 2018 and 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 and nil, respectively.

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 December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016:

	2018	2017
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**77,261**	77,694
Current assets	**3,070**	2,807
Noncurrent liabilities	**11,193**	11,373
Current liabilities	**2,678**	1,936
Equity	**66,460**	67,192
Carrying amount of interest in VTI, Bow Arken and Brightshare	**32,541**	32,550
Additional Information:		
Cash and cash equivalents	**2,191**	1,961
Current financial liabilities*	**607**	—
Noncurrent financial liabilities*	**—**	—

* *Excluding trade, other payables and provisions.*

	2018	2017	2016
		(in million pesos)	
Income Statements:			
Revenues	**2,505**	2,532	1,189
Depreciation and amortization	**1,171**	1,168	842
Interest income	**43**	28	18
Provision for (benefit from) income tax	**113**	(42)	158
Net income (loss)	**(120)**	110	(2,055)
Other comprehensive income	**—**	—	—
Total comprehensive income (loss)	**(120)**	110	(2,055)
Equity share in net income (loss) of VTI, Bow Arken and Brightshare	**(60)**	55	(1,027)

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 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-extensible 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 Consolidation 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 the 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, through counsel, filed its Comment on the Petition for Review on Certiorari. On April 11, 2018, PLDT, through counsel, 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 noting the PLDT's 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 (1) for 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, the Supreme Court issued a Resolution dated June 19, 2018 where it resolved to grant PLDT's Motion for Leave to File and Admit the Attached Comment. In a Resolution dated July 3, 2018, the Supreme Court resolved to deny PCC's motion to reconsider the Resolution dated April 24, 2018 and grant the 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.

In a Resolution dated June 5, 2018, the Supreme Court noted PCC's Consolidated Reply Ad Cautelam.

The consolidated petitions remain pending as at 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, PGIH paid Php523 million to the owner of Multisys for the acquisition of existing shares and 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. The amount of Php27 million remained outstanding as at December 31, 2018.

As at December 31, 2018, the carrying value of the investment in Multisys amounted to Php2,388 million, including subscription payable of Php800 million and contingent consideration of Php230 million.

On February 1, 2019, the Philippine SEC approved the capital increase of Multisys.

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 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, the management and operations of iCommerce was transferred from VIH to PLDT Online. As a result, VIH ceased to have any direct interest in iCommerce and any indirect interest in PHIH. See *Note 2 – Summary of Significant Accounting Policies – Transfer of iCommerce to PLDT Online.*

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	Total Consideration (Php)
		(in millions)	(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.*

PCEV recognized a deferred gain of Php8,047 million and Php8,145 million on May 12, 2010 and October 25, 2011, respectively, for the difference between the transfer price of the Meralco shares to Beacon and the carrying amount in PCEV's books of the Meralco shares transferred since the transfer was between entities with common shareholders. The deferred gain, presented as a reduction in PCEV's investment in Beacon common shares, will only be realized upon the disposal of the Meralco shares to a third party.

On May 30, 2016, the Board of Directors of Beacon approved the increase in authorized capital stock of Beacon from 5,000 million to 6,000 million divided into 3,000 million common shares with a par value of Php1.00 per share, 2,000 million Class "A" preferred shares with a par value of Php1.00 per share and 1,000 million new Class "B" preferred shares with a par value of Php1.00 per share.

The amount raised by Beacon from the subscription of PCEV and MPIC to Class "B" Preferred Shares was used to fund the subscription to an aggregate 56% of the issued share capital of Global Business Power Corporation, or Global Power, through Beacon Powergen Holdings, Inc., or Beacon Powergen. Global Power is the leading power supplier in Visayas region and Mindoro Island.

On September 9, 2016 and April 20, 2017, the Board of Directors of Beacon approved the redemption of 198 million and 79 million Class "B" preferred shares held by PCEV, respectively. Beacon paid the redemption price equal to the aggregate issue price as well as cash dividends on the said preferred shares amounting to Php21 million and Php43 million, on September 30, 2016 and April 25, 2017, respectively.

Beacon's Dividend Declaration

Total dividends declared by Beacon in 2017 for holders of Class "A" and "B" preferred shares amounted to Php3,355 million, of which PCEV recognized Php833 million as dividend income.

Sale of Beacon's Meralco Shares to MPIC

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

Date	Number of Shares Sold	% of Meralco Shareholdings Sold	Price Per Share (Php)	Total Price (Php)	Deferred Gain Realized[1] (Php)
	(in millions)			(in millions)	
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.*

On June 24, 2014, MPIC settled a portion of the consideration amounting to Php3,000 million and the balance amounting to Php10,243 million was paid on February 27, 2015.

As part of the April 14, 2015 sale, MPIC settled a portion of the consideration amounting to Php1,000 million on April 14, 2015 and Php17,000 million on June 29, 2015, both of which were used by Beacon to partially settle its outstanding loans. MPIC paid Beacon the balance of Php8,487 million on July 29, 2016.

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.

As at 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.

Subsequent to the sale of PCEV's remaining 25% interest in Beacon 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.

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.

PC EV's remaining receivables from MPIC amounted to Php4,353 million, net of Php2 million allowance for ECL, and Php15,552 million as at December 31, 2018 and 2017, respectively.

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

	2018			
	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 income and comprehensive income of our individually immaterial joint ventures amounted to Php322 thousand as at December 31, 2017.

Total revenues, expenses, other income, net income and other comprehensive income of our individually immaterial joint ventures amounted to Php35 million and Php21 million, Php1 million, Php15 million and Php15 million, respectively, for the year ended December 31, 2018.

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at December 31, 2018 and 2017.

11. Financial Assets at FVPL/Available-for-Sale Financial Investments

As at December 31, 2018 and 2017, this account consists of:

	2018	2017
	Financial assets at FVPL	Available-for-sale financial investments
	(in million pesos)	
Rocket Internet	**3,128**	12,848
iflix Limited, or iflix	**844**	1,841
Phunware	**497**	—
Club shares and others	**294**	239
Matrixx	**—**	237
	4,763	15,165

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%.

Further details on investment in Rocket Internet for the years ended December 31, 2018, 2017 and 2016, and as at December 31, 2018 and 2017 are as follows:

	2018	2017	2016
Total market value as at beginning of the year (in million pesos)	**12,848**	10,058	14,587
Closing price per share at end of the year (in Euros)	**20.18**	21.13	19.13
Total market value as at end of the year (in million Euros)	**52**	213	193
Total market value as at end of the year (in million pesos)	**3,128**	12,848	10,058
Total cost of sold shares (in million pesos)	**9,563**	—	—
Net gains (losses) recognized during the year (in million pesos)	**(157)**	2,790	(4,529)
Recognized in profit or loss (in million pesos)	**(157)**	(540)	(5,381)
Recognized in other comprehensive loss (in million pesos)	**—**	3,330	852

	2018	2017
	Financial assets at FVPL	Available-for-sale Financial Investments
	(in million pesos)	
Balance at beginning of the year	**12,848**	10,058
Fair value adjustment in profit or loss	**(157)**	—
Disposal of investments	**(9,563)**	—
Impairment loss	**—**	(540)
Fair value adjustment in other comprehensive income	**—**	3,330
Balance at end of the year	**3,128**	12,848

Based on our judgment, the decline in fair value of our investment in Rocket Internet was considered significant as the cumulative net losses from changes in fair value represented more than 20% decline in value below cost. As a result, total cumulative impairment losses recognized on our investment in Rocket Internet amounted to Php11,045 million as at December 31, 2017. Impairment losses charged in our consolidated income statements amounted to Php540 million and Php5,381 million for the years ended December 31, 2017 and 2016, respectively.

Starting January 1, 2018, PLDT Group adopted the new classification of financial assets - equity instruments in accordance with PFRS 9. Equity instruments previously classified as available-for-sale financial investments in PAS 39 will now be classified and measured at FVPL. As a result, total cumulative valuation loss on our investment in Rocket Internet recognized in our consolidated income statements amounted to Php157 million as at December 31, 2018.

See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of available-for-sale equity investments.*

As at March 20, 2019, closing price of Rocket Internet is €22.90.

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 and Php1,841 million as at December 31, 2018 and 2017, respectively.

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.

The fair value amount of PLDT Capital's investment amounted to Php497 million as at December 31, 2018.

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.

12. Debt Instruments at Amortized Cost/Investment in Debt Securities and Other Long-term Investments

As at December 31, 2018 and 2017, this account consists of:

	2018	2017
	Debt Instruments at amortized cost	Investment in debt securities and other long-term investments
	(in million pesos)	
GT Capital Bond	**150**	150
Security Bank Corporation, or Security Bank, Time Deposits	**—**	100
	150	250
Less current portion (Note 27)	**—**	100
Noncurrent portion (Note 27)	**150**	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 Php5.8 million each for the years ended December 31, 2018, 2017 and 2016. The carrying value of this investment amounted to Php150 million each as at December 31, 2018 and 2017.

Security Bank Time Deposits

In October 2012, PLDT and Smart invested US$2.5 million each in a five-year time deposit with Security Bank at a gross coupon rate of 4.00%, which matured on October 11, 2017. Interest income, net of withholding tax, recognized on this investment amounted to US$146 thousand, or Php7 million, and US$188 thousand, or Php8.9 million, for the years ended December 30, 2017 and 2016, respectively.

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, US$66 thousand, or Php3.3 million, and US$66 thousand, or Php3.1 million, for the years ended December 31, 2018, 2017 and 2016, respectively. The carrying value of this investment amounted to nil and Php100 million as at December 31, 2018 and 2017, respectively.

PSALM Bonds

In April 2013, Smart purchased, at a premium, PSALM Bonds with face value of Php200 million with yield-to-maturity at 4.25% gross, which matured on April 22, 2017. The bond had a gross coupon rate of 7.75% payable on a quarterly basis, and was recognized as HTM investment. Premium was amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php2.3 million and Php7.3 million for the years ended December 31, 2017 and 2016, respectively.

13. Investment Properties

Changes in investment properties account for the years ended December 31, 2018 and 2017 are as follows:

	Land	Land Improvements	Building	Total
		(in million pesos)		
December 31, 2018				
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**
December 31, 2017				
Balance at beginning of the year	1,567	8	315	1,890
Net gains (losses) from fair value adjustments charged to profit or loss	4	–	(7)	(3)
Transfers to property and equipment	(10)	–	(3)	(13)
Disposals	(239)	–	–	(239)
Balance at end of the year	1,322	8	305	1,635

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 Php38 million, Php27 million and Php23 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Rental income relating to investment properties that are being leased and included as part of revenues amounted to Php67 million, Php68 million and Php74 million for the years ended December 31, 2018, 2017 and 2016, 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.

14. Goodwill and Intangible Assets

Changes in goodwill and intangible assets account for the years ended December 31, 2018 and 2017 are as follows:

	Intangible Asset with Indefinite Life Trademark	Intangible Assets with Finite Life: Franchise	Customer List	Spectrum	Licenses	Others	Total Intangible Assets with Finite Life	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
					(in million pesos)					
December 31, 2018										
Costs:										
Balance at beginning of the year	4,505	3,016	4,726	1,205	1,079	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	1,205	1,079	775	10,801	15,306	62,033	77,339
Accumulated amortization and impairment:										
Balance at beginning of the year	—	1,147	3,280	1,071	1,044	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	81	7	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	1,152	1,051	775	8,102	8,102	654	8,756
Net balance at end of the year	4,505	1,682	936	53	28	—	2,699	7,204	61,379	68,583
Estimated useful lives (in years)	—	16	2 – 9	15	18	1 – 10	—	—	—	—
Remaining useful lives (in years)	—	9	1 – 2	1	4	—	—	—	—	—
December 31, 2017										
Costs:										
Balance at beginning of the year	4,505	3,016	4,726	1,205	1,079	1,379	11,405	15,910	63,058	78,968
Additions	—	—	—	—	—	138	138	138	—	138
Translation and other adjustments	—	—	—	—	—	45	45	45	—	45
Balance at end of the year	4,505	3,016	4,726	1,205	1,079	1,562	11,588	16,093	63,058	79,151
Accumulated amortization and impairment:										
Balance at beginning of the year	—	961	2,769	991	1,037	1,251	7,009	7,009	1,679	8,688
Amortization during the year (Notes 4 and 5)	—	186	511	80	7	51	835	835	—	835
Translation and other adjustments	—	—	—	—	—	45	45	45	—	45
Balance at end of the year	—	1,147	3,280	1,071	1,044	1,347	7,889	7,889	1,679	9,568
Net balance at end of the year	4,505	1,869	1,446	134	35	215	3,699	8,204	61,379	69,583
Estimated useful lives (in years)	—	16	2 – 9	15	18	1 – 10	—	—	—	—
Remaining useful lives (in years)	—	10	1 – 3	2	5	5 – 9	—	—	—	—

The consolidated goodwill and intangible assets of our reportable segments as at December 31, 2018 and 2017 are as follows:

	2018			2017		
	Wireless	**Fixed Line**	**Total**	Wireless	Fixed Line	Total
			(in million pesos)			
Trademark	**4,505**	**—**	**4,505**	4,505	—	4,505
Franchise	**1,682**	**—**	**1,682**	1,869	—	1,869
Customer list	**936**	**—**	**936**	1,446	—	1,446
Spectrum	**53**	**—**	**53**	134	—	134
Licenses	**28**	**—**	**28**	35	—	35
Others	**—**	**—**	**—**	215	—	215
Total intangible assets	**7,204**	**—**	**7,204**	8,204	—	8,204
Goodwill	**56,571**	**4,808**	**61,379**	56,571	4,808	61,379
Total goodwill and intangible assets	**63,775**	**4,808**	**68,583**	64,775	4,808	69,583

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.

Smart's digital innovations arm, thru 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 December 31, 2018 is as follows:

Year	**(in million pesos)**
2019	758
2020	619
2021	194
2022	191
2023 and onwards	937
	2,699

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 December 31, 2018, 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 December 31, 2018 and 2017.

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.

15. Cash and Cash Equivalents

As at December 31, 2018 and 2017, this account consists of:

	2018	2017
	(in million pesos)	
Cash on hand and in banks (Note 27)	**5,982**	6,351
Temporary cash investments (Note 27)	**45,672**	26,554
	51,654	32,905

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

Interest income earned from cash in banks and temporary cash investments amounted to Php957 million, Php612 million and Php582 million for the years ended December 31, 2018, 2017 and 2016, respectively.

16. Trade and Other Receivables

As at December 31, 2018 and 2017, this account consists of receivables from:

	2018	2017
	(in million pesos)	
Retail subscribers (Note 27)	**19,444**	17,961
Corporate subscribers (Note 27)	**11,073**	9,641
Foreign administrations (Note 27)	**4,225**	6,517
Domestic carriers (Note 27)	**270**	457
Dealers, agents and others (Note 27)	**5,547**	13,686
	40,559	48,262
Less allowance for expected credit losses/doubtful accounts (Notes 5 and 27)	**16,503**	14,501
	24,056	33,761

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 from 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 24 – Related Party Transactions*.

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

The following table explains the changes in the allowance for expected credit losses from January 1 to December 31, 2018:

	For the year ended December 31, 2018												
	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 millions)												
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**

Changes in the allowance for doubtful accounts for the year ended December 31, 2017 are as follows:

	Total	**Retail Subscribers**	**Corporate Subscribers**	**Foreign Administrations**	**Domestic Carriers**	**Dealers, Agents and Others**
	(in million pesos)					
December 31, 2017						
Balance at beginning of the year	18,788	12,588	3,827	628	134	1,611
Provisions (reversals) and other adjustments	(1,029)	(1,166)	15	310	(59)	(129)
Write-offs	(3,258)	(2,644)	(538)	—	—	(76)
Balance at end of the year	14,501	8,778	3,304	938	75	1,406
Individual impairment	10,160	5,747	3,177	104	51	1,081
Collective impairment	4,341	3,031	127	834	24	325
	14,501	8,778	3,304	938	75	1,406
Gross amount of receivables individually impaired, before deducting any impairment allowance	10,160	5,747	3,177	104	51	1,081

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 27 – Financial Assets and Liabilities*.

17. Inventories and Supplies

As at December 31, 2018 and 2017, this account consists of:

	2018	2017
	(in million pesos)	
Terminal and cellular phone units:		
At net realizable value[1]	**2,093**	2,691
At cost	**3,423**	3,834
Spare parts and supplies:		
At net realizable value[1]	**173**	664
At cost	**1,673**	1,428
Others:		
At net realizable value[1]	**612**	578
At cost	**994**	1,163
Total inventories and supplies at the lower of cost or net realizable value	**2,878**	3,933

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

The cost of inventories and supplies recognized as expense for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
		(in million pesos)	
Cost of sales and services	**10,632**	10,951	15,965
Provisions (Note 5)	**1,528**	907	1,941
Repairs and maintenance	**692**	721	596
	12,852	12,579	18,502

Changes in the allowance for inventory obsolescence and write-down for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
	(in million pesos)	
Balance at beginning of the year	**2,492**	2,617
Provisions (Note 5)	**1,528**	907
Write-off and others	**(808)**	(1,032)
Balance at end of the year	**3,212**	2,492

18. Prepayments

As at December 31, 2018 and 2017, this account consists of:

	2018	2017
	(in million pesos)	
Prepaid taxes	**11,466**	10,451
Prepaid fees and licenses	**915**	848
Prepaid rent	**672**	2,126
Prepaid benefit costs (Note 25)	**393**	400
Prepaid repairs and maintenance	**204**	207
Prepaid insurance (Note 24)	**63**	105
Prepaid selling and promotions (Note 24)	**6**	289
Other prepayments (Note 24)	**296**	577
	14,015	15,003
Less current portion of prepayments	**7,760**	9,633
Noncurrent portion of prepayments	**6,255**	5,370

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 25 – Employee Benefits*.

19. Equity

PLDT's number of shares of subscribed and outstanding capital stock as at December 31, 2018 and 2017 are as follows:

	2018	2017
	(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 years ended December 31, 2018 and 2017.

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 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 PLDT Subscriber Investment Plan, or 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 December 31, 2018. See *Note 1 – Corporate Information* and *Note 26 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition*.

Redemption of Preferred Stock

On September 23, 2011, the Board of Directors approved the redemption, or the Redemption, of all outstanding shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock, or the 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 A to FF 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 A to GG Shares. 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 A to 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 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 A to 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 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 AA 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 Php8 million, Php13 million and Php23 million were withdrawn from the Trust Account, representing total payments on redemption for the years ended December 31, 2018, 2017 and 2016, respectively. The balance of the Trust Account of Php7,862 million were presented as part of "Current portion of other financial assets" as at December 31, 2018 and Php7,870 million were presented as part of "Current portion of advances and other noncurrent assets" as at December 31, 2017 and the related redemption liability were presented as part of "Accrued expenses and other current liabilities" in our consolidated statements of financial position as at December 31, 2018 and 2017. See *Note 2 – Summary of Significant Accounting Policies – Issuance of Perpetual Notes* and *Note 23 – Accrued Expenses and Other Current Liabilities* and *Note 27 – 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 years ended December 31, 2018, 2017 and 2016 are detailed as follows:

December 31, 2018

	Date			Amount	
Class	**Approved**	**Record**	**Payable**	**Per Share**	**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**
	November 8, 2018	**November 23, 2018**	**December 15, 2018**	**–**	**12**
					49
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**
	December 4, 2018	**December 19, 2018**	**January 15, 2019**	**–**	**3**
					10
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					**13,887**

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

December 31, 2017

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	May 12, 2017	June 1, 2017	June 30, 2017	1.00	–
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	February 7, 2017	February 24, 2017	March 15, 2017	–	12
	May 12, 2017	May 26, 2017	June 15, 2017	–	12
	August 10, 2017	August 25, 2017	September 15, 2017	–	13
	November 9, 2017	November 28, 2017	December 15, 2017	–	12
					49
Voting Preferred Stock	March 7, 2017	March 30, 2017	April 15, 2017	–	3
	June 13, 2017	June 27, 2017	July 15, 2017	–	2
	September 26, 2017	October 10, 2017	October 15, 2017	–	2
	December 5, 2017	December 20, 2017	January 15, 2018	–	3
					10
Common Stock					
Regular Dividend	March 7, 2017	March 21, 2017	April 6, 2017	28.00	6,049
	August 10, 2017	August 25, 2017	September 8, 2017	48.00	10,371
					16,420
Charged to retained earnings					**16,479**

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

December 31, 2016

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
				(in million pesos, except per share amounts)	
Cumulative Convertible Preferred Stock					
Series II (Final Dividends)	April 12, 2016	February 10, 2016	May 11, 2016	0.0027/day	–
Series JJ	May 3, 2016	June 2, 2016	June 30, 2016	1.00	–
					–
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 26, 2016	February 24, 2016	March 15, 2016	–	12
	May 3, 2016	May 24, 2016	June 15, 2016	–	12
	August 2, 2016	August 18, 2016	September 15, 2016	–	12
	November 14, 2016	November 28, 2016	December 15, 2016	–	12
					48
Voting Preferred Stock	February 29, 2016	March 30, 2016	April 15, 2016	–	3
	June 14, 2016	June 30, 2016	July 15, 2016	–	3
	August 30, 2016	September 20, 2016	October 15, 2016	–	2
	December 6, 2016	December 20, 2016	January 15, 2017	–	3
					11
Common Stock					
Regular Dividend	February 29, 2016	March 14, 2016	April 1, 2016	57.00	12,315
	August 2, 2016	August 16, 2016	September 1, 2016	49.00	10,587
					22,902
Charged to retained earnings					**22,961**

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

Our dividends declared after December 31, 2018 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*	January 29, 2019	February 22, 2019	March 15, 2019	–	12
Voting Preferred Stock	March 7, 2019	March 27, 2019	April 15, 2019	–	3
Common Stock					
Regular Dividend	March 21, 2019	April 4, 2019	April 23, 2019	36.00	7,778
Charged to retained earnings					7,793

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

Retained Earnings Available for Dividend Declaration

The following table shows the reconciliation of our consolidated retained earnings available for dividend declaration as at December 31, 2018:

	(in million pesos)
Consolidated unappropriated retained earnings as at December 31, 2017	1,157
Effect of PAS 27 adjustments	33,995
Parent Company's unappropriated retained earnings at beginning of the year	35,152
Effect of adoption of PFRS 9 and PFRS 15	129
Parent Company's unappropriated retained earnings at beginning of the year, as restated	35,281
Less: Cumulative unrealized income – net of tax:	
Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)	(523)
Fair value adjustments of investment property resulting to gain	(778)
Fair value adjustments (mark-to-market gains)	(3,182)
Parent Company's unappropriated retained earnings available for dividends as at January 1, 2018	30,798
Parent Company's net income for the year	11,159
Less: Fair value adjustment of investment property resulting to gain	(110)
Fair value adjustments (mark-to-market gains)	(258)
	10,791
Less: Cash dividends declared during the year	
Preferred stock	(59)
Common stock	(13,828)
	(13,887)
Parent Company's unappropriated retained earnings available for dividends as at December 31, 2018	**27,702**

As at December 31, 2018, our consolidated unappropriated retained earnings amounted to Php12,081 million while the Parent Company's unappropriated retained earnings amounted to Php32,553 million. The difference of Php20,472 million pertains to the effect of PAS 27 in our investments in subsidiaries, associates and joint ventures accounted for under equity method.

As at December 31, 2017, our consolidated unappropriated retained earnings amounted to Php634 million while the Parent Company's unappropriated retained earnings amounted to Php35,152 million. The difference of Php34,518 million pertains to the effect of PAS 27 in our investments in subsidiaries, associates and joint ventures accounted for under equity method.

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 Php236 million and Php177 million as at December 31, 2018 and 2017, respectively.

On July 18, 2017, Smart issued additional Php1,100 million perpetual notes, to RCBC, Trustee of PLDT's Redemption Trust Fund, under a new Notes Facility Agreement. The transaction costs amounting to Php5 million were accounted as a deduction from the perpetual notes. Smart paid distributions amounting to Php57 million and Php14 million as at December 31, 2018 and 2017, respectively. 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 and Smart may, at its sole option, redeem the notes in whole but not in part. 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.

20. Interest-bearing Financial Liabilities

As at December 31, 2018 and 2017, this account consists of the following:

	2018	2017
	(in million pesos)	
Long-term portion of interest-bearing financial liabilities:		
Long-term debt (Notes 9 and 27)	**155,835**	157,654
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year (Notes 9 and 27)	**20,441**	14,957

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 Php418 million and Php525 million as at December 31, 2018 and 2017, respectively. See *Note 27 – Financial Assets and Liabilities*.

The following table describes all changes to unamortized debt discount for the years ended December 31, 2018 and 2017:

	2018	2017
	(in million pesos)	
Unamortized debt discount at beginning of the year	**525**	631
Additions during the year	**38**	113
Accretion during the year included as part of Financing costs (Note 5)	**(145)**	(219)
Unamortized debt discount at end of the year	**418**	525

Long-term Debt

As at December 31, 2018 and 2017, long-term debt consists of the following:

		2018		2017	
Description	**Interest Rates**	**U.S. Dollar**	**Php**	U.S. Dollar	Php
			(in millions)		
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Exportkreditnamnden, or EKN	1.4100% in 2018 and 1.4100% to 1.9000% and US$LIBOR + 0.3000% in 2017	**2**	**103**	11	547
Fixed Rate Notes	8.3500% in 2017	**—**	**—**	—	—
Term Loans:					
GSM Network Expansion Facilities	US$LIBOR + 1.1125% in 2017	**—**	**—**	—	—
Others	2.8850% and US$ LIBOR + 0.7900% to 1.6000% in 2018 and 2017	**442**	**23,249**	690	34,485
		444	**23,352**	701	35,032
Philippine Peso Debts:					
Fixed Rate Corporate Notes	5.3938% to 5.9058% in 2018 and 5.3300% to 6.2600% in 2017		**15,511**		15,675
Fixed Rate Retail Bonds	5.2250% to 5.2813% in 2018 and 2017		**14,943**		14,922
Term Loans:					
Unsecured Term Loans	3.9000% to 6.7339%; PDST-R2/[1] PHP BVAL + 0.5000% to 1.0000% in 2018 and 3.9000% to 6.4044%; BSP overnight rate and PDST-R2 + 1.0000% in 2017		**122,470**		106,982
			152,924		137,579
Total long-term debt (Notes 27 and 28)			**176,276**		172,611
Less portion maturing within one year (Note 27)			**20,441**		14,957
Noncurrent portion of long-term debt (Note 27)			**155,835**		157,654

[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 December 31, 2018 are as follows:

	U.S. Dollar Debt		Php Debt	Total
Year	**U.S. Dollar**	**Php**	**Php**	**Php**
	(in millions)			
2019	**110**	**5,779**	**14,776**	**20,555**
2020	**210**	**11,057**	**8,943**	**20,000**
2021	**46**	**2,386**	**20,098**	**22,484**
2022	**30**	**1,597**	**14,392**	**15,989**
2023	**25**	**1,314**	**24,098**	**25,412**
2024 and onwards	**25**	**1,314**	**70,940**	**72,254**
(Note 27)	**446**	**23,447**	**153,247**	**176,694**

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 December 31, 2018 and 2017:

	Date of		Terms			Drawn Amount	Cancelled Undrawn Amount		Outstanding Amounts 2018		2017	
Loan Amount	**Loan Agreement**	**Lender**	**Installments**	**Final Installment**	**Dates Drawn**	**U.S. Dollar**		**Paid in full on**	**U.S. Dollar**	**Php**	U.S. Dollar	Php
						(in millions)			(in millions)			
U.S. Dollar Debts												
EKN, the Export-Credit Agency of Sweden												
DMPI												
US$59.2M(1)	December 17, 2007	ING Bank N.V., or ING Bank, Societe Generale and Calyon	18 equal semi-annual	March 31, 2017	Various dates in 2008-2009	59.1	0.1	March 31, 2017	—	—	—	—
DMPI												
US$51.2M(2)	December 17, 2007	ING Bank, Societe Generale and Calyon	18 equal semi-annual	June 30, 2017	Various dates in 2008-2009	51.1	0.1	March 31, 2017	—	—	—	—
Smart												
US$49M(3) Tranche A1: US$24M; Tranche A2: US$24M; Tranche B: US$1M	June 10, 2011	Nordea Bank AB (publ), or Nordea Bank, subsequently assigned to SEK on June 10, 2011	10 equal semi-annual	Tranche A1 and B: December 29, 2016; Tranche A2: October 30, 2017	Various dates in 2012 and February 21, 2013	49.0	—	April 28, 2017	—	—	—	—
Smart												
US$45.6M(3) 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	—	—	**2** (*)	**103** (*)	11 (*)	547 (*)
									2	**103**	11	547

(*) *Amounts are net of unamortized discount and/or debt issuance cost.*
(1) *The purpose of this loan is to finance the equipment and service contracts for the Phase 7 North Luzon Expansion and Change-out Project.*
(2) *The purpose of this loan is to finance the equipment and service contracts for the Phase 7 Expansion Project in Visayas and Mindanao.*
(3) *The purpose of this loan is to finance the supply and services contracts for the modernization and expansion project.*

Loan Amount	Issuance Date	Trustee	Terms: Installments	Terms: Maturity	Repurchase: Date	Repurchase: Amount U.S. Dollar	Paid in full on	Outstanding Amounts 2018: U.S. Dollar	Outstanding Amounts 2018: Php	Outstanding Amounts 2017: U.S. Dollar	Outstanding Amounts 2017: Php
						(in millions)		(in millions)			
Fixed Rate Notes											
PLDT											
US$300M[(1)]	March 6, 1997	Deutsche Bank Trust Company Americas	Non-amortizing	March 6, 2017	Various dates in 2008-2014	71.6	March 6, 2017	–	–	–	–

[(1)] *This fixed rate note has a coupon rate of 8.3500%. The purpose of this note is to finance service improvements and expansion programs.*

Loan Amount	Date of Loan Agreement	Lender	Terms: Installments	Terms: Final Installment	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2018: U.S. Dollar	Outstanding Amounts 2018: Php	Outstanding Amounts 2017: U.S. Dollar	Outstanding Amounts 2017: Php
						U.S. Dollar (in millions)			(in millions)			
Term Loans												
GSM Network Expansion Facilities												
Smart												
US$50M[(1)]	May 29, 2012	MUFG Bank, Ltd., formerly The Bank of Tokyo Mitsubishi UFJ, Ltd.	9 equal semi-annual, commencing on May 29, 2013	May 29, 2017	Various dates in 2012	50	–	May 29, 2017	–	–	–	–

[(1)] *The purpose of this loan is to finance the equipment and service contracts for the modernization and expansion project.*

Loan Amount	Date of Loan Agreement	Lender	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2018: U.S. Dollar	Outstanding Amounts 2018: Php	Outstanding Amounts 2017: U.S. Dollar	Outstanding Amounts 2017: Php
					U.S. Dollar (in millions)			(in millions)			
Other Term Loans[(1)]											
PLDT											
US$150M	March 7, 2012	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 March 7, 2017	Various dates in 2012	150	—	March 7, 2017	—	—	—	—
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	—	—	33	1,665
Smart											
US$35M	January 28, 2013	China Banking Corporation, or CBC	10 equal semi-annual installment, with final installment on January 29, 2018	May 7, 2013	35	—	January 30, 2017	—	—	—	—
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	—	—	3 (*)	178 (*)
Smart											
US$80M	May 31, 2013	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	—	—	8	400
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	—	—	15 (*)	747 (*)
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	—	—	**11** (*)	**583** (*)	33 (*)	1,658 (*)
								11	**583**	92	4,648

(*) *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 to refinance existing loan obligations which were utilized for network expansion and improvement programs.*

Loan Amount	Date of Loan Agreement	Lender	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2018 U.S. Dollar	2018 Php	2017 U.S. Dollar	2017 Php
					U.S. Dollar (in millions)			(in millions)			
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	—	—	**6** (*)	**291** (*)	17 (*)	828 (*)
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	—	—	**96**	**5,046**	97	4,846
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**	**2,536**	49	2,435
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	—	—	**104** (*)	**5,492** (*)	199 (*)	9,945 (*)
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	—	—	**66** (*)	**3,490** (*)	110 (*)	5,511 (*)
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	—	—	**61** (*)	**3,198** (*)	76 (*)	3,791 (*)
PLDT US$25M	March 22, 2016	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 30, 2023	March 30, 2016	25	—	—	**25** (*)	**1,307** (*)	25 (*)	1,241 (*)
PLDT US$25M	January 31, 2017	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 27, 2024	March 30, 2017	25	—	—	**25** (*)	**1,306** (*)	25 (*)	1,240 (*)
								431	**22,666**	598	29,837
								442	**23,249**	690	34,485

(*) *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	Prepayments Amount Php	Prepayments Date	Outstanding Amounts 2018 U.S. Dollar	Outstanding Amounts 2017 Php
					(in millions)			(in millions)
Philippine Peso Debts								
Fixed Rate Corporate Notes[(1)]								
Smart Php5,500M Series A: Php1,910M; Series B: Php3,590M	March 15, 2012	Metrobank	Series A: 1% annual amortization starting March 19, 2013, with the balance of 96% payable on March 20, 2017; Series B: 1% annual amortization starting March 19, 2013 with the balance of 91% payable on March 19, 2022	Drawn and issued on March 19, 2012	1,376 2,803	July 19, 2013 June 19, 2017	**—**	—
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	July 29, 2013	**282**	285
PLDT Php8,800M Series A: Php4,610M; Series B: Php4,190M	September 19, 2012	Metrobank	Series A: 1% annual amortization on the first up to sixth year, with the balance payable on September 21, 2019; Series B: 1% annual amortization on the first up to ninth year, with the balance payable on September 21, 2022	September 21, 2012	2,055	June 21, 2013	**6,340**	6,408
PLDT Php6,200M Series A: 7-year notes Php3,775M; Series B: 10-year notes Php2,425M	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; 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	November 22, 2012	3,549	February 22, 2019	**5,828**	5,890
Smart Php1,376M Series A: Php742M; Series B: Php634M	June 14, 2013	Metrobank	Series A: Annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 97% payable on March 20, 2017; Series B: Annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 92% payable on March 21, 2022	June 19, 2013	608	June 19, 2017	**—**	—
PLDT Php2,055M Series A: Php1,735M; Series B: Php320M	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; 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	June 21, 2013	—	—	**1,932**	1,952
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**	1,140
							15,511	15,675

(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	Prepayments Amount Php	Prepayments Date	Outstanding Amounts 2018 Php	Outstanding Amounts 2017 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	—	—	**14,943** (*)	14,922 (*)

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

(1) *This fixed rate retail corporate bond is comprised of Php12.4 billion and Php2.6 billion due in 2021 and 2024 with a coupon rate of 5.2250% and 5.2813%, respectively. 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	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2018 Php	Outstanding Amounts 2017 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	–	–	**1,960**	1,980
PLDT									
Php3,000M	April 27, 2012	Land Bank of the Philippines, or LBP	Annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity on July 18, 2017	July 18, 2012	3,000	—	January 18, 2017	**—**	—
PLDT									
Php2,000M	May 29, 2012	LBP	Annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity on June 27, 2017	June 27, 2012	2,000	—	June 27, 2017	**—**	—
Smart									
Php1,000M	June 7, 2012	LBP	Annual amortization rate of 1% of the principal amount commencing on the first year of the initial drawdown up to the fourth year and the balance payable upon maturity on August 22, 2017	August 22, 2012	1,000	—	February 22, 2017	**—**	—
PLDT									
Php200M	August 31, 2012	Manufacturers Life Insurance Co. (Phils.), Inc.	Payable in full upon maturity on October 9, 2019	October 9, 2012	200	—	—	**200**	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	—	—	**950**	960
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**	2,850
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**	1,920
								8,830	8,910

(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	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2018 Php	Outstanding Amounts 2017 Php
					(in millions)			(in millions)	
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	—	—	**1,497** (*)	1,795 (*)
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	—	—	**2,846** (*)	2,874 (*)
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	—	—	**2,875** (*)	2,903 (*)
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	—	—	**480**	485
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	—	—	**1,920**	1,940
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	—	—	**480**	485
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	—	—	**960**	970
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	—	—	**1,440**	1,455
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	—	—	**1,940**	1,960
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	—	—	**2,910**	2,940
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	—	—	**4,850**	4,900
								24,698	25,207

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

Loan Amount	Date of Loan Agreement	Lender	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2018 Php	Outstanding Amounts 2017 Php
					(in millions)			(in millions)	
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	—	—	**4,833** (*)	4,880 (*)
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	—	—	**4,832** (*)	4,880 (*)
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	—	—	**4,831** (*)	4,879 (*)
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	—	—	**6,289** (*)	6,983 (*)
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	—	—	**2,957** (*)	2,986 (*)
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	—	—	**5,859** (*)	5,915 (*)
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	—	—	**7,807** (*)	7,963 (*)
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	—	—	**6,346** (*)	6,407 (*)
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**	2,970
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	—	—	**5,281** (*)	5,333 (*)
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	—	—	**5,175** (*)	5,224 (*)
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
								59,650	60,920

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

Loan Amount	Date of Loan Agreement	Lender	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2018 Php	2017 Php
					(in millions)			(in millions)	
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	—	—	**1,953** (*)	1,971 (*)
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**	1,000
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	—	—	**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	—	—	**3,450** (*)	3,484 (*)
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	—	—	**1,500**	—
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	—	—	**1,970**	1,990
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	—	—	**3,465**	3,500
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	—	—	**1,500**	—
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	—	—	**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	—	—	**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	—	—	**1,000**	—
								20,828	11,945

(*) *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	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2018 Php	Outstanding Amounts 2017 Php
					(in millions)			(in millions)	
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	—	—	**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	**—**	—
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	—	—	**1,986** (*)	—
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**	—
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	—	—	**2,978** (*)	—
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	—	—	—	—	**—**	—
PLDT Php8,000M	February 18, 2019	UBP	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	—	—	—	—	**—**	—
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	—	—	—	—	**—**	—
								8,464	—
								122,470	106,982

(*) *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 and other financial 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 13% and 20% were denominated in U.S. dollars as at December 31, 2018 and 2017, 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 27 – Financial Assets and Liabilities – Foreign Currency Exchange Risk.*

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) making or permitting any material change in the character of its business; (b) 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 suppliers, banks (foreign and local alike) and other financial institutions provide for certain restrictions and requirements with respect to, among others, maintenance of percentage of ownership of specific shareholders, incurrence of additional long-term indebtedness or guarantees and creation of property encumbrances.

As at December 31, 2018 and 2017, we were in compliance with all of our debt covenants. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

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 Php514 thousand and Php679 thousand as at December 31, 2018 and 2017, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Leases, Note 9 – Property and Equipment* and *Note 27 – Financial Assets and Liabilities*.

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.

21. Deferred Credits and Other Noncurrent Liabilities

As at December 31, 2018 and 2017, this account consists of:

	2018	2017
	(in million pesos)	
Accrual of capital expenditures under long-term financing (Note 28)	**2,965**	5,580
Provision for asset retirement obligations	**1,656**	1,630
Contract liabilities and unearned revenues	**532**	324
Others	**131**	168
	5,284	7,702

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 20 – Interest-bearing Financial Liabilities*.

The following table summarizes all changes to asset retirement obligations for the years ended December 31, 2018 and 2017:

	2018	2017
	(in million pesos)	
Provision for asset retirement obligations at beginning of the year	**1,630**	1,582
Additional liability recognized during the year	**161**	82
Accretion expenses	**47**	39
Settlement of obligations and others	**(182)**	(73)
Provision for asset retirement obligations at end of the year	**1,656**	1,630

22. Accounts Payable

As at December 31, 2018 and 2017, this account consists of:

	2018	2017
	(in million pesos)	
Suppliers and contractors (Note 27)	**69,099**	54,196
Carriers and other customers (Note 27)	**1,815**	2,083
Taxes (Note 26)	**1,789**	1,952
Related parties (Notes 24 and 27)	**684**	451
Others	**1,223**	1,763
	74,610	60,445

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 24 – Related Party Transactions*.

For detailed discussion on the PLDT Group's liquidity risk management processes, see *Note 27 – Financial Assets and Liabilities – Liquidity Risk*.

23. Accrued Expenses and Other Current Liabilities

As at December 31, 2018 and 2017, this account consists of:

	2018	2017
	(in million pesos)	
Accrued utilities and related expenses (Notes 24 and 27)	**57,748**	53,433
Accrued taxes and related expenses (Note 26)	**11,885**	11,645
Accrued employee benefits and other provisions (Notes 24, 25 and 27)	**7,980**	6,599
Liability from redemption of preferred shares (Notes 19 and 27)	**7,862**	7,870
Contract liabilities and unearned revenues (Note 21)	**6,650**	8,039
Accrued interests and other related costs (Note 27)	**1,347**	1,176
Others	**2,252**	1,978
	95,724	90,740

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.

24. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. 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 PLDT Group has not recorded any impairment of receivables relating to amounts owed by related parties as at December 31, 2018 and 2017. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The following table provides the summary of outstanding balances as at December 31, 2018 and 2017 transactions that have been entered into with related parties:

	Classifications	Terms	Conditions	2018	2017
				(in million pesos)	
Indirect investment in joint ventures through PCEV:					
Meralco	Accrued expenses and other current liabilities (Note 23)	Electricity charges – immediately upon receipt of invoice	Unsecured	**518**	653
	Accrued expenses and other current liabilities (Note 23)	Pole rental – 45 days upon receipt of billing	Unsecured	**209**	5
Meralco Industrial Engineering Services Corporation, or MIESCOR	Accrued expenses and other current liabilities (Note 23)	30 days upon receipt of invoice	Unsecured	**3**	—
MPIC	Financial assets at FVOCI - net of current portion (Note 10)	Due on June 2020 and 2021 for 2018 and due on June 2019 to 2021 for 2017; non-interest bearing	Unsecured	**2,749**	—
	Current portion of financial assets at fair value through other comprehensive income (Note 10)	Due on June 2019 for 2018 and due on June 2018 for 2017; non-interest bearing	Unsecured	**1,604**	—
	Trade and other receivables (Note 16)	Due on June 2018 for 2017 and June 2017 for 2016; non-interest bearing	Unsecured	**—**	4,091
	Advances and other noncurrent assets – net of current portion (Note 10)	Due on 2019 to 2021 for 2017 and 2018 to 2020 for 2016; non-interest bearing	Unsecured	**—**	11,461
Transactions with major stockholders, directors and officers:					
NTT Finance Corporation	Interest bearing financial liabilities (Note 20)	Non-amortizing, payable upon maturity on March 30, 2023 and March 27, 2024	Unsecured	**2,628**	2,498
NTT World Engineering Marine Corporation	Accrued expenses and other current liabilities (Note 23)	1st month of each quarter; non-interest bearing	Unsecured	**84**	33
NTT Communications	Accrued expenses and other current liabilities (Note 23)	30 days upon receipt of invoice; non-interest bearing	Unsecured	**20**	9
NTT Worldwide Telecommunications Corporation	Accrued expenses and other current liabilities (Note 23)	30 days upon receipt of invoice; non-interest bearing	Unsecured	**3**	6
NTT DOCOMO	Accrued expenses and other current liabilities (Note 23)	30 days upon receipt of invoice; non-interest bearing	Unsecured	**12**	11
JGSHI and Subsidiaries	Accounts payable and accrued expenses and other current liabilities (Notes 22 and 23)	Immediately upon receipt of invoice	Unsecured	**13**	11
Malayan Insurance Co., Inc. or Malayan	Prepayments (Note 18)	Immediately upon receipt of invoice	Unsecured	**19**	66
	Accrued expenses and other current liabilities (Note 23)	Immediately upon receipt of invoice	Unsecured	**6**	11
Gotuaco del Rosario and Associates, or Gotuaco	Prepayments (Note 18)	Immediately upon receipt of invoice	Unsecured	**—**	12
	Accrued expenses and other current liabilities (Note 23)	Immediately upon receipt of invoice	Unsecured	**5**	15
Others:					
TV5 Network, Inc., or TV5	Prepayments (Note 18)	—	Unsecured	**—**	277
Cignal Cable Corporation, or Cignal Cable (formerly Dakila Cable TV Corp.)	Prepayments (Note 18)	—	Unsecured	**169**	—
	Accrued expenses and other current liabilities (Note 23)	Immediately upon receipt of invoice	Unsecured	**—**	125
Various	Trade and other receivables (Note 16)	30 days upon receipt of invoice	Unsecured	**2,094**	1,867
	Accounts payable (Note 22)	Immediately upon receipt of billing	Unsecured	**684**	365
	Accrued expenses and other current liabilities (Note 23)	Immediately upon receipt of billing	Unsecured	**9**	35

The following table provides the summary of transactions that have been entered into with related parties for the years ended December 31, 2018, 2017 and 2016 in relation with the table above.

	Classifications	2018	2017	2016
			(in million pesos)	
Indirect investment in joint ventures through PCEV:				
Meralco	Repairs and maintenance	**2,771**	2,397	2,401
	Rent	**583**	298	272
MIESCOR	Repairs and maintenance	**33**	117	144
	Construction-in-progress	**33**	81	67
Transactions with major stockholders, directors and officers:				
NTT Finance Corporation	Financing costs	**100**	56	9
NTT World Engineering Marine Corporation	Repairs and maintenance	**17**	47	18
NTT Communications	Professional and other contracted services	**95**	88	77
	Rent	**5**	4	7
NTT Worldwide Telecommunications Corporation	Selling and promotions	**5**	8	10
NTT DOCOMO	Professional and other contracted services	**96**	94	95
JGSHI and Subsidiaries	Rent	**236**	118	125
	Repairs and maintenance	**111**	69	57
	Communication, training and travel	**20**	2	2
	Miscellaneous expenses	**7**	—	—
Malayan	Insurance and security services	**182**	179	242
Gotuaco	Insurance and security services	**163**	126	156
Asia Link B.V., or ALBV	Professional and other contracted services	**34**	190	183
First Pacific Investment Management Limited, or FPIML	Professional and other contracted services	**135**	—	—
Others:				
TV5	Selling and promotions	**409**	149	126
Cignal Cable	Cost of services	**372**	514	116
Various	Revenues	**2,355**	2,059	781
	Expenses	**1,935**	1,223	1,113

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 Php2,771 million, Php2,397 million and Php2,401 million for the years ended December 31, 2018, 2017 and 2016, 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 Php518 million and Php653 million as at December 31, 2018 and 2017, 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 rent in our consolidated income statements, amounted to Php583 million, Php298 million and Php272 million for the years ended December 31, 2018, 2017 and 2016, 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 Php209 million and Php5 million as at December 31, 2018 and 2017, 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 will expire 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 Php96 thousand, Php3 million and Php32 million for the years ended December 31, 2018, 2017 and 2016, respectively. Total amounts capitalized to property and equipment amounted to Php14 million, Php5 million and Php4 million for the years ended December 31, 2018, 2017 and 2016, 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 and Php165 thousand as at December 31, 2018 and 2017, respectively.

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 will expire 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 Php33 million, Php114 million and Php112 million for the years ended December 31, 2018, 2017 and 2016, respectively. Total amounts capitalized to property and equipment amounted to Php19 million, Php76 million and Php63 million for the years ended December 31, 2018, 2017 and 2016, 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 and nil as at December 31, 2018 and 2017, respectively.

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 December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016 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 Php50 million, Php28 million and Php9.5 million for the years ended December 31, 2018, 2017 and 2016, respectively. The amounts of US$25 million, or Php1,314 million, and US$25 million, or Php1,249 million, remained outstanding as at December 31, 2018 and 2017, 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 Php50 million and Php28 million for the years ended December 31, 2018 and 2017, respectively. The amount of US$25 million, or Php1,314 million, and US$25 million, or Php1,249 million, remained outstanding as at December 31, 2018 and 2017, 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 Php17 million, Php47 million and Php18 million for the years ended December 31, 2018, 2017 and 2016, 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 Php84 million and Php33 million as at December 31, 2018 and 2017, 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 Php95 million, Php88 million and Php77 million for the years ended December 31, 2018, 2017 and 2016, 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 Php16 million and Php7 million as at December 31, 2018 and 2017, respectively;

- *Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses. The fees under this agreement, which were presented as part of rent in our consolidated income statements, amounted to Php5 million, Php4 million and Php7 million for the years ended December 31, 2018, 2017 and 2016, 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 Php4 million and Php2 million as at December 31, 2018 and 2017, 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 Php5 million, Php8 million and Php10 million for the years ended December 31, 2018, 2017 and 2016, 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 Php6 million as at December 31, 2018 and 2017, 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 Php96 million, Php94 million and Php95 million for the years ended December 31, 2018, 2017 and 2016, 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 Php12 million and Php11 million as at December 31, 2018 and 2017, 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 Php236 million, Php118 million and Php125 million for the years ended December 31, 2018, 2017 and 2016, 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 Php10 million and Php5 million as at December 31, 2018 and 2017, 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 Php138 million, Php71 million and Php59 million for the years ended December 31, 2018, 2017 and 2016, 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 and Php6 million as at December 31, 2018 and 2017, respectively.

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 Php182 million, Php179 million and Php242 million for the years ended December 31, 2018, 2017 and 2016, respectively. Under this agreement, outstanding prepayments, which were presented as part of prepayments in our consolidated statements of financial position, amounted to Php19 million and Php66 million as at December 31, 2018 and 2017, 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 Php6 million and Php11 million as at December 31, 2018 and 2017, 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 Php163 million, Php126 million and Php156 million for the years ended December 31, 2018, 2017 and 2016, respectively. Under this agreement, the outstanding prepayments, which were presented as part of prepayments in our consolidated statements of financial position, amounted to nil and Php12 million as at December 31, 2018 and 2017, 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 Php5 million and Php15 million as at December 31, 2018 and 2017, 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 Php34 million, Php190 million and Php183 million for the years ended December 31, 2018, 2017 and 2016, respectively. There were no outstanding obligations under this agreement as at December 31, 2018 and 2017.

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 Php135 million for the year ended December 31, 2018. Outstanding payable under this agreement amounted to nil as at 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 a Stock 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 December 31, 2018 and 2017.

- *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 Php409 million, Php149 million and Php126 million for the years ended December 31, 2018, 2017 and 2016, respectively. Total prepayment under the advertising placement agreements amounted to nil and Php277 million as at December 31, 2018 and 2017, respectively.

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 years ended December 31, 2018, 2017 and 2016 amounted to Php372 million, Php514 million and Php116 million, respectively. Under this agreement, outstanding prepayments, which were presented as part of prepayments in our consolidated statements of financial position, amounted to Php169 million and nil as at December 31, 2018 and 2017, 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 nil and Php125 million as at December 31, 2018 and 2017, respectively.

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 Php2,355 million, Php2,059 million and Php781 million for the years ended December 31, 2018, 2017 and 2016, respectively. The expenses under these services amounted to Php1,935 million, Php1,223 million and Php1,113 million for the years ended December 31, 2018, 2017 and 2016, 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 Php2,094 million and Php1,867 million as at December 31, 2018 and 2017, respectively. Under these agreements, the outstanding obligations, which were presented as part of accounts payable in our consolidated statements of financial position amounted to Php684 million and Php365 million as at December 31, 2018 and 2017, respectively, and accrued expenses and other current liabilities amounted to Php9 million and Php35 million as at December 31, 2018 and 2017, respectively.

See *Note 10 – 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 years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
		(in million pesos)	
Short-term employee benefits	**401**	325	527
Share-based payments (Note 25)	**83**	–	–
Post-employment benefits (Note 25)	**30**	27	50
Total compensation paid to key officers of the PLDT Group	**514**	352	577

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 Php63 million, Php72 million and Php57 million for the years ended December 31, 2018, 2017 and 2016, 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.

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

25. Employee Benefits

Pension

Defined Benefit Pension Plans

PLDT has defined benefit pension plans, operating under the legal name "The Board of Trustees for the account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT 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, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
		(in million pesos)	
Changes in the present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	**21,503**	23,142	21,602
Interest costs on benefit obligation	**1,227**	1,180	1,071
Service costs	**1,063**	1,158	1,066
Actual benefits paid/settlements	**(887)**	(2,723)	(241)
Actuarial losses – experience	**419**	423	369
Actuarial gains – economic assumptions	**(2,611)**	(1,277)	(694)
Curtailments and others (Note 5)	**(31)**	(400)	(31)
Present value of defined benefit obligations at end of the year	**20,683**	21,503	23,142
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	**12,534**	11,960	11,439
Actual contributions	**5,110**	5,122	5,708
Interest income on plan assets	**770**	641	600
Actual benefits paid/settlements	**(887)**	(2,723)	(241)
Return on plan assets (excluding amount included in net interest)	**(3,988)**	(2,466)	(5,546)
Fair value of plan assets at end of the year	**13,539**	12,534	11,960
Unfunded status – net	**(7,144)**	(8,969)	(11,182)
Accrued benefit costs	**7,159**	8,984	11,197
Prepaid benefit costs (Note 18)	**15**	15	15
Components of net periodic benefit costs:			
Service costs	**1,063**	1,158	1,066
Interest costs – net	**457**	539	471
Curtailment/settlement losses and other adjustments	**21**	(341)	–
	1,541	1,356	1,537

Actual net losses on plan assets amounted to Php3,218 million, Php1,825 million and Php4,946 million for the years ended December 31, 2018, 2017 and 2016, 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 December 31, 2018:

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

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 years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Rate of increase in compensation	**6.0%**	6.0%	6.0%
Discount rate	**7.3%**	5.8%	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 December 31, 2018 and 2017, 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 December 31, 2018 and 2017:

	2018	2017
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Unlisted equity investments	**10,707**	9,372
Shares of stock	**2,066**	2,510
Corporate bonds	**133**	111
Government securities	**31**	22
Mutual funds	**4**	30
Investment properties	**—**	4
Total noncurrent financial assets	**12,941**	12,049
Current Financial Assets		
Cash and cash equivalents	**499**	396
Receivables	**8**	4
Total current financial assets	**507**	400
Total PLDT's Plan Assets	**13,448**	12,449
Subsidiaries Plan Assets	**91**	85
Total Plan Assets of Defined Benefit Pension Plans	**13,539**	12,534

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. Investment properties are valued using the latest available appraised values.

Unlisted Equity Investments

As at December 31, 2018 and 2017, this account consists of:

	2018	2017	**2018**	2017
	% of Ownership		(in million pesos)	
MediaQuest	**100%**	100%	**10,022**	8,696
Tahanan Mutual Building and Loan Association, Inc., or TMBLA, (net of subscriptions payable of Php32 million)	**100%**	100%	**474**	435
BTFHI	**100%**	100%	**211**	201
Superior Multi Parañaque Homes, Inc., or SMPHI	**100%**	100%	**—**	39
Bancholders, Inc., or Bancholders	**100%**	100%	**—**	1
			10,707	9,372

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.

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. See *Note 10 – 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 and 2017 amounting to Php3,038 million and Php2,071 million, respectively, are recognized in the statements of changes in net assets available for plan benefits under "Net fair value gain (loss) on investments."

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.

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 Php394 million and Php355 million as at December 31, 2018 and 2017, 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 Php10 million for each of the years ended December 31, 2018 and 2017. Dividend receivables amounted to Php2 million each as at December 31, 2018 and 2017.

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 December 31, 2018 and 2017, this account consists of:

	2018	2017
	(in million pesos)	
Common shares		
PSE	**1,185**	1,555
PLDT	**30**	39
Others	**491**	556
Preferred shares	**360**	360
	2,066	2,510

Dividends earned on PLDT common shares amounted to Php2 million, Php2 million and Php3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Preferred shares represent 300 million unlisted preferred shares of PLDT at Php10 par value, net of subscription payable of Php2,640 million as at December 31, 2018 and 2017, 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 Php49 million for each of the years ended December 31, 2018, 2017 and 2016.

Corporate Bonds

Investment in corporate bonds includes various long-term peso and dollar denominated bonds with maturities ranging from August 2019 to June 2027 and fixed interest rates from 4.13% to 7.06% per annum. Total investment in corporate bonds amounted to Php133 million and Php111 million as at December 31, 2018 and 2017, 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 Php31 million and Php22 million as at December 31, 2018 and 2017, respectively.

Mutual Funds

Investment in mutual funds includes 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 Php4 million and Php30 million as at December 31, 2018 and 2017, respectively.

Investment Properties

Investment properties include one condominium unit (a bare 58 square meter unit) located in Ayala-FGU Building along Alabang-Zapote Road in Muntinlupa City. Total fair value of investment properties amounted to Php4 million as at December 31, 2017. The unit was disposed of this year by fund manager, BPI, as part of its discretionary investment authority.

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 allocation of the fair value of the assets for the PLDT pension plan as at December 31, 2018 and 2017 are as follows:

	2018	2017
Investments in listed and unlisted equity securities	**95%**	95%
Temporary cash investments	**4%**	3%
Debt and fixed income securities	**1%**	1%
Mutual funds	**—**	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 compliance with R.A. 7641. As at December 31, 2018 and 2017, 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, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
		(in million pesos)	
Changes in the present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	**2,490**	2,177	2,116
Service costs	**314**	269	284
Interest costs on benefit obligation	**—**	113	94
Actuarial losses – economic assumptions	**—**	29	1
Actuarial gains – experience	**—**	(6)	(77)
Actual benefits paid/settlements	**—**	(92)	(226)
Curtailment and others	**—**	—	(15)
Present value of defined benefit obligations at end of the year	**2,804**	2,490	2,177
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	**2,862**	2,414	2,388
Actual contributions	**297**	335	201
Interest income on plan assets	**—**	131	125
Return on plan assets (excluding amount included in net interest)	**—**	74	(74)
Actual benefits paid/settlements	**—**	(92)	(226)
Fair value of plan assets at end of the year	**3,159**	2,862	2,414

	2018	2017	2016
		(in million pesos)	
Funded status – net	**355**	372	237
Accrued benefit costs	**23**	13	9
Prepaid benefit costs (Note 18)	**378**	385	246
Components of net periodic benefit costs:			
Service costs	**314**	269	284
Interest costs – net	**—**	(18)	(31)
Curtailment/settlement gain	**—**	—	(15)
Net periodic benefit costs (Note 5)	**314**	251	238

Smart's net consolidated pension benefit costs amounted to Php314 million, Php251 million and Php238 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Actual net gains on plan assets amounted to nil, Php205 million and Php51 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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 December 31, 2018:

	(in million pesos)
2019	75
2020	160
2021	87
2022	114
2023	147
2024 to 2060	1,360

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 years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Rate of increase in compensation	**7.3%**	5.0%	5.0%
Discount rate	**6.0%**	5.8%	5.2%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2018, 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 December 31, 2018 and 2017:

	2018	2017
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Domestic fixed income	**1,854**	1,721
International equities	**550**	557
Domestic equities	**333**	555
Philippine foreign currency bonds	**165**	373
International fixed income	**—**	361
Total noncurrent financial assets	**2,902**	3,567
Current Financial Assets		
Cash and cash equivalents	**891**	153
Receivables	**1**	8
Total current financial assets	**892**	161
Total plan assets	**3,794**	3,728
Employee's share, forfeitures and mandatory reserve account	**635**	866
Total Plan Assets of Defined Contribution Plans	**3,159**	2,862

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 10.13% per annum. Total investments in domestic fixed income amounted to Php1,854 million and Php1,721 million as at December 31, 2018 and 2017, respectively.

International Equities

Investments in international equities include mutual funds managed by Wellington and Wells Fargo equity fund. Total investment in international equities amounted to Php550 million and Php557 million as at December 31, 2018 and 2017, 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 Php333 million and Php555 million as at December 31, 2018 and 2017, respectively. This includes investment in PLDT shares with fair value of Php15 million and Php24 million as at December 31, 2018 and 2017, respectively.

Philippine Foreign Currency Bonds

Investments in Philippine foreign currency bonds include U.S. dollar denominated fixed income instruments issued by the local corporations with fixed interest rates from 4.25% to 7.38% per annum. Total investment in Philippine foreign currency bonds amounted to Php165 million and Php373 million as at December 31, 2018 and 2017, respectively.

International Fixed Income

Investments in international fixed income include mutual funds which are invested in iShares Floating Rate Bond, which track the investment results of an index composed of U.S. dollar-denominated investment-grade floating rate bonds. Total investments in international fixed income amounted to nil and Php361 million as at December 31, 2018 and 2017, 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 December 31, 2018 and 2017 is as follows:

	2018	2017
Investments in debt and fixed income securities and others	**77%**	70%
Investments in listed and unlisted equity securities	**23%**	30%
	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 March 21, 2019, a total of 757 thousand PLDT common shares have been acquired by the Trustee, of which 204 thousand PLDT common shares have been released to the eligible participants on April 5, 2018 for the 2017 annual grant. The TIP is administered by the ECC of the Board. The expense accrued for the TIP amounted to Php208 million and Php827 million for the years ended December 31, 2018 and 2017, respectively, and is presented as equity reserves in our consolidated statement 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*.

26. 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 December 31, 2018, 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. Smart has already filed its Comment to the Petition and awaiting for further orders from the Court. 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

As at November 8, 2018, Digitel is currently in discussions with various local government units for the settlement of its franchise tax and real property tax liabilities within their respective jurisdiction.

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 due to 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 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 will be conducted for a 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 LGU to prevent the auction sale of DMPI sites in its jurisdiction for 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 challenge decision. The Supreme Court issued an Entry of Judgment of the resolution dated December 2, 2015 which become 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 annually. 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, Globe and PLDT 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 Gamboa. In categorically rejecting the petitioners' claim, the Court declared and stressed that its Gamboa ruling "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 last 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 Bello 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 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 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 Secretary of Labor.

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. PLDT is presently evaluating its legal remedies, which includes appealing the CA Decision and Resolution to the Supreme Court.

Other disclosures required by PAS 37*, Provisions, Contingent Liabilities and Contingent Assets*, were not provided as it may prejudice our position in on-going claims, litigations and assessments. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Provision for legal contingencies and tax assessments*.

27. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables, 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, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies – Financial Instruments*.

The following table sets forth our consolidated financial assets and financial liabilities as at December 31, 2018 and 2017:

	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				
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				
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)

	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for-sale financial investments	Financial liabilities carried at amortized cost	Total financial assets and liabilities
				(in million pesos)			
Assets as at December 31, 2017							
Noncurrent:							
Available-for-sale financial investments	—	—	—	—	15,165	—	15,165
Investment in debt securities and other long-term investments – net of current portion	—	150	—	—	—	—	150
Derivative financial assets – net of current portion	—	—	—	215	—	—	215
Advances and other noncurrent assets – net of current portion	13,855	—	—	—	—	—	13,855
Current:							
Cash and cash equivalents	32,905	—	—	—	—	—	32,905
Short-term investments	1,074	—	—	—	—	—	1,074
Trade and other receivables	33,761	—	—	—	—	—	33,761
Current portion of derivative financial assets	—	—	—	171	—	—	171
Current portion of investment in debt securities and other long-term investments	100	—	—	—	—	—	100
Current portion of advances and other noncurrent assets	6,824	—	—	—	—	—	6,824
Total assets	**88,519**	**150**	**—**	**386**	**15,165**	**—**	**104,220**
Liabilities as at December 31, 2017							
Noncurrent:							
Interest-bearing financial liabilities – net of current portion	—	—	—	—	—	157,654	157,654
Derivative financial liabilities – net of current portion	—	—	—	8	—	—	8
Customers' deposits	—	—	—	—	—	2,443	2,443
Deferred credits and other noncurrent liabilities	—	—	—	—	—	5,680	5,680
Current:							
Accounts payable	—	—	—	—	—	58,490	58,490
Accrued expenses and other current liabilities	—	—	—	—	—	70,648	70,648
Current portion of interest-bearing financial liabilities	—	—	—	—	—	14,957	14,957
Dividends payable	—	—	—	—	—	1,575	1,575
Current portion of derivative financial liabilities	—	—	90	51	—	—	141
Total liabilities	**—**	**—**	**90**	**59**	**—**	**311,447**	**311,596**
Net assets (liabilities)	**88,519**	**150**	**(90)**	**327**	**15,165**	**(311,447)**	**(207,376)**

The following table sets forth our consolidated offsetting of financial assets and liabilities recognized as at December 31, 2018 and 2017:

	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)	
December 31, 2018			
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**

	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)	
December 31, 2017			
Current Financial Assets			
Trade and other receivables			
Foreign administrations	8,536	2,957	5,579
Domestic carriers	4,332	3,950	382
Total	**12,868**	**6,907**	**5,961**
Current Financial Liabilities			
Accounts payable			
Suppliers and contractors	54,220	24	54,196
Carriers and other customers	7,426	4,943	2,483
Total	**61,646**	**4,967**	**56,679**

There are no financial instruments subject to an enforceable master netting arrangement as at December 31, 2018 and 2017.

The following table sets forth our consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at December 31, 2018 and 2017 other than those whose carrying amounts are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	2018	2017	**2018**	2017
		(in million pesos)		
Noncurrent Financial Assets				
Debt instruments at amortized cost	**150**	—	**148**	—
Investment in debt securities and other long-term investments – net of current portion	**—**	150	**—**	151
Other financial assets – net of current portion	**2,275**	—	**2,020**	—
Advances and other noncurrent assets	**—**	13,855	**—**	13,695
Total	**2,425**	14,005	**2,168**	13,846
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	**155,835**	157,654	**139,504**	150,918
Customers' deposits	**2,194**	2,443	**1,305**	1,700
Deferred credits and other noncurrent liabilities	**3,088**	5,680	**2,583**	5,093
Total	**161,117**	165,777	**143,392**	157,711

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 December 31, 2018 and 2017. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

	2018				2017			
	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 fair value through profit or loss	**3,625**	**154**	**984**	**4,763**	–	–	–	–
Available-for-sale financial investments	–	–	–	–	12,848	130	2,187	15,165
Derivative financial assets – net of current portion	–	**140**	–	**140**	–	215	–	215
Financial assets at fair value through other comprehensive income – net of current portion	–	**2,749**	–	**2,749**	–	–	–	–
Current Financial Assets								
Current portion of derivative financial assets	–	**183**	–	**183**	–	170	–	170
Current portion of fair value through other comprehensive income	–	**1,604**	–	**1,604**	–	–	–	–
Current portion of other financial assets	–	**6,833**	–	**6,833**	–	–	–	–
Total	**3,625**	**11,663**	**984**	**16,272**	12,848	515	2,187	15,550
Noncurrent Financial Liabilities								
Derivative financial liabilities – net of current portion	–	–	–	–	–	8	–	8
Current Financial Liabilities								
Accrued expenses and other current liabilities	–	**7,862**	–	**7,862**	–	–	–	–
Current portion of derivative financial liabilities	–	**80**	–	**80**	–	141	–	141
Total	–	**7,942**	–	**7,942**	–	149	–	149

(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 December 31, 2018 and 2017, there were no transfers into and out of Level 3 fair value measurements.

As at December 31, 2018 and 2017, 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 Rate 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.

Financial assets at FVPL and available-for-sale financial investments: Fair values of financial assets at FVPL and available-for-sale financial investments, which consist of listed shares, were determined using quoted prices. For available-for-sale financial investments where there is no active market and fair value cannot be determined, investments are carried at cost less any accumulated impairment losses.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, trade and other receivables, accounts payable, accrued expenses and other current liabilities and dividends payable approximate their carrying values as at the end of the reporting period.

Derivative Financial Instruments

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period.

As at December 31, 2018 and 2017, 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 December 31, 2018 and 2017:

	Original Notional Amount	Trade Date	Underlying Transaction in U.S. Dollar	Termination Date	Weighted Average Hedge Cost	Weighted Average Foreign Exchange Rate	2018 Notional Amount	2018 Net Mark-to-market Gains (Losses) in Php	2017 Notional Amount	2017 Net Mark-to-market Gains (Losses) in Php
	(in millions)		(in millions)				(in millions)			
Transactions not designated as hedges:										
PLDT										
Long-term currency swaps	US$262	2001 and 2002	300 Notes 2017	March 6, 2017	3.42%	Php49.85	—	—	—	—
Forward foreign exchange contracts	US$34	Various dates in 2017	U.S. dollar liabilities	Various dates in 2017	—	Php50.18	—	—	—	—
	US$56	Various dates in 2017	U.S. dollar liabilities	Various dates in 2018	—	Php50.77	—	—	US$56	(39)
	US$58	Various dates in 2018	U.S. dollar liabilities	Various dates in 2018	—	Php52.56	—	—	—	—
	US$78	Various dates in 2018 and 2019	U.S. dollar liabilities	Various dates in January 2019 to July 2019	—	Php52.98	**US$34**	**(22)**	—	—
	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	—	—	—	—
Foreign exchange options	EUR36[a]	Various dates in 2018	EUR assets	Various dates in November 2018 and December 2018	—	EUR1.161 EUR1.185	—	—	—	—
Smart										
Forward foreign exchange contracts	US$91	Various dates in 2016 and 2017	U.S. dollar liabilities	Various dates in 2017	—	Php49.54	—	—	—	—
	US$120	Various dates in 2017 and 2018	U.S. dollar liabilities	Various dates in 2018	—	Php52.13	—	—	US$46	(49)
	US$54	Various dates in 2017 and 2018	U.S. dollar liabilities	Various dates in 2019	—	Php53.58	**US$54**	**(38)**	—	—
	US$28	January to March 2019	U.S. dollar liabilities	Various dates in 2019	—	Php52.48				
Foreign exchange options	US$59[b]	Various dates in 2016 and 2017	U.S. dollar liabilities	Various dates in 2017	—	Php49.60 Php50.30 Php51.24	—	—	—	—
	US$4[c]	Various dates in 2017 and 2018	U.S. dollar liabilities	Various dates in 2018	—	Php50.64 Php51.58 Php52.48	—	—	US$3	(2)
DMPI										
Interest rate swaps	US$54	October 7, 2008	59 loan facility	March 31, 2017	3.88%	—	—	—	—	—
	US$47	October 7, 2008	51 loan facility	June 30, 2017	3.97%	—	—	—	—	—
								(60)		(90)

	Original Notional Amount	Trade Date	Underlying Transaction in U.S. Dollar	Termination Date	Weighted Average Hedge Cost	Weighted Average Foreign Exchange Rate	**2018** Notional Amount	**2018** Net Mark-to-market Gains (Losses) in Php	2017 Notional Amount	2017 Net Mark-to-market Gains (Losses) in Php
	(in millions)		(in millions)				(in millions)			
Transactions designated as hedges:										
PLDT										
Interest rate swaps[d]	US$30	January 23, 2015	150 term loan	March 7, 2017	2.11%	—	**—**	**—**	—	—
	US$240	Various dates in 2013 and 2015	300 term loan	January 16, 2018	2.17%	—	**—**	**—**	US$33	2
	US$100	August 2014	100 PNB	August 11, 2020	3.46%	—	**US$96**	**55**	US$97	5
	US$50	September 2014	50 Metrobank	September 2, 2020	3.47%	—	**US$48**	**25**	US$49	—
	US$150	April and June 2015	200 term loan	February 25, 2022	2.70%	—	**US$79**	**66**	US$150	26
Long-term currency swaps[e]	US$140	October 2015 to June 2016	300 term loan	January 16, 2018	2.20%	Php46.67	**—**	**—**	US$31	88
	US$4	January 2017	100 PNB	August 11, 2020	1.01%	Php49.79	**US$2**	**7**	US$3	2
	US$6	April and June 2017	200 MUFG Bank, Ltd.	August 26, 2019	1.63%	Php49.51	**US$3**	**9**	US$6	—
	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$5**	**6**	—	—
	US$11	November and December 2018	200 MUFG Bank, Ltd.	February 25, 2022	2.32%	Php52.36	**US$11**	**17**	—	—
	US$9	February 2019	200 MUFG Bank, Ltd.	February 25, 2022	2.23%	Php51.88				
Smart										
Interest rate swaps[f]	US$44	May 16, 2013	50 Bank of Tokyo	May 30, 2017	1.77%	—	**—**	**—**	—	—
	US$110	Various dates in 2013 and 2014	120 term loan	June 20, 2018	2.22%	—	**—**	**—**	US$15	3
	US$85	Various dates in 2014 and 2015	100 Bank of Tokyo	March 7, 2019	2.23%	—	**US$10**	**3**	US$29	8
	US$50	October 2, 2014	50 Mizuho	May 14, 2019	2.58%	—	**US$5**	**2**	US$17	4
	US$200	Various dates in 2015	200 Mizuho	March 4, 2020	2.10%	—	**US$67**	**52**	US$111	51
	US$30	February 2016	100 Mizuho	December 7, 2021	2.03%	—	**US$18**	**24**	US$24	23
Long-term currency swaps[g]	US$100	Various dates in 2015	200 Mizuho	March 5, 2018	2.21%	Php46.66	**—**	**—**	US$20	58
	US$45	Various dates in 2016	100 Mizuho	December 7, 2018	1.93%	Php46.55	**—**	**—**	US$18	58
	US$11	Various dates in 2017	80 CBC	May 31, 2018	1.28%	Php49.66	**—**	**—**	US$4	1
	US$16	Various dates in 2017 and 2018	100 Mizuho	December 7, 2020	1.69%	Php50.82	**US$16**	**28**	US$8	(2)
	US$12	Various dates in 2018	200 Mizuho	March 4, 2020	2.01%	Php51.87	**US$9**	**6**	—	—
	US$2	January 10, 2019	2015 Mizuho US$200M	March 4, 2020	2.25%	Php52.16				
	US$2	January 11, 2019	2015 Mizuho US$100M	December 7, 2020	2.34%	Php52.18				
	US$6	February 2019	2015 Mizuho US$100M	December 7, 2021	2.21%	Php51.83				
								303		327
								243		237

(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 Php50.30 to Php51.24, Smart will purchase the U.S. dollar for Php50.30. However, if on maturity, the exchange rate settles above Php51.24, Smart will purchase the U.S. dollar for Php50.30 plus the excess above Php51.24, and if the exchange rate is lower than Php50.30, Smart will purchase the U.S. dollar at the prevailing Philippine peso to U.S. dollar spot exchange rate, subject to a floor of Php49.60.

(c) 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 for Php51.58. However, if on maturity, the exchange rate settles above Php52.48, Smart will purchase the U.S. dollar for 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.

(d) PLDT's interest rate swap agreements outstanding as at December 31, 2018 and 2017 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 Php129 million and Php44 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2018 and 2017, respectively. Interest accrual on the interest rate swaps amounting to Php17 million and Php11 million were recorded as at December 31, 2018 and 2017, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the years ended December 31, 2018 and 2017.

(e) PLDT's long-term principal only-currency swap agreements entered into in 2015 to 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 gains amounting to Php45 million and Php108 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2018 and 2017, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php3 million and Php18 million were recognized as at December 31, 2018 and 2017, 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. A hedge cost portion of the movements in the fair value amounting to Php1 million and Php3 million were recognized in our consolidated income statements for the years ended December 31, 2018 and 2017, respectively.

(f) Smart's interest rate swap agreements outstanding as at December 31, 2018 and 2017 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 Php63 million and Php85 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2018 and 2017, respectively. Reduction on interest arising from the interest rate swaps amounted to Php18 million and Php4 million as at December 31, 2018 and 2017, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the years ended December 31, 2018 and 2017.

(g) Smart's long-term principal only-currency swap agreements outstanding as at December 31, 2018 and 2017 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 Php50 million and Php124 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2018 and 2017, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php16 million and Php9 million were recognized as at December 31, 2018 and 2017, 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. A hedge cost portions of the movements in the fair value amounting to Php2 million and Php4 million was recognized in our consolidated income statements for the years ended December 31, 2018 and 2017, respectively.

	2018	2017
	(in million pesos)	
Presented as:		
Noncurrent assets	**140**	215
Current assets	**183**	171
Noncurrent liabilities	**—**	(8)
Current liabilities	**(80)**	(141)
Net assets	**243**	237

Movements of our consolidated mark-to-market gains for the years ended December 31, 2018 and 2017 are summarized as follows:

	2018	2017
	(in million pesos)	
Net mark-to-market gains at beginning of the year	**237**	514
Gains on derivative financial instruments (Note 4)	**1,135**	724
Effective portion recognized in the profit or loss for the cash flow hedges	**27**	(55)
Net fair value losses on cash flow hedges charged to other comprehensive income	**(286)**	(411)
Settlements, interest expense and others	**(870)**	(535)
Net mark-to-market gains at end of the year	**243**	237

Our consolidated analysis of gains on derivative financial instruments for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
		(in million pesos)	
Gains on derivative financial instruments (Note 4)	**1,135**	724	1,539
Hedge costs	**(49)**	(191)	(543)
Net gains on derivative financial instruments (Notes 4 and 5)	**1,086**	533	996

Financial Risk Management Objectives and Policies

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.

Liquidity Risk

Our exposure to liquidity risk refers to the risk that our financial requirements, working capital requirements and planned capital expenditures 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 Php51,654 million and Php1,165 million, respectively, as at December 31, 2018, which we can use to meet our short-term liquidity needs. See *Note 15 – Cash and Cash Equivalents.*

The following table discloses a summary of maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at December 31, 2018 and 2017:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in million pesos)		
December 31, 2018					
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 assets at fair value through other comprehensive income	***4,353***	***1,604***	***2,749***	**—**	**—**
Total	**106,181**	**95,963**	**4,939**	**349**	**4,930**
December 31, 2017					
Loans and receivables:	*96,891*	*82,814*	*11,175*	*2,739*	*163*
Advances and other noncurrent assets	20,901	6,824	11,175	2,739	163
Cash equivalents	26,554	26,554	—	—	—
Short-term investments	1,074	1,074	—	—	—
Investment in debt securities and other long-term investments	100	100	—	—	—
Retail subscribers	17,961	17,961	—	—	—
Corporate subscribers	9,641	9,641	—	—	—
Foreign administrations	6,517	6,517	—	—	—
Domestic carriers	457	457	—	—	—
Dealers, agents and others	13,686	13,686	—	—	—
HTM investments:	*150*	—	*150*	—	—
Investment in debt securities and other long-term investments	150	—	150	—	—
Available-for-sale financial investments	*15,165*	—	—	—	*15,165*
Total	**112,206**	**82,814**	**11,325**	**2,739**	**15,328**

The following table discloses a summary of maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at December 31, 2018 and 2017:

	Payments Due by Period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(in million pesos)				
December 31, 2018					
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**
Other obligations:	***145,892***	***140,549***	***3,206***	***176***	***1,961***
Various trade and other obligations:	**145,892**	**140,549**	**3,206**	**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**	**167,168**	**79,279**	**53,890**	**87,020**
December 31, 2017					
Debt(1):	*213,597*	*3,285*	*70,552*	*48,958*	*90,802*
Principal	173,136	3,251	51,254	37,925	80,706
Interest	40,461	34	19,298	11,033	10,096
Lease obligations:	*20,666*	*11,871*	*3,851*	*2,266*	*2,678*
Operating lease	20,666	11,871	3,851	2,266	2,678
Other obligations:	*128,618*	*120,471*	*5,881*	*264*	*2,002*
Various trade and other obligations:	128,618	120,471	5,881	264	2,002
Suppliers and contractors	59,776	54,196	5,339	241	—
Utilities and related expenses	44,007	43,984	22	1	—
Liability from redemption of preferred shares	7,870	7,870	—	—	—
Employee benefits	6,573	6,573	—	—	—
Customers' deposits	2,443	—	419	22	2,002
Carriers and other customers	2,083	2,083	—	—	—
Dividends	1,575	1,575	—	—	—
Others	4,291	4,190	101	—	—
Total contractual obligations	**362,881**	**135,627**	**80,284**	**51,488**	**95,482**

(1) *Consists of long-term debt, including current portion; gross of unamortized debt discount and debt issuance costs.*

Debt

See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt* for a detailed discussion of our debt.

Operating Lease Obligations

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites telecommunications equipment locations and various office equipment. These lease contracts are subject to certain escalation clauses.

Our consolidated future minimum lease commitments payable with non-cancellable operating leases as at December 31, 2018 and 2017 are as follows:

	2018	2017
	(in million pesos)	
Within one year	**12,867**	11,945
After one year but not more than five years	**6,542**	6,043
More than five years	**3,265**	2,678
Total	**22,674**	20,666

Finance Lease Obligations

See *Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases* for the detailed discussion of our long-term finance lease obligations.

Other Obligations – Various Trade and Other Obligations

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits and other related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php145,892 million and Php128,618 million as at December 31, 2018 and 2017, respectively. See *Note 22 – Accounts Payable* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php20 million and Php88 million as at December 31, 2018 and 2017, respectively. These commitments will expire within one year. See *Note 10 – 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 December 31, 2018 and 2017.

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 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 loans. 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 year.

The impact of the hedging instruments on our consolidated statements of financial position is, as follows:

	Notional Amount (U.S. Dollar)	Carrying Amount (Php)	Line item in the Consolidated Statement of Financial Position
	(in millions)		
As at December 31, 2018			
Long-term currency swaps	**46**	**83**	Derivative financial assets – net of current portion
		13	Current portion of derivative financial assets
As at December 31, 2017			
Long-term currency swaps	90	115	Derivative financial assets – net of current portion
		125	Current portion of derivative financial assets

The impact of the hedged items on the consolidated statements of financial position is, as follows:

	December 31, 2018		December 31, 2017	
	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)**	**4**	(171)	18
US$100M PNB	**(7)**	**–**	–	–
US$200M MUFG Bank, Ltd.	**(3)**	**–**	1	–
	(283)	**4**	(170)	18
Smart:				
US$200M Mizuho	**7**	**3**	65	7
US$100M Mizuho	**43**	**13**	57	2
2013 Chinabank US$80M	**–**	**–**	2	–
	50	**16**	124	9

The effect of the cash flow hedge in the consolidated income statements and statements of other comprehensive income is, as follows:

	Total hedging loss recognized in OCI	Line item in the Consolidated Income Statements
	(in million pesos)	
Year Ended December 31, 2018		
Long-term currency swaps	**(234)**	Other comprehensive loss
Year Ended December 31, 2017		
Long-term currency swaps	(46)	Other comprehensive loss

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2018 and 2017:

	2018		2017	
	U.S. Dollar	**Php[(1)]**	U.S. Dollar	Php[(2)]
	(in millions)			
Noncurrent Financial Assets				
Derivative financial assets – net of current portion	**3**	**140**	4	215
Other financial assets – net of current portion	**—**	**12**	—	2
Total noncurrent financial assets	**3**	**152**	4	217
Current Financial Assets				
Cash and cash equivalents	**717**	**37,688**	440	21,988
Short-term investments	**22**	**1,138**	2	75
Trade and other receivables – net	**261**	**13,741**	218	10,893
Current portion of derivative financial assets	**3**	**183**	3	171
Current portion of investment in debt securities and other long-term investments	**—**	**—**	2	100
Current portion of other financial assets	**—**	**11**	—	9
Total current financial assets	**1,003**	**52,761**	665	33,236
Total Financial Assets	**1,006**	**52,913**	669	33,453
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	**336**	**17,668**	446	22,285
Derivative financial liabilities – net of current portion	**—**	**—**	—	8
Other noncurrent liabilities	**—**	**12**	—	11
Total noncurrent financial liabilities	**336**	**17,680**	446	22,304
Current Financial Liabilities				
Accounts payable	**415**	**21,797**	233	11,670
Accrued expenses and other current liabilities	**170**	**8,961**	166	8,314
Current portion of interest-bearing financial liabilities	**110**	**5,780**	259	12,922
Current portion of derivative financial liabilities	**2**	**80**	3	141
Total current financial liabilities	**697**	**36,618**	661	33,047
Total Financial Liabilities	**1,033**	**54,298**	1,107	55,351

(1) *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.*
(2) *The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php49.96 to US$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2017.*

As at March 20, 2019, the Philippine peso-U.S. dollar exchange rate was Php52.89 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have increased in Philippine peso terms by Php9 million as at December 31, 2018.

Approximately 13% and 20% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at December 31, 2018 and 2017, respectively. Our consolidated foreign currency-denominated debt decreased to Php23,352 million as at December 31, 2018 from Php35,032 million as at December 31, 2017. See *Note 20 – Interest-bearing Financial Liabilities*. The aggregate notional amount of our consolidated outstanding long-term principal only-currency swap contracts were US$46 million and US$90 million as at December 31, 2018 and 2017, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 12% (or 8%, net of our consolidated U.S. dollar cash balances allocated for debt) and 16% (or 8%, net of our consolidated U.S. dollar cash balances allocated for debt) as at December 31, 2018 and 2017, respectively.

Approximately, 16% of our consolidated revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for each of the years ended December 31, 2018 and 2017. Approximately, 8% of our consolidated expenses were denominated in U.S. dollars and/or linked to the U.S. dollar for each of the years ended December 31, 2018 and 2017. 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 depreciated by 5.20% against the U.S. dollar to Php52.56 to US$1.00 as at December 31, 2018 from Php49.96 to US$1.00 as at December 31, 2017. 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 losses of Php771 million, Php411 million and Php2,785 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Management conducted a survey among our banks to determine the outlook of the Philippine peso-U.S. dollar exchange rate until March 31, 2019. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 0.83% as compared to the exchange rate of Php52.56 to US$1.00 as at December 31, 2018. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 0.83% as at December 31, 2018, with all other variables held constant, profit after tax for the year ended December 31, 2018 would have been approximately Php1 million lower/higher and our consolidated stockholders' equity as at December 31, 2018 would have been approximately Php8 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 liabilities and not for trading purposes.

The impact of the hedging instruments on our consolidated statements of financial position is, as follows:

	Notional Amount (U.S. Dollar)	Carrying Amount (Php)	Line item in the Consolidated Statement of Financial Position
	(in millions)		
As at December 31, 2018			
Interest rate swaps	**323**	**57**	Derivative financial assets – net of current portion
		170	Current portion of derivative financial assets
	323	**227**	
As at December 31, 2017			
Interest rate swaps	525	101	Derivative financial assets – net of current portion
		45	Current portion of derivative financial assets
		(24)	Current portion of derivative financial assets
	525	**122**	

The impact of the hedged items on the consolidated statements of financial position is, as follows:

	December 31, 2018		December 31, 2017	
	Cash flow hedge reserve	**Cost of hedging reserve**	Cash flow hedge reserve	Cost of hedging reserve
	(in million pesos)			
PLDT:				
US$100M PNB	**50**	–	9	–
US$50M MBTC	**24**	–	1	–
US$200M MUFG Bank, Ltd.	**55**	–	34	–
	129	–	44	–
Smart:				
2014 BTMU US$100M	**(6)**	–	–	–
2014 Mizuho US$50M	**(2)**	–	3	–
2015 Mizuho US$200M	**(11)**	–	8	–
2015 Mizuho US$100M	–	–	1	–
2013 Sumitomo US$120M	**(3)**	–	(6)	–
2013 BTMU US$50M	–	–	(1)	–
	(22)	–	5	–

The effect of the cash flow hedge in the consolidated income statements and statements of other comprehensive income is, as follows:

	Total hedging loss recognized in OCI	**Line item in the Consolidated Income Statements**
	(in million pesos)	
Year Ended December 31, 2018		
Interest rate swaps	**179**	Other comprehensive loss
Year Ended December 31, 2017		
Interest rate swaps	169	Other comprehensive loss

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 December 31, 2018 and 2017. Financial instruments that are not subject to interest rate risk were not included in the table.

As at December 31, 2018

	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											
U.S. Dollar	—	—	—	—	—	—	—	—	—	—	—
Interest rate	—	—	—	—	—	—	—	—	—	—	—
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	35,467	—	35,467	675	35,467
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%	—	—	—	—	—	—	—	—	—	—
Other Currencies	—	—	—	—	—	—	—	—	—	—	—
Interest rate	0.0750%	—	—	—	—	—	—	—	—	—	—
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%	—	—	—	—	—	—	—	—	—	—
Other Currencies	—	—	—	—	—	—	—	—	—	—	—
Interest rate	0.0750%	—	—	—	—	—	—	—	—	—	—
	979	3	—	—	—	982	51,587	—	51,587	982	51,585
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 Rate replaced PDST Reference Rates (PDST-R1 and PDST-R2).*

As at December 31, 2017

	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:											
Investment in Debt Securities and Other Long-term Investments											
U.S. Dollar	2	—	—	—	—	2	100	—	100	2	100
Interest rate	3.5000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	—	—	3	—	—	3	150	—	150	3	151
Interest rate	—	—	4.8371%	—	—	—	—	—	—	—	—
Cash in Bank											
U.S. Dollar	29	—	—	—	—	29	1,465	—	1,465	29	1,465
Interest rate	0.0100% to 0.2500%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	89	—	—	—	—	89	4,468	—	4,468	89	4,468
Interest rate	0.05000% to 1.2500%	—	—	—	—	—	—	—	—	—	—
Other Currencies	—	—	—	—	—	—	9	—	9	—	9
Interest rate	0.1000% to 0.5000%	—	—	—	—	—	—	—	—	—	—
Temporary Cash Investments											
U.S. Dollar	402	—	—	—	—	402	20,063	—	20,063	402	20,063
Interest rate	0.2500% to 2.1000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	130	—	—	—	—	130	6,491	—	6,491	130	6,491
Interest rate	0.1250% to 4.3250%	—	—	—	—	—	—	—	—	—	—
Short-term Investments											
U.S. Dollar	22	—	—	—	—	22	1,074	—	1,074	22	1,074
Interest rate	2.1000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	—	—	—	—	—	—	—	—	—	—	—
Interest rate	—	—	—	—	—	—	—	—	—	—	—
	674	**—**	**3**	**—**	**—**	**677**	**33,820**	**—**	**33,820**	**677**	**33,821**
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Fixed Loans	5	37	8	11	—	61	3,050	6	3,044	62	3,104
Interest rate	1.4100%	1.4100% to 2.8850%	2. 8850%	2.8850%	—	—	—	—	—	—	—
Philippine Peso	—	333	81	618	1,565	2,597	129,733	335	129,398	2,450	122,418
Interest rate	—	3.9000% to 6.4044%	3.9000% to 6.4044%	3.9000% to 6.4044%	3.9000% to 6.4044%	—	—	—	—	—	—
Variable Rate											
U.S. Dollar	60	266	203	65	50	644	32,158	170	31,988	644	32,158
Interest rate	1.2000% to 1.6000% over LIBOR	US$LIBOR + 0.7900% to 1.4500%	US$LIBOR + 0.7900% to 1.4500%	US$LIBOR + 0.7900% to 0.9500%	US$LIBOR + 1.0500%	—	—	—	—	—	—
Philippine Peso	—	3	95	66	—	164	8,195	14	8,181	164	8,195
Interest rate	—	1.0000% over PDST-R2	1.0000% over PDST-R2	1.0000% over PDST-R2	—	—	—	—	—	—	—
	65	**639**	**387**	**760**	**1,615**	**3,466**	**173,136**	**525**	**172,611**	**3,320**	**165,875**

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 21% and 23% of our consolidated debts were variable rate debts as at December 31, 2018 and 2017, respectively. Our consolidated variable rate debt decreased to Php36,575 million as at December 31, 2018 from Php40,353 million as at December 31, 2017. Considering the aggregate notional amount of our consolidated outstanding long-term interest rate swap contracts of US$323 million and US$525 million as at December 31, 2018 and 2017, respectively, approximately 89% and 92% of our consolidated debts were fixed as at December 31, 2018 and 2017, respectively.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until March 31, 2019. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 10 basis points, or bps, and 20 bps higher/lower, respectively, as compared to levels as at December 31, 2018. If U.S. dollar interest rates had been 10 bps higher/lower as compared to market levels as at December 31, 2018, with all other variables held constant, profit after tax for the year 2018 and our consolidated stockholders' equity as at year end 2018 would have been approximately Php1 million and Php10 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 20 bps higher/lower as compared to market levels as at December 31, 2018, with all other variables held constant, profit after tax for the year 2018 and our consolidated stockholders' equity as at year end 2018 would have been approximately Php1 million Php481 thousand, 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 follows:

	2018
	(in million pesos)
Financial assets at fair value through profit or loss	**4,763**
Derivative financial assets - net of current portion	**140**
Current portion of derivative financial assets	**183**
Total	**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 December 31, 2018 and 2017. 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 the statement of financial position sheet, the gross exposure to credit risk equals their carrying amount.

	2018				2017
	Stage 1 Lifetime ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	Total
	(in million pesos)				(in million pesos)
High grade	**58,299**	**8,776**	**—**	**67,075**	83,259
Standard grade	**1,470**	**7,881**	**—**	**9,351**	9,933
Substandard grade	**3**	**7,399**	**—**	**7,402**	11,028
Default	**236**	**1,595**	**14,908**	**16,739**	14,723
Gross carrying amount	**60,008**	**25,651**	**14,908**	**100,567**	118,943
Less allowance	**236**	**1,595**	**14,908**	**16,739**	14,723
Carrying amount	**59,772**	**24,056**	**—**	**83,828**	104,220

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 December 31, 2018 and 2017.

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 December 31, 2018 and 2017:

	2018		
	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:			
Other financial assets	**6,833**	**—**	**6,833**
Financial assets at fair value through profit or loss	**4,763**	**—**	**4,763**
Interest rate swap	**227**	**—**	**227**
Long-term currency swap	**83**	**—**	**83**
Currency swap	**13**	**—**	**13**
Financial assets at FVOCI:			
Debt instruments at fair value through other comprehensive income	**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.*

	2017		
	Gross Maximum Exposure	Collateral and Other Credit Enhancements*	Net Maximum Exposure
		(in million pesos)	
Loans and receivables:			
Advances and other noncurrent assets	20,679	—	20,679
Cash and cash equivalents	32,905	235	32,670
Short-term investments	1,074	—	1,074
Investment in debt securities and other long-term investments	100	—	100
Retail subscribers	9,183	48	9,135
Corporate subscribers	6,337	220	6,117
Foreign administrations	5,579	—	5,579
Domestic carriers	382	—	382
Dealers, agents and others	12,280	1	12,279
HTM investments:			
Investment in debt securities and other long-term investments	150	—	150
Available-for-sale financial investments	15,165	—	15,165
Derivatives used for hedging:			
Long-term currency swap	240	—	240
Interest rate swap	146	—	146
Total	**104,220**	**504**	**103,716**

* *Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2017.*

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at December 31, 2018 and 2017:

		Neither past due nor credit impaired			
	Total	Class A[(1)]	Class B[(2)]	Past due but not credit impaired	Impaired
			(in million pesos)		
December 31, 2018					
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***	**—**	**—**
Other financial assets	**6,833**	**6,833**	**—**	**—**	**—**
Financial assets at fair value through profit or loss	**4,763**	**4,650**	**113**	**—**	**—**
Interest rate swap	**227**	**227**	**—**	**—**	**—**
Long-term currency swap	**83**	**83**	**—**	**—**	**—**
Currency swap	**13**	**13**	**—**	**—**	**—**
Financial assets at FVOCI:	***4,353***	***4,353***	**—**	**—**	**—**
Debt instruments at fair value through other comprehensive income	**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.*

	Total	Neither past due nor impaired		Past due but	Impaired
		Class A[(1)]	Class B[(2)]	not impaired	
	(in million pesos)				
December 31, 2017					
Loans and receivables:	*103,242*	*67,644*	*9,847*	*11,028*	*14,723*
Advances and other noncurrent assets	20,901	19,202	1,474	3	222
Cash and cash equivalents	32,905	32,705	200	—	—
Short-term investments	1,074	1,074	—	—	—
Investment in debt securities and other long-term investments	100	100	—	—	—
Retail subscribers	17,961	2,984	4,919	1,280	8,778
Corporate subscribers	9,641	2,035	2,233	2,069	3,304
Foreign administrations	6,517	838	872	3,869	938
Domestic carriers	457	76	73	233	75
Dealers, agents and others	13,686	8,630	76	3,574	1,406
HTM investments:	*150*	*150*	—	—	—
Investment in debt securities and other long-term investments	150	150	—	—	—
Available-for-sale financial investments	*15,165*	*15,079*	*86*	—	—
Derivatives used for hedging:	*386*	*386*	—	—	—
Long-term currency swap	240	240	—	—	—
Interest rate swap	146	146	—	—	—
Total	**118,943**	**83,259**	**9,933**	**11,028**	**14,723**

(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 December 31, 2018 and 2017 are as follows:

	Total	Neither past due nor credit impaired	Past due but not credit impaired			Impaired
			1-60 days	61-90 days	Over 90 days	
	(in million pesos)					
December 31, 2018						
Financial instruments 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***	—	—	—	—
Other financial assets	**6,833**	**6,833**	—	—	—	—
Financial assets at fair value through profit or loss	**4,763**	**4,763**	—	—	—	—
Interest rate swap	**227**	**227**	—	—		
Long-term currency swap	**83**	**83**	—	—	—	—
Currency swap	**13**	**13**	—	—	—	—
Financial assets at FVOCI:	***4,353***	***4,353***	—	—	—	—
Debt instruments at fair value through other comprehensive income	**4,353**	**4,353**	—	—	—	—
Total	**112,486**	**88,345**	**3,262**	**398**	**3,742**	**16,739**

	Total	Neither past due nor credit impaired	Past due but not credit impaired			Impaired
			1-60 days	61-90 days	Over 90 days	
			(in million pesos)			
December 31, 2017						
Loans and receivables:	*103,242*	*77,491*	*3,261*	*703*	*7,064*	*14,723*
Advances and other noncurrent assets	20,901	20,676	—	—	3	222
Cash and cash equivalents	32,905	32,905	—	—	—	—
Short-term investments	1,074	1,074	—	—	—	—
Investment in debt securities and other long-term investments	100	100	—	—	—	—
Retail subscribers	17,961	7,903	927	20	333	8,778
Corporate subscribers	9,641	4,268	724	267	1,078	3,304
Foreign administrations	6,517	1,710	646	217	3,006	938
Domestic carriers	457	149	84	53	96	75
Dealers, agents and others	13,686	8,706	880	146	2,548	1,406
HTM investments:	*150*	*150*	—	—	—	—
Investment in debt securities and other long-term investments	150	150	—	—	—	—
Available-for-sale financial investments	*15,165*	*15,165*	—	—	—	—
Derivatives used for hedging:	*386*	*386*	—	—	—	—
Long-term currency swap	240	240	—	—	—	—
Interest rate swap	146	146	—	—	—	—
Total	**118,943**	**93,192**	**3,261**	**703**	**7,064**	**14,723**

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 years ended December 31, 2018, 2017 and 2016.

28. Notes to the Statement of Cash Flows

The following table shows the changes in liabilities arising from financing activities:

	2017	Cash flows	Foreign exchange movement	Others	2018
			(in million pesos)		
Interest-bearing financial liabilities (Note 20)	172,611	1,722	1,723	220	**176,276**
Long-term financing for capital expenditures (Note 21)	5,580	—	—	(2,615)	**2,965**
Accrued interests and other related costs	1,176	(6,614)	—	6,785	**1,347**
Dividends	1,575	(13,928)	—	13,886	**1,533**
	180,942	(18,820)	1,723	18,276	**182,121**

	2016	Cash flows	Foreign exchange movement	Others	2017
			(in million pesos)		
Interest-bearing financial liabilities (Note 20)	185,032	(13,097)	417	259	172,611
Long-term financing for capital expenditures (Note 21)	13,673	(7,735)	—	(358)	5,580
Accrued interests and other related costs	1,412	(7,076)	—	6,840	1,176
Dividends	1,544	(16,617)	—	16,648	1,575
	201,661	(44,525)	417	23,389	180,942

Others include the effect of accretion of long-term borrowings, 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.

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October 4, 2018, valid until August 24, 2021
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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and Board of Directors
PLDT Inc.
Ramon Cojuangco Building
Makati Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of PLDT Inc. and its subsidiaries as at December 31, 2018 and 2017, and each of the three years in the period ended December 31, 2018 included in this Form 17-A and have issued our report thereon dated March 21, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-5 (Group A),
January 10, 2019, valid until January 9, 2022
Tax Identification No. 102-092-270
BIR Accreditation No. 08-001998-55-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332586, January 3, 2019, Makati City

March 21, 2019

Schedule A. Financial Assets
December 31, 2018

Name of Issuing Entity and Association of Each Issue	Number of Shares	Amount Shown in the Balance Sheet	Valued Based on Market Quotation at Balance Sheet Date	Income Received and Accrued
			(in millions)	
Financial assets at fair value through profit or loss				
Listed equity securities	various	Php3,779	Php–	Php–
Others	various	984	N/A	–
	–	Php4,763	N/A	Php–

Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of Financial Statements
December 31, 2018

	December 31, 2017	Additions	Collections	December 31, 2018
		(in millions)		
ACeS Philippines Cellular Corporation	Php–	Php–	Php–	Php–
BayanTrade	2	8	(8)	2
Bonifacio Communications Corporation	9	29	(33)	5
Chikka Holdings Limited	1	–	–	1
CruzTelco (SBI-CC3)	–	–	–	–
Curo Teknika, Inc.	2	20	(19)	3
Datelco Global Communications, Inc.	–	–	–	–
Digital Telecommunications Phils., Inc.	29,341	(4,043)	(38)	25,260
Digitel Mobile Philippines, Inc.	12	3,033	(3,045)	–
eInnovations Holdings	–	–	–	–
ePay Investments Pte. Ltd.	–	–	–	–
ePDS, Inc.	6	1	(1)	6
ePLDT, Inc.	352	256	(189)	419
iCommerce Pte. Ltd.	–	1	–	1
I-Contacts Corporation	4	29	(26)	7
IP Converge Data Services, Inc.	27	269	(293)	3
Mabuhay Satellite Corporation	–	–	–	–
PLDT-Maratel, Inc.	98	229	(253)	74
Metro Kidapawan Telephone Corporation	–	–	–	–
Netgames, Inc.	–	–	–	–
Pacific Global One Aviation Co., Inc.	645	45	(8)	682
PayMaya Philippines, Inc.	75	132	(207)	–
PGNL Canada	–	–	–	–
PGNL (ROHQ) Phils.	65	24	–	89
PGNL US	–	–	–	–
Philcom Corporation	2,099	(121)	(22)	1,956
PLDT Inc.	2,157	9,651	(10,552)	1,256
Pilipinas Global Network Limited	–	–	–	–
PLDT (HK) Limited	5	12	(12)	5
PLDT (SG) Pte Ltd	–	–	–	–
PLDT SG Retail Service Pte Ltd.	–	–	–	–
PLDT (UK) Limited	–	–	–	–
PLDT 1528 Unlimited	1	–	–	1
PLDT (US) Limited	24	173	(149)	48
PLDT Capital Pte Ltd	–	–	–	–
PLDT-ClarkTel	22	52	(27)	47
PLDT Digital Investments Pte. Ltd.	987	183	(1,093)	77
PLDT Global (Phils.) Corporation	394	246	(168)	472
PLDT Global Corporation	404	302	(22)	684
PLDT Global Investments Holdings Inc	–	500	–	500
PLDT Malaysia Sdn Bhd	–	–	–	–
PLDT Online Investments Pte. Ltd	25	–	(25)	–
Primeworld Digital Systems, Inc.	–	–	–	–
SmartBroadband, Inc.	750	3,501	(818)	3,433
Smart Communications, Inc.	5,118	16,167	(9,016)	12,269
PLDT Subic Telecom, Inc.	29	38	(30)	37
Talas Data Intelligence, Inc.	81	–	(40)	41
Voyager Innovations, Inc.	26	16	(42)	–
Wifun, Inc.	–	–	–	–
Wolfpac Mobile Inc.	–	–	–	–
	Php42,761	**Php30,753**	**(Php26,136)**	**Php47,378**

All receivables eliminated during the consolidation of financial statements are classified as current. There were no receivables written off during the year.

Schedule D. Goodwill and Intangible Assets
December 31, 2018

Description	Beginning Balances[1]	Additions At Cost	Charged to Cost and Expenses[2]	Charged to Other Accounts	Other Changes Additions (Deductions)	Ending Balances
			(in millions)			
Intangible Assets with definite life						
Customer list	Php1,446	Php–	(Php510)	Php–	Php–	Php936
Franchise	1,869	–	(187)	–	–	1,682
Spectrum	134	–	(81)	–	–	53
Licenses	35	–	(7)	–	–	28
Others	215	21	(107)	–	(129)	–
Intangible Assets with indefinite life						
Trademark	4,505	–	–	–	–	4,505
	8,204	21	(892)	–	(129)	7,204
Goodwill	61,379	–	–	–	–	61,379
	Php69,583	Php21	(Php892)	Php–	(Php129)	Php68,583

[1] *Net of accumulated amortization.*
[2] *Represents amortization of intangible assets.*

Schedule E. Interest-bearing Financial Liabilities
December 31, 2018

Name of Issuer and Type of Obligation	Total Outstanding Balance	Amount shown as Current		Amount shown as Non-Current	
		Gross Amount	Debt Discount/ Debt Issuance Cost	Gross Amount	Debt Discount/ Debt Issuance Cost
		(In millions)			
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Exportkreditnamnden, or EKN					
SEK Nordea US$45.5M	103	103	–	–	–
	103	**103**	**–**	**–**	**–**
Others:					
BTMU US$200M	5,492	1,577	(14)	3,943	(14)
Mizuho Corporate Bank Ltd. (Mizuho) $200M	3,490	2,336	(13)	1,168	(1)
Philippine National Bank (PNB) US$100M	5,046	53	–	4,993	–
Mizuho US$100M	3,198	808	(15)	2,426	(21)
Metropolitan Bank & Trust Company (Metrobank) US$50M	2,536	26	–	2,510	–
BTMU US$100M	583	584	(1)	–	–
NTT Finance Corporation US$25M	1,307	–	(1)	1,314	(6)
NTT Finance Corporation US$25M (2017)	1,306	–	(1)	1,314	(7)
Mizuho Bank Ltd. SG, Branch US$50M	291	292	(1)	–	–
	23,249	**5,676**	**(46)**	**17,668**	**(49)**
Philippine Peso Debts:					
Corporate Notes:					
PLDT Fixed Rate Corporate Notes (2012) Php8.8B	6,340	2,741	–	3,599	–
PLDT Fixed Rate Corporate Notes (2012) Php6.2B	5,828	3,573	–	2,255	–
PLDT Fixed Rate Corporate Notes (2013) Php2.055B	1,932	1,634	–	298	–
PLDT Fixed Rate Corporate Notes (2013) Php1.188B	1,129	1,129	–	–	–
PLDT Fixed Rate Corporate Notes (2012) Php1.5B	282	282	–	–	–
	15,511	**9,359**	**–**	**6,152**	**–**
Fixed Rate Retail Bonds:					
Php15B Fixed Rate Retail Bonds	14,943	–	(22)	15,000	(35)
	14,943	**–**	**(22)**	**15,000**	**(35)**
Term Loans:					
Unsecured Term Loans					
Rizal Commercial Banking Corporation Php2B	1,960	20	–	1,940	–
Land Bank of the Philippines (Landbank) Php3B	2,820	2,820	–	–	–
Manufacturers Life Insurance Co. (Phils.), Inc. Php200M	200	200	–	–	–
Union Bank of the Philippines (Unionbank) Php1B	950	10	–	940	–
Philippine American Life and General Insurance (Philam Life) Php1B	1,000	–	–	1,000	–

Name of Issuer and Type of Obligation	Total Outstanding Balance	Amount shown as Current		Amount shown as Non-Current	
		Gross Amount	Debt Discount/ Debt Issuance Cost	Gross Amount	Debt Discount/ Debt Issuance Cost
Bank of the Philippine Islands (BPI) Php2B	1,900	20	–	1,880	–
Metrobank Php3B	1,497	300	(2)	1,200	(1)
BPI Php3B	2,846	30	(2)	2,820	(2)
Landbank Php3B	2,875	30	(3)	2,850	(2)
Landbank Php500M	480	5	–	475	–
Unionbank Php2B	1,920	20	–	1,900	–
Philam Life Php1.5B	1,500	–	–	1,500	–
BDO Unibank, Inc. (BDO) 500M	480	5	–	475	–
Philam Life Php1B	1,000	–	–	1,000	–
Landbank Php1B	960	10	–	950	–
Unionbank Php1.5B	1,440	15	–	1,425	–
BPI Php2B	1,940	20	–	1,920	–
BPI Php3B	2,910	30	–	2,880	–
Metrobank Php5B	4,850	50	–	4,800	–
Metrobank Php5B	4,833	50	(2)	4,800	(15)
BPI Php5B	4,832	50	(2)	4,800	(16)
Metrobank Php5B	4,831	50	(2)	4,800	(17)
Chinabank Php7B	6,289	700	(4)	5,600	(7)
Metrobank Php6B	5,859	60	(4)	5,820	(17)
BPI Php6.5B	6,346	65	(5)	6,305	(19)
BDO Php3B	2,940	30	–	2,910	–
Unionbank Php5.4B	5,281	54	(2)	5,238	(9)
BPI Php5.3B	5,175	53	(3)	5,141	(16)
Chinabank Php2.5B	2,500	250	–	2,250	–
Metrobank Php3B	2,957	30	(2)	2,940	(11)
Security Bank Corporation (Security Bank) Php8B	7,807	160	(4)	7,680	(29)
Landbank Php3.5B	3,450	35	(2)	3,430	(13)
Security Bank Php2B	1,970	20	–	1,950	–
Landbank Php3.5B	3,465	35	–	3,430	–
Security Bank Php2B	1,953	20	(2)	1,950	(15)
PNB Php1B	990	10	–	980	–
PNB Php1.5B	1,500	15	–	1,485	–
Landbank Php2B	2,000	20	–	1,980	–
Unionbank Php1B	1,000	10	–	990	–
BPI Php2B	1,986	20	(3)	1,980	(11)
Development Bank of the Philippines Php1.5B	1,500	–	–	1,500	–
BPI Php3B	2,978	30	(2)	2,970	(20)
Landbank Php1.5B	1,500	15	–	1,485	–
Landbank Php2B	2,000	20	–	1,980	–
Landbank Php1B	1,000	10	–	990	–
BPI Php2B	2,000	20	–	1,980	–
	122,470	**5,417**	**(46)**	**117,319**	**(220)**
Total Long-Term Debt	176,276	20,555	(112)	156,139	(306)
Obligations under Finance Lease	–	–	–	–	–
Total Debt	**176,276**	**20,555**	**(112)**	**156,139**	**(306)**

Schedule F. Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)
December 31, 2018

Name of Issuer and Type of Obligation	Total Outstanding Balance	Amount shown as Current		Amount shown as Non-Current	
		Gross Amount	Debt Discount/ Debt Issuance Cost	Gross Amount	Debt Discount/ Debt Issuance Cost
		(in millions)			
NTT Finance Corporation US$25M (2016)	Php1,307	Php–	(Php1)	Php1,314	(Php6)
NTT Finance Corporation US$25M (2017)	1,306	–	(1)	1,314	(7)

Schedule H. Capital Stock
December 31, 2018

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved For Options, Warrants, Conversion and Other Rights	Number of Shares Held By Related Parties	Directors and Key Officers[1]	Others
			(in millions)			
Preferred Stock	538	450	–	450	–	–
Non-Voting Preferred Stock (Php10 par value)	388	300	–	300	–	–
Cumulative Convertible Series HH to II	88	–	–	–	–	–
Cumulative Nonconvertible Series IV	300	300[2]	–	300[2]	–	–
Voting Preferred Stock (Php1 par value)	150	150	–	150	–	–
Common Stock (Php5 par value)	234	216	–	99[3]	1	116

[1] *Consists of 733,241 common shares directly and indirectly owned by directors and executive officers as at January 31, 2019.*
[2] *Includes 300,000,000 shares subscribed for Php3,000,000,000, of which Php360,000,000 has been paid.*
[3] *Represents 25.57% beneficial ownership of First Pacific Group and its Philippine affiliates, and 20.35% beneficial ownership of NTT Group in PLDT's outstanding shares.*

Schedule I. Schedule of all the Effective Standards and Interpretations
December 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND ENTERPRETATIONS (Effective as of December 31, 2018)		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		x		
PFRSs Practice Statement Management Commentary			x	
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	x		x
	Amendments to PFRS 1, Definition of Short-Term Exemptions for First-Time Adopters	x		x
PFRS 2 (Amended)	Share-based Payment	x		
PFRS 3 (Revised)	Business Combinations	x		
	Amendments to PFRS 3 and PFRS 11, Previously Held Interest in a Joint Operation*		x	
	Amendments to PFRS 3, Definition of a Business*		x	
PFRS 4	Insurance Contracts	x		x
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contract	x		x
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	x		x
PFRS 6	Exploration for and Evaluation of Mineral Resources	x		x
PFRS 7 (Amended)	Financial Instruments: Disclosures	x		
PFRS 8	Operating Segments	x		
PFRS 9 (2014)	Financial Instruments	x		
	Amendments to PFRS 9, Prepayment Features with Negative Compensation*		x	
PFRS 10	Consolidated Financial Statements	x		
	Amendments to PFRS 10 and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		x	
PFRS 11	Joint Arrangements	x		
	Amendments to PFRS 3 and PFRS 11, Previously Held Interest in a Joint Operation*		x	
PFRS 12	Disclosure of Interests in Other Entities	x		
PFRS 13	Fair Value Measurement	x		
PFRS 14	Regulatory Deferral Accounts	x		x
PFRS 15	Revenue from Contracts with Customers	x		
PFRS 16	Leases*		x	
PFRS 17	Insurance Contracts*		x	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	x		
	Amendments to PAS 1 and PAS 8, Definition of Materials*		x	
PAS 2	Inventories	x		
PAS 7 (Amended)	Statement of Cash Flows	x		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	x		
	Amendments to PAS 1 and PAS 8, Definition of Material*		x	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND ENTERPRETATIONS (Effective as of December 31, 2018)		Adopted	Not Adopted	Not Applicable
PAS 10	Events after the Reporting Period	x		
PAS 12	Income Taxes	x		
	Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*		x	
PAS 16 (Amended)	Property, Plant and Equipment	x		
PAS 17	Leases	x		
PAS 19 (Revised)	Employee Benefits	x		
	Amendments to PAS 19, Plan Amendment, Curtailment and Settlement*		x	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	x		x
PAS 21	The Effects of Changes in Foreign Exchange Rates	x		
PAS 23 (Revised)	Borrowing Costs	x		
	Amendments to PAS 23, Borrowing Costs Eligible for Capitalization*		x	
PAS 24 (Revised)	Related Party Disclosures	x		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	x		x
PAS 27 (Amended)	Separate Financial Statements	x		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	x		
	Amendments to PAS 28, Measuring an Associate of Joint Venture at Fair Value	x		
	Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures*		x	
	Amendments to PFRS 10 and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		x	
PAS 29	Financial Reporting in Hyperinflationary Economies	x		x
PAS 32	Financial Instruments: Presentation	x		
PAS 33	Earnings per Share	x		
PAS 34	Interim Financial Reporting	x		x
PAS 36	Impairment of Assets	x		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	x		
PAS 38 (Amended)	Intangible Assets	x		
PAS 40	Investment Property	x		
	Amendments to PAS 40, Transfers of Investment Property	x		
PAS 41 (Amended)	Agriculture	x		x
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	x		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	x		x
IFRIC 4	Determining Whether an Arrangement Contains a Lease	x		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	x		x
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	x		x
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	x		x
IFRIC 9	Reassessment of Embedded Derivatives	x		
IFRIC 10	Interim Financial Reporting and Impairment	x		x
IFRIC 12	Service Concession Arrangements	x		x
IFRIC 14	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	x		x
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	x		x
IFRIC 17	Distributions of Non-cash Assets to Owners	x		x
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	x		x
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	x		x
IFRIC 21	Levies	x		x
IFRIC 22	Foreign Currency Transactions and Advance Consideration	x		
IFRIC 23	Uncertainty over Income Tax Treatments*		x	
SIC-7	Introduction of the Euro	x		x
SIC-10	Government Assistance - No Specific Relation to Operating Activities	x		x
SIC-15	Operating Leases - Incentives	x		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	x		x
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	x		
SIC-29	Service Concession Arrangements: Disclosures	x		x
SIC-32	Intangible Assets - Web Site Costs	x		

** Standards or amendments which will become effective subsequent to December 31, 2018.*

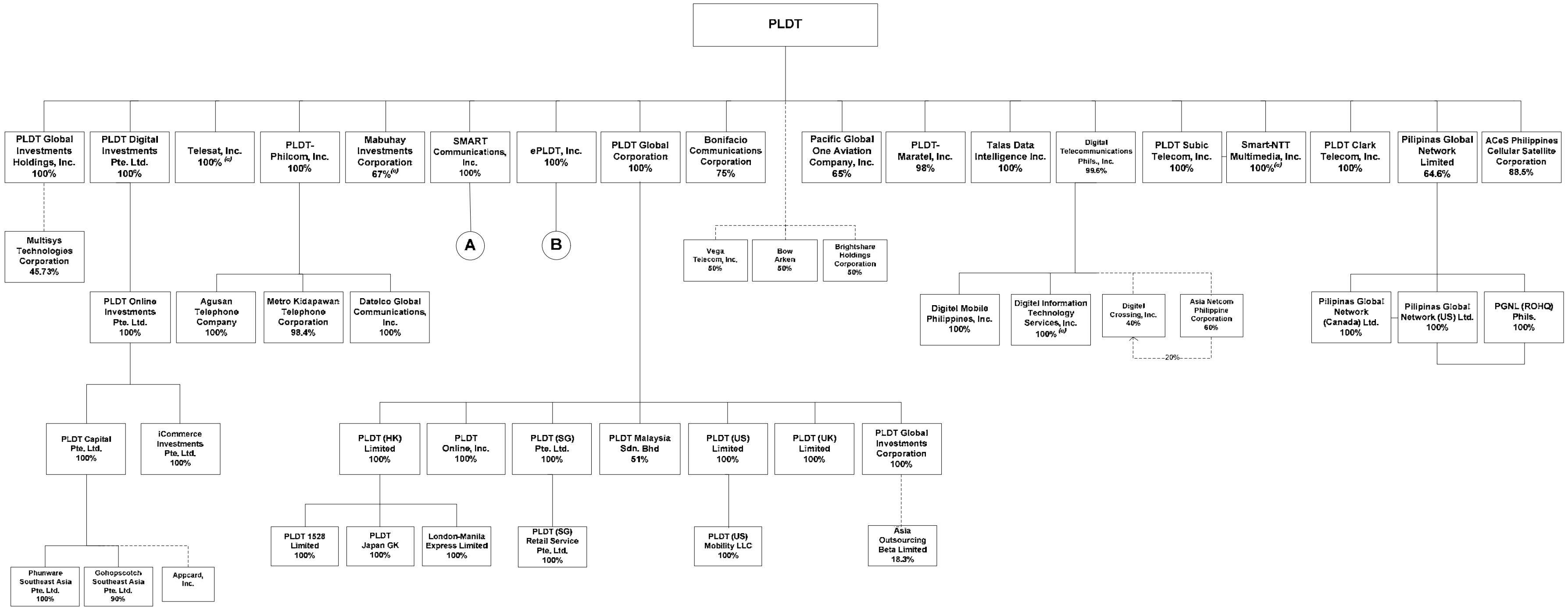
Note: Standards and interpretations tagged as "Not Applicable" are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2018

	Amount
	(in millions)
Consolidated unappropriated retained earnings as at December 31, 2017 (Audited)	Php1,157
Effect of PAS 27 Adjustments	33,995
Effect of adoption of PFRS 9 and 15	129
Parent Company's unappropriated retained earnings at beginning of the year	35,281
Less: Cumulative unrealized income – net of tax:	
Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)	(523)
Fair value adjustments of investment property resulting to gain	(778)
Fair value adjustments (mark-to-market gains)	(3,182)
Parent Company's unappropriated retained earnings available for dividends as at January 1, 2018	30,798
Parent Company's net income attributable to equity holders of PLDT for the year	11,159
Less: Fair value adjustment of investment property resulting to gain	(110)
Fair value adjustments (mark-to-market gains)	(258)
	10,791
Less: Cash dividends declared during the year	
Preferred stock	(59)
Common stock	(13,828)
Charged to retained earnings	(13,887)
Parent Company's unappropriated retained earnings available for dividends as at December 31, 2018	Php**27,702**

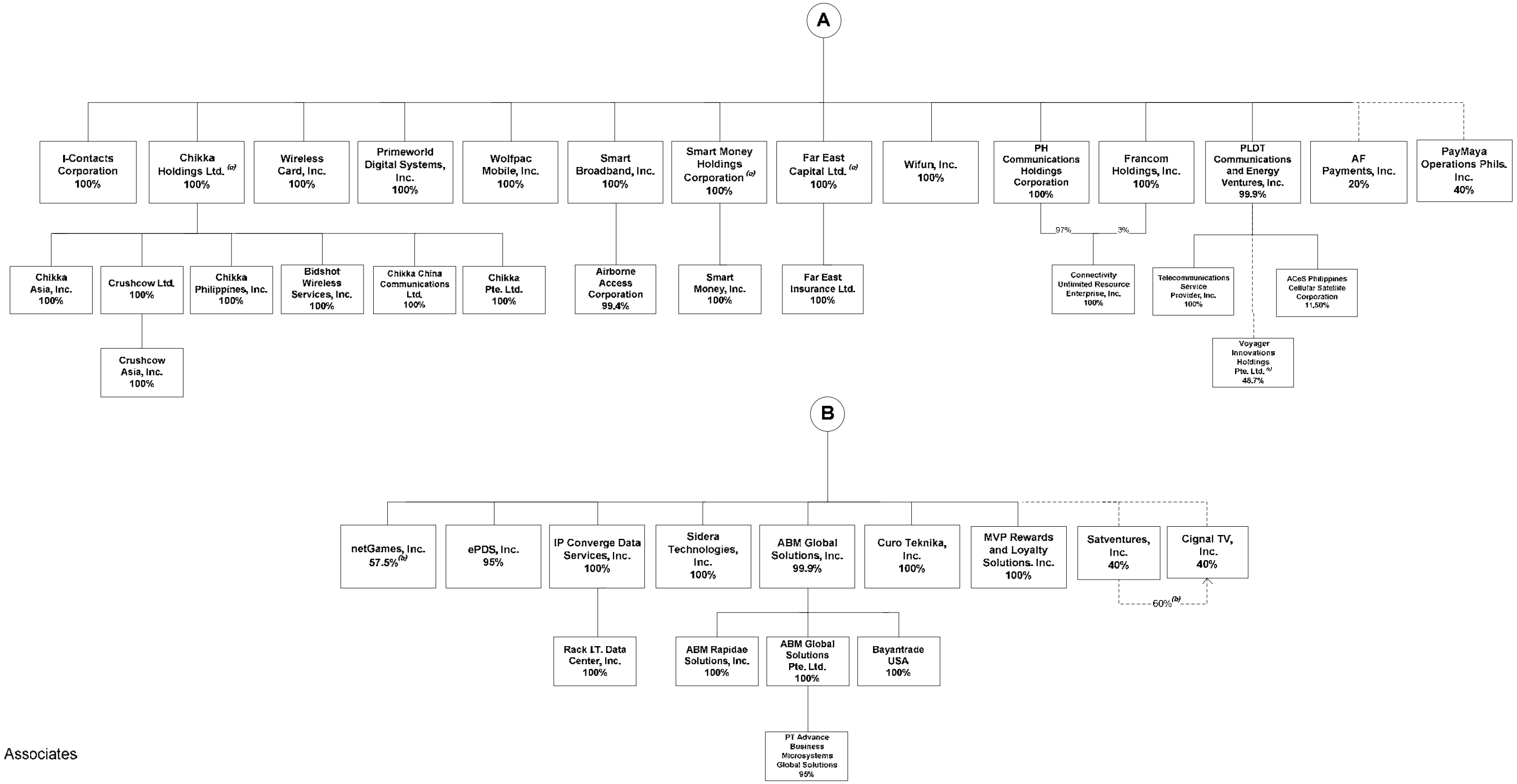
As at December 31, 2018, our consolidated retained earnings amounted to Php12,081 million while the Parent Company's unappropriated retained earnings amounted to Php32,553 million. The difference of Php20,472 million pertains to the effect of PAS 27 in our investments in subsidiaries, associates and joint ventures accounted for under the equity method.

Schedule K. Map of the Relationships of the Companies within the Group
December 31, 2018



Legend:

------- Joint Ventures and Associates



Legend:

------------ Joint Ventures and Associates

(a) *Ceased commercial operations.*

(b) *Ceased commercial operations and under liquidation due to shortened corporate life to August 31, 2015.*

(c) *On July 11, 2017, the Accounting and Corporate Regulatory Authority, or ACRA, of Singapore approved the change in business name of eInnovations Holdings Pte. Ltd. to Voyager Innovations Holdings Pte. Ltd. On April 16, 2018, the ACRA of Singapore approved the transfer of VIH to PCEV. On November 28, 2018, upon closing of the subscription agreement of PLDT, Tencents Holding Limited, or Tencents, and KKR & Co., Inc., or KKR, PCEV's ownership in VIH was reduced to 53.87% and with only two board seats in the investee, the transaction resulted to a loss of control. On December 10, 2018, PCEV's ownership in VIH was further reduced to 48.74% upon receipt of the investments from International Finance Corp., or IFC, and IFC Emerging Asia Fund, or IFC EAF.*

Schedule L. Financial Soundness Indicators
December 31, 2018 and 2017

	2018	2017
Current Ratio[1]	0.52:1.0	0.53:1.0
Net Debt to Equity Ratio[2]	1.10:1.0	1.30:1.0
Net Debt to EBITDA Ratio[3]	1.93:1.0	2.09:1.0
Total Debt to EBITDA Ratio[4]	2.75:1.0	2.61:1.0
Asset to Equity Ratio[5]	4.30:1.0	4.30:1.0
Interest Coverage Ratio[6]	4.19:1.0	2.93:1.0
Profit Margin[7]	12%	8%
Return on Assets[8]	4%	3%
Return on Equity[9]	17%	13%
EBITDA Margin[10]	42%	44%

(1) *Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)*
(2) *Net Debt to equity ratio is measured as total debt (long-term debt, including current portion) less cash and cash equivalent and short-term investments divided by total equity attributable to equity holders of PLDT.*
(3) *Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion) less cash and cash equivalent and short-term investments divided by EBITDA for the year.*
(4) *Total Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion) divided by EBITDA for the year.*
(5) *Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of PLDT.*
(6) *Interest coverage ratio is measured by EBIT, or earnings before interest and taxes for the year, divided by total financing cost for the year.*
(7) *Profit margin is derived by dividing net income for the year with total revenues for the year.*
(8) *Return on assets is measured as net income for the year divided by average total assets.*
(9) *Return on Equity is measured as net income for the year divided by average total equity attributable to equity holders of PLDT.*
(10) *EBITDA margin for the year is measured as EBITDA divided by service revenues for the year.*
EBITDA for the year is measured as net income for the year excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing cost, interest income, equity share in net earnings (losses) of associated 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 for the year.

CONTACT INFORMATION

Customer Care Services
(for service-related concerns)

PLDT CUSTOMER CARE
Call Center: 171
Non-PLDT subscribers who wish to contact PLDT: (632) 888-8171
Email address: customercare@pldt.com
Facebook: PLDT Home
Twitter: @PLDT_Cares

Internet users can access information about PLDT and its products and services at: www.pldthome.com

Information
(for general inquiries)

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Makati General Office (MGO)
Telephone: (632) 816-8659

Twitter: @pldt
Facebook: /PLDTpublicaffairs
Instagram: @pldt

Shareholder Services
(for inquiries on dividends, stock certificates, and related matters)

PLDT Shareholder Services
Telephone: (632) 843-1285
Fax: (632) 813-2292
Email address: pldtshareholderservices@pldt.com.ph

Registrars and Transfer Agents

COMMON STOCK[1] AND VOTING PREFERED STOCK

Philippine Registrar and Transfer Agent

BDO UNIBANK, INC., - TRUST & INVESTMENTS GROUP
Securities Services & Corporate Agencies
15/F BDO Corporate Center, South Tower
7899 Makati Ave., Makati City 0726

Telephone: (632) 878-4961
(632) 878-4053
Fax: (632) 878-4056
Email address: bdo-stock-transfer@bdo.com.ph

NON-VOTING SERIAL PREFERRED STOCK

10% CUMULATIVE CONVERTIBLE PREFERRED STOCK Series JJ[2]

SERIES IV CUMULATIVE NON-CONVERTIBLE REDEEMABLE PREFERRED STOCK

RIZAL COMMERCIAL BANKING CORPORATION
G/F West Wing, 221 GPL (Grepalife) Building,
Sen. Gil Puyat Avenue, Makati City, Philippines

Telephone: (632) 892-7566
(632) 892-9362
(632) 553-6937
Fax: (632) 892-3139
Email address: abmadrid@rcbc.com
joscruz@rcbc.com
affadriquela@rcbc.com

Depositary of American Depositary Shares

AMERICAN DEPOSITARY RECEIPT FACILITY[3]

JPMorgan Chase Bank, N.A.
P.O. Box 64504
St. Paul, MN 55164-0504
U.S. Domestic Toll Free: (1-800) 990-1135
International Telephone No.: (1-651) 453-2128
Email address: jpmorgan.adr@eq-us.com
Website: www.adr.com

Investor Relations
(for financial and operating information on PLDT)

PLDT INVESTOR RELATIONS CENTER
12/F, Ramon Cojuangco Building
Makati Avenue, Makati City, Philippines
Telephone: (632) 816-8024
Fax: (632) 810-7138
Email address: pldt_ir_center@pldt.com.ph

Corporate Governance

CORPORATE GOVERNANCE OFFICE
Email address: corpgov@pldt.com.ph

PLDT's Corporate Governance Manual, Code of Business Conduct and Ethics and NYSE Section 303A.11 Disclosure, which summarizes the difference between PLDT's corporate governance practices and those required of U.S. companies listed on the NYSE, and its reports on Form 17-A (Philippines) and 20-F (US) may be downloaded from:

Corporate Governance Manual –
http://pldt.com/docs/default-source/corporate-governance-files/CG-Manual-/pldt-manual-on-corporate-governance.pdf?sfvrsn=0

Code of Business Conduct and Ethics –
http://www.pldt.com/docs/default-source/policies/pldt-code-of-business-conduct-and-ethics.pdf?sfvrsn=4

NYSE 303A.11 Disclosure –
http://www.pldt.com/docs/default-source/nyse/nyse-section-303a-11-disclosure.pdf.

20-F
http://www.pldt.com/investor-relations/annual-and-sustainability-reports#USSEC

FORM 17-A
http://www.pldt.com/investor-relations/annual-and-sustainability-reports#PhilSEC

Enterprise Group
(for corporate accounts concerns)

Telephone: (632) 840-5433
Fax: (632) 860-6112
Email address: pldtenterprise@pldt.com.ph
Website: www.pldtenterprise.com

SME Business Group
(for small and medium enterprise concerns)

Telephone: 101888
Email address: smenationinquiry@pldt.com.ph
Website: www.smenation.com.ph

Supplier Management

Telephone: (632) 844-2361 / 856-9506 / 846-1131 / 556-9953 / 843-0038 / 551-1390
Fax: (632) 860-6551
Email address: mcyasa@pldt.com.ph

Recruitment

Hotline: (632) 8-PLDTHR or (632) 8-753847
Email address: pldthr@pldt.com.ph

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[1] *The shares of Common Capital Stock of PLDT Inc. are listed on the Philippine Stock Exchange (ticker: TEL).*

[2] *The shares of Series JJ 10% Cumulative Convertible Preferred Stock of PLDT are listed on the Philippine Stock Exchange. All the outstanding shares of 10% Cumulative Convertible Preferred Stock Series A to FF, Series GG, Series HH (issued in 2007), Series HH (issued in 2008) and Series II were redeemed and retired on January 19, 2012, August 30, 2012, May 16, 2013, May 16, 2014 and May 11, 2016, respectively.*

[3] *PLDT Inc. has established an American Depositary Receipt facility under which American Depositary Shares (ticker: PHI) representing shares of Common Capital Stock are listed and traded on the New York Stock Exchange. The American Depositary Shares are evidenced by American Depositary Receipts issued by the Depositary.*

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