IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES.

Important: You must read the following before continuing. The following applies to the Offering Circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF NOTES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE NOTES AND THE INFORMATION CONTAINED IN A FINAL OFFERING CIRCULAR THAT WILL BE DISTRIBUTED TO YOU ON OR PRIOR TO THE CLOSING DATE AND NOT ON THE BASIS OF THE ATTACHED OFFERING CIRCULAR. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED THEREIN.

Confirmation of the Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the notes, investors must not be located in the United States. This Offering Circular is being sent at your request and, by accepting the electronic mail and accessing this Offering Circular, you shall be deemed to have represented to us that the electronic mail address that you gave us and to which this electronic mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Offering Circular to any other person.

The materials relating to any offering of notes to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that such offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in the Offering Circular) in such jurisdiction.

This Offering Circular has been sent to you in electronic format. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Issuer, the Managers (each as defined in the Offering Circular) nor any person who controls the Issuer, a Manager or any director, officer, employee or agent of any of the Issuer, the Managers or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

CONFIDENTIAL

PLDT INC.

(incorporated in the Republic of the Philippines)

U.S.$600,000,000 SENIOR UNSECURED NOTES

U.S.$300,000,000 2.50% Notes due 2031
U.S.$300,000,000 3.45% Notes due 2050

PLDT Inc. (the "**Issuer**") proposes to issue U.S.$300,000,000 2.50% senior unsecured notes due 2031 (the "**2031 Notes**") and U.S.$300,000,000 3.45% senior unsecured notes due 2050 (the "**2050 Notes**", and together with the 2031 Notes, the "**Notes**"). The 2031 Notes will mature on January 23, 2031 and the 2050 Notes will mature on June 23, 2050.

The Notes will constitute direct, unsubordinated, unconditional and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves, and shall at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer.

The 2031 Notes will bear interest from and including June 23, 2020 at the rate of 2.50% per annum. The 2050 Notes will bear interest from and including June 23, 2020 at the rate of 3.45% per annum. Save in relation to the first interest period commencing on, and including, June 23, 2020 to, and excluding, January 23, 2021, interest on the 2031 Notes shall be payable in equal instalments semi-annually in arrears on January 23 and July 23 each year commencing on July 23, 2021. Interest on the 2050 Notes shall be payable in equal instalments semi-annually in arrears on June 23 and December 23 each year commencing on December 23, 2020. Payments on the Notes will be made without deduction for or on account of taxes imposed or levied by the Philippines to the extent described in "*Terms and Conditions of the Notes – Taxation and Gross-up.*" The Issuer may, at its option, redeem the Notes in whole or in part at any time, and from time to time, on or after October 23, 2030 for the 2031 Notes and March 23, 2050 for the 2050 Notes at par plus accrued but unpaid interest on the principal amount of the Notes to be redeemed and any Additional Amounts (as defined in the Terms of Conditions of the Notes) to, but excluding, the redemption date. In addition, the Issuer may, at its option, redeem each series of Notes in whole, but not in part, at any time at par plus accrued but unpaid interest in the event of certain tax changes, as described under "*Terms and Conditions of the Notes – Redemption and Purchase*". For a more detailed description of the Notes, see "*Terms and Conditions of the Notes*".

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 17.

Issue Price for the 2031 Notes: 99.390%
Issue Price for the 2050 Notes: 99.168%

The Notes are being offered only outside the United States in offshore transactions in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). The Notes have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. Unless they are so registered, the Notes may be offered only in transactions that are exempt from or not subject to registration under the Securities Act or the securities laws of any other jurisdiction. For further details, see "*Subscription and Sale*."

Approval-in-principle has been obtained from the SGX-ST for the listing and quotation of the Notes on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**").

The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Notes to the Official List of the SGX-ST and quotation of the Notes on the Official List of the SGX-ST is not to be taken as an indication of the merits of the Notes, the Issuer or its subsidiaries. Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, investors should consult their advisers.

The Notes are expected to be rated BBB+ by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes will be evidenced by a global certificate (the "**Global Certificate**") in registered form, which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective accountholders. Except in the limited circumstances set out herein, definitive certificates for the Notes will not be issued in exchange for beneficial interests in the Global Certificate. See "*The Global Certificate*." It is expected that delivery of the Global Certificate will be made on or about June 23, 2020.

The denomination of the Notes shall be U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof.

This Offering Circular is not a prospectus for the purpose of Regulation (EU) 2017/1129.

Joint Lead Managers and Joint Bookrunners
(in alphabetical order)

Credit Suisse **UBS**

Co-Manager

J.P. Morgan

Offering Circular dated June 16, 2020

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IMPORTANT NOTICE

In this Offering Circular, references to the "**we**", "**us**", "**our**" or "**PLDT Group**" are references to PLDT Inc. (formerly Philippine Long Distance Telephone Company) and its consolidated subsidiaries, and associates and joint ventures, as the context requires, and references to "**PLDT**", "**the Issuer**" or "**the Company**" mean PLDT Inc., excluding its consolidated subsidiaries.

Unless the context indicates or otherwise requires, "Board of Directors" or the "Board" refer to the board of directors of PLDT.

We have prepared this Offering Circular solely for use in connection with the proposed offering of Notes described in this Offering Circular. We accept responsibility for the information contained in this Offering Circular. To the best of our knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not materially misstate or omit anything likely to affect the import of such information.

No person has been or is authorized to give any information or to make any representation concerning the Company, the PLDT Group or the Notes other than as contained herein or any other information supplied in connection with the Notes and, if given or made by any other person, such information or representation should not be relied upon as having been authorized by us. Credit Suisse (Singapore) Limited ("**Credit Suisse**") and UBS AG Singapore Branch ("**UBS**" and together with Credit Suisse, the "**Joint Lead Managers**"), as joint lead managers and joint bookrunners, J.P. Morgan Securities plc, as co-manager (the "**Co-Manager**" and together with the Joint Lead Managers, the "**Managers**"), The Bank of New York Mellon, London Branch in its capacity as trustee (the "**Trustee**") or the Agents (as defined in the Terms and Conditions of the Notes (the "**Conditions**")).

We have prepared this Offering Circular for use in connection with the offer and sale of Notes exempt from the registration requirements under the U.S. Securities Act of 1933, as amended (the "Securities Act") solely for the purpose of enabling a prospective investor to consider whether to purchase the Notes. This Offering Circular does not constitute an offer to any person in the United States or in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Company, the PLDT Group, the Managers, the Trustee, or the Agents represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering.

None of the Managers, the Trustee or the Agents has separately verified the information contained herein. In this Offering Circular, no representation, warranty or undertaking, express or implied, is made or given by the Managers, the Trustee or the Agents or their respective affiliates or legal advisers as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers, the Trustee or the Agents or their respective affiliates or legal advisers, and no responsibility or liability is accepted by the Managers, the Trustee or the Agents or their respective affiliates or legal advisers as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer or the Company or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. Neither this Offering Circular nor any other information supplied in connection with the Notes is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by either the Company, the Managers, the Trustee or the Agents or their respective affiliates or legal advisers that any recipient of this Offering Circular or any other information supplied in connection with the Notes should purchase the Notes. Prospective investors should not construe the contents of this Offering Circular as investment, legal or tax advice and should consult with their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of receiving the Notes. Neither this Offering Circular nor any other information supplied in connection with the Notes constitutes an offer or an invitation by or on behalf of us, the Managers, the Trustee or the Agents to any person to subscribe for or to purchase any Notes.

Investors may not reproduce or distribute this Offering Circular in whole or in part, and investors may not disclose any of the contents of this Offering Circular or use any information herein for any purpose other than considering an investment in the Notes. Each investor of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Managers, the Trustee or the Agents shall have any responsibility therefor.

Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area ("EEA"), the United Kingdom ("UK"), Japan, Hong Kong, Singapore and the Philippines, see "*Subscription and Sale*". If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Manager or such affiliate on behalf of the Issuer in such jurisdiction.

Prospective investors should not construe the contents of this Offering Circular as investment, legal or tax advice and should consult with their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of receiving the Notes.

Listing of the Notes on the SGX-ST is not to be taken as an indication of the merits of the PLDT Group or the Notes. In making an investment decision, prospective investors must rely on their own examination of the Issuer and the terms of the Notes, including, without limitation, the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes. None of the PLDT Group, the Managers, the Trustee or the Agents is making any representation to any prospective investor regarding the legality of an investment in the Notes by such investor under any legal investment or similar laws or regulations. The offering of the Notes is being made on the basis of this Offering Circular. Any decision to invest in the Notes must be based on the information contained in this Offering Circular. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Managers, the Trustee or the Agents shall have any responsibility therefor.

Each person receiving this Offering Circular is advised to read and understand the contents of this Offering Circular before investing in the Notes. If in doubt, such person should consult his or her advisors. None of the Company or the Managers have authorized, nor do they authorize the making of any offer of the Notes through any financial intermediary, other than offers made by the Managers which constitute the final placement of the Notes contemplated in this Offering Circular.

MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET — Solely for the purposes of a manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

SINGAPORE SFA PRODUCT NOTIFICATION: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

THE NOTES BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION (THE "PHILIPPINE SEC") UNDER THE SECURITIES REGULATION CODE OF THE PHILIPPINES (THE "SRC"). ANY FUTURE OFFER OR SALE OF THE NOTES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

None of the PLDT Group, the Managers, the Trustee, and the Agents makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

We reserve the right to withdraw this offering of the Notes at any time. We and the Managers also reserve the right to reject any offer to purchase the Notes in whole or in part for any reason and to allocate to any prospective investor less than the full amount of Notes sought by such investor.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other United States, Philippine or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and other applicable state, Philippine or other securities laws pursuant to registration thereunder or exemption therefrom. See "*Subscription and Sale*." Prospective investors should thus be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

Investors are advised to read and understand the contents of this Offering Circular before investing. Investors agree to the foregoing by accepting delivery of this Offering Circular.

IN CONNECTION WITH THE ISSUE OF THE NOTES, UBS AG SINGAPORE BRANCH AS A STABILIZING MANAGER (THE "STABILIZING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND DIRECTIVES, OVER-ALLOT THE NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

CERTAIN DEFINITIONS

In this Offering Circular, references to the "**Philippines**" are to the Republic of the Philippines and to the "**United States**" or "**U.S.**" are to the United States of America, its territories and possessions, any State of the United States and the District of Columbia. References to "**₱**" or to "**Philippine Peso**" are to the lawful currency of the Republic of the Philippines and references to "**U.S.$**" and "**U.S. dollars**" are to the lawful currency of the United States of America. References to the "**BSP**" are to the *Bangko Sentral ng Pilipinas*, the central bank of the Philippines. The Company publishes its financial statements in Philippine Pesos. Certain terms used herein are defined in the "*Glossary*" contained elsewhere in this Offering Circular. References to "**Government**" or "**Philippine Government**" are to the government of the Philippines, including all branches, agencies, bodies.

This Offering Circular contains translations of certain amounts into U.S. Dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Philippine Peso amounts represent such U.S. dollar amounts or could be, or could have been, converted into U.S. dollars at the rates indicated or at all. Unless otherwise indicated, all translations from Philippine Pesos to U.S. dollars have been made at a rate of ₱50.78 = U.S.$1.00, being the closing rate on March 31, 2020 for the purchase of U.S. dollars with Philippine Pesos published in the Foreign Exchange Summary by the Bankers Association of the Philippines (the "**BAP**"). On May 31, 2020, the closing rate quoted on the Foreign Exchange Summary was ₱50.585 = U.S.$1.00.

Unless stated otherwise, references to the "Conditions", "Terms and Conditions", or "Terms and Conditions of the Notes" shall be to the Terms and Conditions of the 2031 Notes, the Terms and Conditions of the 2050 Notes, or both of them, as applicable.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as at December 31, 2019 and 2018 and for the three years ended December 31, 2019, 2018 and 2017, and the unaudited interim consolidated financial statements as at March 31, 2020 and for the three months ended March 31, 2020 and 2019 included in this Offering Circular have been prepared in accordance with the Philippine Financial Reporting Standard ("**PFRS**").

The financial information included in this Offering Circular has been derived from the consolidated financial statements of PLDT. Unless otherwise indicated, the description of the business activities of the Company in this Offering Circular is presented on a consolidated basis.

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

NON-PFRS FINANCIAL MEASURES

This Offering Circular contains references to Adjusted EBITDA and Core Income. Each of Adjusted EBITDA and Core Income is a supplemental measure of the performance and liquidity of the Company that is not required by, or presented in accordance with, PFRS. Further, each of Adjusted EBITDA and Core Income is not a measurement of the financial performance or liquidity of the Company under PFRS and should not be considered as an alternative to net income, gross revenues or any other performance measure derived in accordance with PFRS or as an alternative to cash flow from operations or as a measure of the liquidity of the Company.

"**Adjusted EBITDA**" is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs — net, 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. Adjusted EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment.

Adjusted 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 Adjusted 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 Adjusted EBITDA as a supplement to financial measures in accordance with PFRS. Adjusted EBITDA should not be considered as an alternative to net income as an indicator of our performance, nor should Adjusted 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, Adjusted 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 Adjusted 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 Adjusted EBITDA. Our calculation of Adjusted EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

"**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 hedging 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, "**Telco Core Income**" 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 hedging costs), asset impairment on noncurrent assets, nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, similar adjustments to equity share in net earnings (losses) of associates and joint ventures, adjusted for the effect of accelerated depreciation, asset sales and share in Voyager Innovations Holdings, Pte. Ltd. ("**VIH**") losses. Telco 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 nonrecurring 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.

INDUSTRY AND MARKET DATA

Market data and certain industry forecasts and other data used in this Offering Circular were obtained or derived from internal surveys, market research, governmental data, publicly available information and/or industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy and completeness of such information are not guaranteed and have not been independently verified by the Company, the Managers, the Trustee or the Agents. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Company, the Managers, the Trustee or the Agents make any representation or warranty, express or implied, as to the accuracy or completeness of such information. In addition, such information may not be consistent with other information compiled within or outside the Philippines.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements and other information that involves risks, uncertainties and assumptions. We have based these forward-looking statements on our current beliefs, expectations and intentions as to facts, actions and events that will or may occur in the future. Such statements are generally identified by forward-looking words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," "will" or other similar words.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith. These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in the section "Risk Factors." When considering forward-looking statements, you should keep in mind the description of risks and other cautionary statements in this Offering Circular.

All of our forward-looking statements made herein and elsewhere are qualified in their entirety by the risk factors discussed in "*Risk Factors*". These risk factors and statements describe circumstances that could cause actual results to differ materially from those contained in any forward-looking statement in this Offering Circular. Should one or more of such risks and uncertainties materialize, or should any underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated in the applicable forward-looking statements.

You should also keep in mind that any forward-looking statement made by us in this Offering Circular or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us.

We, the Managers, the Trustee and the Agents have no duty to, and do not intend to, update or revise the statements in this Offering Circular after the date of this Offering Circular to conform those statements to actual results, or to publicly release any revisions to any forward-looking statements to reflect events or circumstances, or to reflect that we became aware of any such events or circumstances, that occur after the date of this Offering Circular, subject to compliance with all applicable laws. In light of these risks and uncertainties, you should keep in mind that actual results may differ materially from any forward-looking statement made in this report or elsewhere.

ENFORCEABILITY OF CIVIL LIABILITIES

The Company is organized under the laws of the Philippines and a substantial portion of its assets are located in the Philippines. Substantially all of its directors and senior management reside in the Philippines. The Company has consented to service of process in England. It may be difficult for investors to effect service of process outside of the Philippines upon the Company. Moreover, it may be difficult for investors to enforce judgments against the Company outside the Philippines in any actions pertaining to the Notes.

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Moreover, the Philippines enacted Republic Act No. 9285, otherwise known as the Alternative Dispute Resolution Act of 2004, to facilitate the enforcement of arbitral awards in the Philippines. Judgments obtained against the Company in any foreign court may be recognized and enforced by the courts of the Philippines in an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. Section 48 of Rule 39 of the Rules of Court provides that a judgment or final order of a tribunal of a foreign country having jurisdiction to give the judgment or final order: (a) in case of a judgment or final order upon specific property, is conclusive upon the title to that property; and (b) in case of a judgment or final order against a person, is presumptive evidence of a right between the parties and their successors in interest by a subsequent title. In either case, the judgment or final order may be repelled if there is a defect relating to jurisdiction or notice to the other party, collusion, fraud or clear mistake of law or fact. In addition, Article 17 of the Civil Code of the Philippines provides that the judgment must not be contrary to laws that have for their object public order, public policy and good customs in the Philippines. Furthermore, Philippine courts have held that a foreign judgment is presumed to be valid and binding in the country from which it issues, until the contrary is shown, and the party contesting the foreign judgment has the burden of overcoming the presumption of its validity.

SUMMARY

OVERVIEW

We are one of the leading telecommunications and digital services providers in the Philippines, in terms of both subscribers and revenues, serving the fixed line, wireless and broadband markets. Through our three principal business segments — fixed line, wireless and others — we offer a diverse range of telecommunications and digital services across our extensive fiber optic backbone and wireless and fixed line networks.

We serve 78.2 million users through the provision of mobile, fixed line and data services. In addition to the business segments discussed below, PLDT has found it beneficial to view its business from a customer-served perspective. Accordingly, we also assign metrics along the following marketing verticals: individual, home, enterprise and international customers.

Our common shares are listed and traded on the Philippine Stock Exchange (the "**PSE**") and our American Depositary Shares are listed and traded on the New York Stock Exchange (the "**NYSE**") in the United States. We had a market capitalization of 269,854 million (U.S.$5,314.2 million), as at June 11, 2020.

Our three business units are as follows:

Wireless. Our wireless business focuses on driving growth in our data services while managing our legacy business of voice and SMS. We generate data revenues across all segments of our wireless business, whether through the access of mobile internet via smartphones or mobile broadband using pocket WiFi and other similar devices. We provide the following mobile telecommunications services through our wireless business: (i) mobile services, (ii) home broadband services, and (iii) mobile virtual network operations ("**MVNO**") and other services.

Fixed Line. We are the leading provider of fixed line telecommunications services throughout the Philippines, servicing retail, corporate and SME clients. Our fixed line business group offers data, voice and miscellaneous services.

Others. Our other business consists primarily of our interests in digital platforms and other technologies, including our interests in VIH and Multisys Technologies Corporation ("**Multisys**").

The following table shows the contribution of each business unit to our total revenues for the periods indicated:

	2018		2019			For the three months ended March 31, 2020		
	Revenues	**%**	**Revenues**		**%**	**Revenues**		**%**
	₱		**₱**	**U.S.$**		**₱**	**U.S.$**	
	in millions (except percentages)							
Wireless	89,929	55	96,906	1,908.3	57	25,354	499.3	58
Fixed Line	85,222	52	89,406	1,760.7	53	22,695	446.9	52
Others	1,138	1	—	—	—	—	—	—
Inter-segment Transactions	(13,375)	(8)	(17,125)	(337.2)	(10)	(4,403)	(86.7)	(10)
Total	162,914	100	169,187	3,331.8	100	43,646	859.5	100

We had total revenues of ₱169,187 million (U.S.$3,331.8 million), and net income attributable to equity holders of PLDT of ₱22,521 million (U.S.$443.5 million), for the year ended December 31, 2019. For the three months ended March 31, 2020, we had total revenues of ₱43,646 million (U.S.$859.5 million) and net income attributable to equity holders of PLDT of ₱5,912 million (U.S.$116.4 million).

STRENGTHS AND STRATEGIES

STRENGTHS

We believe our business is characterized by the following competitive strengths:

- exposure to large and attractive markets with growing demand for connectivity services;
- superior integrated networks to support future growth;
- a strong brand portfolio covering all the relevant business segments in the Philippines;
- diversified revenue sources deliver resilience and growth;
- innovative products and services which address our customers' evolving digital needs; and
- strong and experienced management team and key strategic relationships.

STRATEGIES

The key elements of our business strategy are:

- continue investing in maintaining our network leadership to deliver a superior data experience and further drive revenue growth;
- focus on our digital transformation to enhance our customer experience and create revenue opportunities;
- capitalize on our strength as an integrated telecommunications service provider to extend our market leading position in mobile data, fixed broadband and corporate services; and
- focus on profitable growth and prudent capital management to maintain a strong financial position.

SUMMARY FINANCIAL INFORMATION AND OTHER DATA

The summary historical consolidated statements of financial position data as at December 31, 2018 and 2019 and summary historical consolidated statements of comprehensive income and statement of cash flow data for the years ended December 31, 2017, 2018, and 2019 set forth below have been derived from, and should be read in conjunction with, the audited consolidated financial statements and, including the notes thereto, included elsewhere in this Offering Circular. SGV & Co., a member firm of Ernst & Young Global Limited, has audited the consolidated financial statements in accordance with Philippine Standards on Auditing. The summary historical interim consolidated statement of financial position data as at March 31, 2020 and summary historical interim consolidated income statement and statement of cash flow data for the three months ended March 31, 2019 and 2020 have been derived from, and should be read in conjunction with, the unaudited interim consolidated financial statements. Potential investors should read the following data together with the more detailed information contained in the consolidated financial statements and the related notes included elsewhere in this Offering Circular. The following data is qualified in its entirety by reference to all of that information.

Translations from Philippine Pesos to U.S. dollars for the convenience of the reader have been made at the BAP Rate on March 31, 2020 of ₱50.78 to U.S.$1.00.

CONSOLIDATED STATEMENT OF INCOME DATA

	For the year ended December 31,				For the three months ended March 31,		
	2017	2018	2019		2019	2020	
	(Audited)				(Unaudited)		
	(in millions)						
	₱	₱	₱	U.S.$ (unaudited)	₱	₱	U.S.$
REVENUES[1]							
Service revenues	150,172	152,369	161,355	3,177.5	38,792	41,797	823.1
Non-service revenues	8,761	10,545	7,832	154.2	1,826	1,849	36.4
	158,933	162,914	169,187	3,331,8	40,618	43,646	859.5
EXPENSES							
Selling, general and administrative expenses	68,990	73,916	68,230	1,343.6	15,891	17,851	351.5
Depreciation and amortization	51,915	47,240	39,656	780.9	9,346	10,286	202.6
Cost of sales and services	13,633	14,427	13,429	264.5	2,884	3,029	59.6
Asset impairment	8,258	8,065	4,833	95.2	1,357	1,060	20.9
Interconnection costs	6,626	5,493	3,638	71.6	835	302	5.9
	149,422	149,141	129,786	2,555.8	30,313	32,528	640.6
	9,511	13,773	39,401	775.9	10,305	11,118	218.9

	For the year ended December 31,				For the three months ended March 31,		
	2017	2018	2019		2019	2020	
	(Audited)				(Unaudited)		
	(in millions)						
	₱	₱	₱	U.S.$ (unaudited)	₱	₱	U.S.$
OTHER INCOME (EXPENSES) — NET	5,058	9,042	(7,065)	(139.1)	(1,292)	(2,787)	(54.9)
INCOME BEFORE INCOME TAX	14,569	22,815	32,336	636.8	9,013	8,331	164.1
PROVISION FOR INCOME TAX	1,103	3,842	9,550	188.1	2,290	2,356	46.4
NET INCOME	**13,466**	**18,973**	**22,786**	**448.7**	**6,723**	**5,975**	**117.7**
ATTRIBUTABLE TO:							
Equity holders of PLDT	13,371	18,916	22,521	443.5	6,708	5,912	116.4
Noncontrolling interests	95	57	265	5.2	15	63	1.2
	13,466	18,973	22,786	448.7	6,723	5,975	117.7
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON EQUITY HOLDERS OF PLDT							
Basic	61.61	87.28	103.97	2.0	30.98	27.30	0.5
Diluted	61.61	87.28	103.97	2.0	30.98	27.30	0.5

Note:

(1) For the years ended December 31, 2018 and 2019, and the three months ended March 31, 2019 and 2020, the total service and non-service revenues pertains to revenue from contracts with customers.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at December 31,			As at March 31,	
	2018	2019		2020	
	(Audited)			(Unaudited)	
			(in millions)		
	₱	₱	U.S.$ (unaudited)	₱	U.S.$
ASSETS					
NONCURRENT ASSETS					
Property and equipment	195,964	232,134	4,571.4	242,512	4,775.7
Right-of-use assets	—	15,890	312.9	16,065	316.4
Investments in associates and joint ventures	55,427	53,863	1,060.7	53,325	1,050.1
Financial assets at fair value through profit or loss	4,763	3,369	66.3	2,926	57.6
Debt instruments at amortized cost — net of current portion	150	—	—	—	—
Investment properties	777	778	15.3	778	15.3
Goodwill and intangible assets	68,583	67,825	1,335.7	67,649	1,332.2
Deferred income tax assets — net	27,697	23,623	465.2	22,333	439.8
Derivative financial assets — net of current portion	140	1	0.0	1	0.0
Prepayments — net of current portion	23,338	48,933	963.6	50,737	999.2
Financial assets at fair value through other comprehensive income — net of current portion	2,749	162	3.2	161	3.2
Contract assets — net of current portion	1,083	750	14.8	755	14.9
Other financial assets — net of current portion	2,275	1,986	39.1	2,053	40.4
Other non-financial assets — net of current portion	230	136	2.7	143	2.8
Total Noncurrent Assets	383,176	449,450	8,850.9	459,438	9,047.6
CURRENT ASSETS					
Cash and cash equivalents	51,654	24,369	479.9	30,944	609.4
Short-term investments	1,165	314	6.2	2,949	58.1
Trade and other receivables	24,056	22,436	441.8	24,434	481.2
Inventories and supplies	2,878	3,412	67.2	2,868	56.5
Current portion of contract assets	2,185	1,997	39.3	1,931	38.0
Current portion of derivative financial assets	183	41	0.8	28	0.6
Current portion of debt instruments at amortized cost	—	150	3.0	—	—

	As at December 31,			As at March 31,	
	2018	2019		2020	
	(Audited)			(Unaudited)	
		(in millions)			
	₱	₱	U.S.$ (unaudited)	₱	U.S.$
Current portion of prepayments	8,380	11,298	222.5	11,518	226.8
Current portion of financial assets at fair value through other comprehensive income	1,604	2,757	54.3	2,793	55.0
Current portion of other financial assets	7,008	8,086	159.2	8,088	159.3
Current portion of other non-financial assets	461	717	14.1	361	7.1
Total Current Assets	99,574	75,577	1,488.3	85,914	1,691.9
TOTAL ASSETS	**482,750**	**525,027**	**10,339.2**	**545,352**	**10,739.5**
LIABILITIES AND EQUITY					
EQUITY					
Non-voting serial preferred stock	360	360	7.1	360	7.1
Voting preferred stock	150	150	3.0	150	3.0
Common stock	1,093	1,093	21.5	1,093	21.5
Treasury stock	(6,505)	(6,505)	(128.1)	(6,505)	(128.1)
Treasury shares under employee benefit trust	(854)	(394)	(7.8)	(23)	(0.5)
Capital in excess of par value	130,526	130,312	2,566.2	130,312	2,566.2
Other equity reserves	697	276	5.4	24	0.5
Retained earnings	12,081	18,063	355.7	15,534	305.9
Other comprehensive loss	(25,190)	(31,368)	(617.7)	(32,224)	(634.6)
Total Equity Attributable to Equity Holders of PLDT	112,358	111,987	2,205.3	108,721	2,141.0
Noncontrolling interests	4,308	4,303	84.7	4,308	84.8
TOTAL EQUITY	**116,666**	**116,290**	**2,290.1**	**113,029**	**2,225.9**

	As at December 31,			As at March 31,	
	2018	2019		2020	
	(Audited)			(Unaudited)	
	(in millions)				
	₱	₱	U.S.$ (unaudited)	₱	U.S.$
NONCURRENT LIABILITIES					
Interest-bearing financial liabilities — net of current portion	155,835	172,834	3,403.6	166,075	3,270.5
Lease liabilities — net of current portion	—	13,100	258.0	12,676	249.6
Deferred income tax liabilities	2,981	2,583	50.9	2,513	49.5
Derivative financial liabilities — net of current portion	—	25	0.5	14	0.3
Customers' deposits	2,194	2,205	43.4	2,206	43.4
Pension and other employee benefits	7,182	8,985	176.9	9,504	187.2
Deferred credits and other noncurrent liabilities	5,284	4,557	89.7	3,767	74.2
Total Noncurrent Liabilities	173,476	204,289	4,023.0	196,755	3,874.7
CURRENT LIABILITIES					
Accounts payable	74,610	77,845	1,533.0	80,545	1,586.2
Accrued expenses and other current liabilities	95,724	100,815	1,985.3	100,717	1,983.4
Current portion of interest-bearing financial liabilities	20,441	19,722	388.4	39,263	773.2
Current portion of lease liabilities	—	3,215	63.3	3,657	72.0
Dividends payable	1,533	1,584	31.2	10,007	197.1
Current portion of derivative financial liabilities	80	88	1.7	81	1.6
Income tax payable	220	1,179	23.2	1,298	25.6
Total Current Liabilities	192,608	204,448	4,026.2	235,568	4,639.0
TOTAL LIABILITIES	**366,084**	**408,737**	**8,049.2**	**432,323**	**8,513.6**
TOTAL EQUITY AND LIABILITIES	**482,750**	**525,027**	**10,339.2**	**545,352**	**10,739.5**

CONSOLIDATED STATEMENT OF CASH FLOWS DATA

	For the year ended December 31,				For the three months ended March 31,		
	2017	2018	2019		2019	2020	
	(Audited)				(Unaudited)		
	(in millions)						
	₱	₱	₱	U.S.$ (unaudited)	₱	₱	U.S.$
CASH FLOWS FROM OPERATING ACTIVITIES							
Net cash flows from operating activities	56,114	61,116	69,392	1,366.5	16,477	16,920	333.2
CASH FLOWS USED IN INVESTING ACTIVITIES							
Net cash flows used in investing activities	(21,060)	(25,054)	(84,316)	(1,660.4)	(17,474)	(19,239)	(378.9)
CASH FLOWS USED IN FINANCING ACTIVITIES							
Net cash flows from (used in) financing activities	(40,319)	(18,144)	(11,613)	(228.7)	(5,385)	8,896	175.2
Net effect of foreign exchange rate changes on cash and cash equivalents	(552)	831	(748)	(14.7)	14	(2)	(0.0)
Net increase (decrease) in cash and cash equivalents	(5,817)	18,749	(27,285)	(537.3)	(6,368)	6,575	129.5
Cash and cash equivalents at beginning of the year	38,722	32,905	51,654	1,017.2	51,654	24,369	479.9
Cash and cash equivalents at end of the year	32,905	51,654	24,369	479.9	45,286	30,944	609.4

OTHER FINANCIAL DATA

Adjusted EBITDA

	For the year ended December 31,				For the three months ended March 31,		
	2017	2018	2019		2019	2020	
	(Audited)				(Unaudited)		
	(in millions)						
	₱	₱	₱	U.S.$ (unaudited)	₱	₱	U.S.$
Consolidated net income	13,466	18,973	22,786	448.7	6,723	5,975	117.7
Add (deduct) adjustments:							
Depreciation and amortization	51,915	47,240	39,656	780.9	9,346	10,286	202.6
Provision for income tax	1,103	3,842	9,550	188.1	2,290	2,356	46.4
Financing costs — net	7,370	7,067	8,553	168.4	2,001	2,301	45.3
Equity share in net losses (earnings) of associates and joint ventures	(2,906)	87	1,535	30.2	370	532	10.5
Amortization of intangible assets	835	892	758	14.9	196	176	3.5
Losses (gains) on derivative financial instruments — net	(533)	(1,086)	284	5.6	3	12	0.2
Impairment of investments	2,562	172	34	0.7	34	—	—
Foreign exchange losses (gains) — net	411	771	(424)	(8.3)	18	24	0.5
Interest income	(1,412)	(1,943)	(1,745)	(34.4)	(552)	(358)	(7.1)
Noncurrent asset impairment	3,913	2,122	—	—	—	32	0.6
Other income — net	(10,550)	(14,110)	(1,172)	(23.1)	(582)	276	5.4
Total adjustments	52,708	45,054	57,029	1,123.1	13,124	15,637	307.9
Adjusted EBITDA(1)	**66,174**	**64,027**	**79,815**	**1,571.8**	**19,847**	**21,612**	**425.6**

Note:

(1) Adjusted EBITDA for the period is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs — net, 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.

Telco Core Income

	For the year ended December 31,				For the three months ended March 31,		
	2017	2018	2019		2019	2020	
	(Audited)				(Unaudited)		
	(in millions)						
	₱	₱	₱	U.S.$ (unaudited)	₱	₱	U.S.$
Consolidated net income	13,466	18,973	22,786	448.7	6,723	5,975	117.7
Add/(Deduct) adjustments:							
Manpower rightsizing program	—	1,703	3,296	64.9	209	24	0.5
Unrealized loss in fair value of investments	—	1,154	675	13.3	(320)	456	9.0
Losses (gains) on derivative financial instruments – net, excluding hedge costs	(724)	(1,135)	233	4.6	(10)	3	0.1
Impairment of investments	2,562	172	34	0.7	34	—	—
Depreciation due to shortened life of property and equipment	12,816	4,564	—	—	—	—	—
Noncurrent asset impairment	3,913	2,122	—	—	—	—	—
Investment written-off	—	362	—	—	—	—	—
Other nonrecurring income	—	(1,018)	—	—	—	—	—
Core income adjustment on equity share in net losses (gains) of associates and joint ventures	60	23	(226)	(4.5)	18	(6)	(0.1)
Net income attributable to noncontrolling interests	(95)	(57)	(265)	(5.2)	(15)	(63)	(1.2)
Foreign exchange losses (gains) – net	411	771	(424)	(8.3)	18	24	0.5
Net tax effect of aforementioned adjustments	(4,741)	(1,779)	(998)	(19.7)	(61)	(16)	(0.3)
Total Adjustments	14,202	6,882	2,325	45.8	(127)	422	8.5
Core income	**27,668**	**25,855**	**25,111**	**494.5**	**6,596**	**6,397**	**126.2**
Voyager Loss	1,240	3,007	1,776	35.0	418	481	9.5
Gain on deconsolidation of subsidiary, net of tax	—	(10,888)	—	—	—	—	—
Gain on sale of Rocket shares	—	(1,837)	(185)	(3.6)	—	—	—
Gain on sale of Beacon shares	(6,821)	—	—	—	—	—	—
Equity share in gain on sale of SPi Global Holdings, Inc.	(1,402)	—	—	—	—	—	—
Accelerated depreciation, net.	4,115	7,870	378	7.4	189	—	—
Manpower rightsizing program	1,112	—	—	—	—	—	—
Others	(2,336)	40	—	—	—	—	—
Total Adjustments	(4,092)	(1,808)	1,969	38.8	607	481	9.5
Telco Core Income[(1)]	**23,576**	**24,047**	**27,080**	**533.3**	**7,203**	**6,878**	**135.7**

Note:

(1) Telco Core Income is Core Income adjusted for the effect of accelerated depreciation, asset sales and share in VIH losses.

ARPU

The following table summarizes our average monthly ARPUs for the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2019 and 2020:

	Gross Monthly ARPU(1)					Net Monthly ARPU(2)				
	For the year ended December 31,			For the three months ended March 31,		For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020	2017	2018	2019	2019	2020
	(₱)									
Prepaid										
Smart . . .	118	130	132	131	130	108	118	116	118	112
TNT. . . .	81	79	77	74	81	74	71	69	67	71
Sun	88	89	84	85	74	82	81	75	77	66
Postpaid										
Smart . . .	1,004	836	824	807	833	972	819	806	796	804
Sun	422	403	418	425	384	418	401	411	423	377

Notes:

(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.

SUMMARY OF THE OFFERING

The following is a brief summary of the terms of the offering of the Notes and is qualified in its entirety by the remainder of this Offering Circular. For a more complete description of the terms of the Notes, see "Terms and Conditions of the 2031 Notes", "Terms and Conditions of the 2050 Notes" and "The Global Certificate". Terms defined in "Terms and Conditions of the 2031 Notes", "Terms and Conditions of the 2050 Notes" and "The Global Certificate" shall have the same meanings in this summary. Unless stated otherwise, references to the "Conditions". "Terms and Conditions", or the "Terms and Conditions of the Notes" shall be to either or both of the Terms and Conditions of the 2031 Notes and the Terms and Conditions of the 2050 Notes, as applicable. Some of the terms described below are subject to important limitations and exceptions.

Issuer	PLDT Inc.
Legal Entity Identifier	254900ADE8GQHM5P2648
Joint Lead Managers and Joint Bookrunners	Credit Suisse (Singapore) Limited and UBS AG Singapore Branch
Co-Manager	J.P. Morgan Securities plc
Issue	U.S.$300,000,000 in aggregate principal amount of 2.50% senior unsecured notes due 2031 (the "**2031 Notes**") and U.S.$300,000,000 in aggregate principal amount of 3.45% senior unsecured notes due 2050 (the "**2050 Notes**", and together with the 2031 Notes, the "**Notes**").
Issue Price	The issue price of the 2031 Notes will be 99.390% of the principal amount of the 2031 Notes and the issue price of the 2050 Notes will be 99.168% of the principal amount of the 2050 Notes.
Issue Date	June 23, 2020
Maturity Date	Unless previously purchased and cancelled or redeemed, the 2031 Notes will be redeemed on January 23, 2031 at 100% of their principal amount in U.S. dollars plus any accrued and unpaid interest. Unless previously purchased and cancelled or redeemed, the 2050 Notes will be redeemed on June 23, 2050 at 100% of their principal amount in U.S. dollars plus any accrued and unpaid interest.
Interest	The 2031 Notes will bear interest from and including June 23, 2020 at the rate of 2.50% per annum. Interest for the period commencing on, and including, June 23, 2020 to, but excluding, January 23, 2021 shall be payable in arrears on January 23, 2021. Thereafter, commencing on July 23, 2021, interest shall be payable in equal instalments semi-annually in arrears on January 23 and July 23 each year up to, and excluding January 23, 2031. The 2050 Notes will bear interest from and including June 23, 2020 at the rate of 3.45% per annum payable in equal instalments semi-annually in arrears on June 23 and December 23 each year up to, and excluding June 23, 2050, with the first interest payment to be made on December 23, 2020.

Status of the Notes	The Notes constitute the direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank pari passu in right of payment with all other present and future unconditional, unsubordinated and unsecured obligations of the Issuer, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.
Form and Denomination	The Notes will be issued in registered form in the denomination of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented on issue by a global certificate (the "**Global Certificate**") which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg on or about the Issue Date. For so long as the Notes are represented by the Global Certificate, the purchase, sale and transfer of the Notes may only be effected through records maintained by Euroclear and Clearstream, Luxembourg and their respective accountholders. The Global Certificate will be exchangeable for definitive Notes in the limited circumstances set out in it. See "*The Global Certificate*".
Negative Pledge	So long as any Note remains outstanding (as defined in the Trust Deed), (a) the Issuer will not, and the Issuer will ensure that none of its Material Subsidiaries (as defined below) will, create or permit to subsist any mortgage, lien, pledge, charge, security interest, encumbrance or claim of any kind or nature, whatsoever, upon the whole or any part of the property, assets or revenues, present or future, of the Issuer or any Material Subsidiary, respectively, to secure any Relevant Indebtedness (as defined below) or to secure any guarantee of or indemnity in respect of, any Relevant Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed (i) are secured equally and ratably therewith, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders, and (b) the Issuer will not create or permit to subsist any preference or priority in respect of any other Relevant Indebtedness of the Issuer pursuant to Article 2244(14) of the Civil Code of the Philippines, or any successor Philippine law providing for preferences or priority in respect of notarized Relevant Indebtedness, unless amounts payable under the outstanding Notes are granted preference or priority equally and ratably therewith. See "*Terms and Conditions of the Notes — Negative Pledge*".

Events of Default	Events of Default under the Notes will include, among others, non-payment of any principal or interest due in respect of the Notes or any of them and, in the case of interest, the default continues for a period of seven business days in the Philippines, each as described in Condition 10 of the Terms and Conditions. For a description of events that would permit acceleration of repayment of principal and interest on the Notes, see "*Terms and Conditions of the Notes — Events of Default*."
Use of Proceeds	The net proceeds from the issuance of the Notes, which will be approximately U.S.$593.0 million (after the deduction of fees and commissions), will be used to refinance debt maturing in 2020 and 2021, prepay outstanding loans and partially finance our capital expenditures.
Taxation; Payment of Additional Amounts	All payments in respect of the Notes by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction (as defined in the Terms and Conditions), unless the withholding or deduction of the Taxes is required by law. Subject to certain exceptions, in the event that the Issuer makes a deduction or withholding required by law, the Issuer or shall pay such additional amount ("**Additional Amounts**") as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required. See Condition 7.1 of the Terms and Conditions.
Optional redemption at par	At any time or from time to time on or after October 23, 2030 for the 2031 Notes and March 23, 2050 for the 2050 Notes, the Issuer will have the right to redeem the relevant Notes, in whole or in part, on at least 10 days' but not more than 60 days' prior notice, as provided in Condition 13 at a redemption price equal to 100 per cent. of the outstanding principal amount of the Notes to be redeemed plus accrued but unpaid interest (if any) on the principal amount of the Notes to be redeemed and any Additional Amounts to, but excluding, the redemption date (subject to the right of the Holders of record on the relevant Record Date to receive interest and Additional Amounts (if any) on the relevant redemption date). See Condition 5.2 of the Terms and Conditions.

Redemption due to a Gross-up Event	The Notes may be redeemed at the option of the Issuer, in whole but not in part, at any time at 100 per cent. of the principal amount of the Notes plus any accrued but unpaid interest, if the Issuer satisfies the Trustee immediately before the giving of such notice that (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; and (c) where any Additional Amounts due in accordance with Condition 7 are a consequence of any change in laws or treaties of the Republic of the Philippines after the Issue Date, the rate of withholding or deduction required by such law or treaty is in excess of 20 per cent. See Condition 5.3 of the Terms and Conditions.
Redemption due to a Change of Control.	Following the occurrence of a Change of Control Triggering Event (as defined in the Terms and Conditions), the holder of each Note will have the right at such holder's option, to require the Issuer to redeem all, but not part, of that holder's Notes on the Change of Control Triggering Event Put Date (as defined in the Terms and Conditions) at 101 per cent. of their principal amount thereof plus any accrued but unpaid interest. See Condition 5.4 of the Terms and Conditions.
Further Issues	The Bank may, from time to time, without the consent of the holders of the Notes, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. *See "Terms and Conditions of the Notes — Further Issues."*
Trust Deed	The Notes will be constituted by a Trust Deed to be dated on or about June 23, 2020 made between the Issuer and the Trustee.
Listing and Trading	Approval-in-principle has been obtained from the SGX-ST for the listing and quotation of the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of U.S.$200,000 for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require. So long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Certificate representing the Notes is exchanged for definitive certificates. In addition, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore.

Rating	The Notes are rated BBB+ by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.
Clearing Systems	Euroclear and Clearstream, Luxembourg
ISIN	The 2031 Notes ISIN: XS2191367494 The 2050 Notes ISIN: XS2191367734
Common Code	The 2031 Notes Common Code: 219136749 The 2050 Notes Common Code: 219136773
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by and construed in accordance with English law.
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes are being offered and sold outside of the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). The Notes may be sold in other jurisdictions (including the European Economic Area, the United Kingdom, Hong Kong, Singapore and the Philippines) only in compliance with applicable laws and regulations. See "*Subscription and Sale*".
Trustee and Principal Paying Agent	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch
Risk Factors	For a discussion of certain risk factors that should be considered in evaluating an investment in the Notes, see "*Risk Factors*".

RISK FACTORS

An investment in the Notes involves a number of risks. Prospective investors should carefully consider the risks and uncertainties described below, in addition to the other information contained in this Offering Circular, including our audited consolidated financial statements and notes relating thereto included in this Offering Circular, before making any investment decision relating to the Notes.

This section entitled "Risk Factors" does not purport to disclose all of the risks and other significant aspects of investing in these notes. The occurrence of any of the events discussed below and any additional risks and uncertainties not currently known to us or that are currently considered immaterial could have a material adverse effect on our business, results of operations, financial condition and prospects and prospective investors may lose all or part of their investment.

RISKS RELATING TO US

The rapid speed of disruptive innovations by new and emerging technologies may outpace our ability to compete and/or manage the risk appropriately, resulting in a possible decline in demand for our services, significant changes to our business model and a material adverse effect on our business, results of operations, financial condition and prospects.

The rapid change of technology as well as the proliferation of over-the-top ("**OTT**") services (such as *Facebook*, *Skype*, *Viber*, *WhatsApp* and other similar services) and video conferencing applications (such as *Zoom, Microsoft Teams* and other similar services), and the ensuing change in customer behavior, have disrupted our traditional businesses. As a result, our traditional revenue sources, such as short messaging service ("**SMS**"), voice and international calling services, have declined, and we expect this trend to continue with the rise in data usage.

The growing use of mobile data in the Philippines, coupled with the prevalence of OTT services and video conferencing applications, have negatively impacted our domestic calling service in recent years. OTT services continue to increasingly compete with us in voice and data services and continue to affect our business model. We are also facing growing competition from providers offering services using alternative wireless technologies and IP-based networks, including efforts by the Philippine Government to roll-out its free *WiFi* services to selected areas within various municipalities in the country. Moreover, net settlement payments between PLDT and other foreign telecommunications carriers for origination and termination of international call traffic between the Philippines and other countries, which have been our predominant source of foreign currency revenues, have been declining in recent years and have diminished in its contribution to total service revenues.

While the trend of increasing mobile data usage has resulted in, and is expected to continue to have, a positive impact on our data revenues, there is no guarantee that such increase will alleviate the decline in the revenue from our traditional businesses in full. We may not be able to maintain and attract customers more effectively than our competitors. We will also need to invest in new infrastructure, systems and personnel to provide high quality services for increasing mobile data usage. As a result, our capital costs could increase as we phase out outdated and unprofitable technologies and invest in new ones. We may not be able to accurately predict technological trends or the success of new services in the market. In addition, there could be legal or regulatory restraints on our introduction of new services. If our services fail to gain acceptance in the marketplace, or if costs associated with implementation and completion of the introduction of these services materially increase, our ability to retain and attract customers could be adversely affected. We can neither assure you that we would be able to adopt or successfully implement new technologies and services nor assure you that future technological changes will not adversely affect our business, results of operations, financial condition and prospects.

Our failure to keep pace with technological changes and evolving industry standards could harm our competitive position or negatively impact our results of operations.

Fifth-generation wireless ("**5G**"), is the latest iteration of cellular technology, engineered to greatly increase the speed and responsiveness of wireless networks. 5G is characterized by significantly higher speeds and low latency which will enable mobile users to download data at a much faster speed than previous generation technologies. 5G is also expected to anchor the Internet of Things ("**IoT**"), which will allow users to be connected not only to each other but to their homes, vehicles, public infrastructure, and more.

In order to make 5G technology available to our customers, we may need to obtain additional licenses or upgrade our networks. If we are unable to acquire such licenses or upgrade such systems, on reasonable terms or at all, we may not be able to implement the 5G technology in a timely manner or at all, which in turn may negatively impact our ability to draw new customers and/or maintain our existing customer base.

Further, we may need to incur significant capital expenditures to acquire licenses or install infrastructure to enable the 5G technology. As new technologies relating to 5G systems are developed, our equipment and infrastructure may need to be replaced or upgraded or we may need to rebuild our network, in whole or in part.

We are currently deploying 5G pilot programs in anticipation of a commercial rollout in the near future. However, we are dependent on the availability of 5G-capable devices such as handsets and modems before we can roll out commercial services and generate revenues. A delay in the release of reasonably-priced 5G handsets could negatively impact the mass acceptance of 5G services among our customers and our ability to monetize these investments, which in turn could adversely affect our growth prospects.

The anticipated entry of a third major telecommunications player and/or increased competition from other telecommunications services providers may reduce our market share and decrease our profit margin, and we cannot assure you that any potential change in the competitive and regulatory landscape of the telecommunications industry in the Philippines would not have a material adverse effect on our business, results of operations, financial condition and prospects.

Increasing competition among existing telecommunications services providers, as well as competition from new competitors, could materially and adversely affect our business and prospects by, among other factors, forcing us to lower our tariffs, reducing or reversing the growth of our customer base and reducing usage of our services. Competition in the mobile telecommunications industry is particularly intense, with network coverage, quality of service, product offerings, and price dictating subscriber preference, while competition in the fixed line side is now more active as well. Vital capacity and coverage expansion may continue to increase our capital expenditures. Recently, the industry went through a period of aggressive competition where both mobile operators attempted to grow market share, especially in light of a maturing market. To this end, our principal mobile competitor, Globe Telecom, Inc. ("**Globe**"), has introduced aggressive marketing campaigns and promotions. It has also begun to participate more actively in the fixed line segment, especially with their introduction of a fixed wireless home broadband service which competes directly with our home broadband business.

In 2017, the Philippine Government announced its intentions to encourage competition within the telecommunications industry through the introduction of a third major player in the mobile segment. As part of this push, the Philippine Government has proposed and introduced certain measures that would facilitate and enable the operations of a new player. Some of these are: tower sharing policy, mobile number portability ("**MNP**"), removal of the mobile interconnect charges, and the lifting of foreign ownership restrictions for telecommunication companies.

In November 2018, the Philippine Government, through the DICT, declared as the third telecom player a consortium consisting of Udenna Corporation, Chelsea Logistics Corporation and Infrastructure Holdings Corp. and China Telecommunications Corporation (together, the "**NMP Consortium**"). The NMP Consortium indicated that they had reached an agreement with Mindanao Islamic Telephone Company ("**Mislatel**") for the use of Mislatel's telecommunications franchise. The NMP Consortium submitted a bid to the Philippine Government that included annual commitments on coverage, speeds, capital expenditure and operating expenditure investments over a five-year period, commencing from the award of the franchise. In February 2019, the Philippine Senate, upon the recommendation of the Senate Committee on Public Services, concurred to and adopted the resolution of the Philippine House of Representatives approved approving the transfer of the controlling interest in Mislatel to the NMP Consortium under certain conditions. On July 8, 2019, the NMP Consortium announced that it was renaming Mislatel to Dito Telecommunity Corporation ("**Dito**"). On the same date, Dito was granted its permit to operate after President Rodrigo Duterte awarded the Certificate of Public Convenience and Necessity ("**CPCN**") by the National Telecommunications Commission ("**NTC**") to its chairman Dennis Uy during a ceremony at the Presidential Palace, Malacañang. In October 2019, Dito entered into agreements with Sky Cable and LCS Holdings, Inc. ("**LCS Group**"). Under the agreement with LCS Group, Dito will lease the telecommunications towers that the LCS Group is building across different regions in the Philippines. With Sky Cable, Dito will utilize its Sky Cable's unused fiber-optic cables in Metro Manila.

A third major player will likely threaten our market share. Furthermore, we believe that the third player, when it enters the market, may put forth aggressive offers to lure customers away from us and Globe. To maintain our competitive posture, we may need to match those offers by lowering our price points and offer other incentives to prevent existing customers from switching, which may result in lower ARPUs and consequently, negatively impact our revenue. Furthermore, we may need to make additional investments in our network to further improve the customer experience in order to effectively compete with the third telecom player and Globe. A loss of market share and increased costs to maintain our competitive posture will adversely affect our business, financial condition and results of operations.

In addition to the entry of a third major player, we cannot assure you that the number of providers of telecommunications services will not increase in the future or that competition for customers will not cause our mobile and fixed line subscribers to switch to other operators, or otherwise cause us to increase our marketing and capital expenditures, lose customers or reduce our rates, resulting in a reduction in our profitability.

In the fixed line business, we are also seeing increased competition from Globe and Converge ICT Solutions, Inc. ("**Converge**"). Converge, in particular, has been aggressively expanding its network. In September 2019, it raised U.S.$250 million to help finance its plan to build a U.S.$1.8-billion nationwide internet backbone in addition to their plan to construct a domestic submarine cable with 20 landing stations across the Philippines. In their press statement in September 2019, Converge stated that it had 500,000 subscribers as at that time with a goal to capture a 30% share of the broadband market.

In the future, we may lose customers due to development in law, regulations and/or Government initiatives. In 2019, Smart Communications, Inc. ("**Smart**"), Globe and Dito established a joint venture company, Telecommunications Connectivity, Inc. ("**TCI**"), to enable number porting services in line with the new MNP initiative of the Government. TCI's function is to enable a customer to retain his/her mobile number when he/she moves from one mobile service provider to another or changes the type of subscription from postpaid to prepaid or vice versa. The ability to retain his/her mobile number when switching to another telecommunications service provider may be an incentivizing factor for a customer to make a switch away from us. The loss of customers due to such development would adversely affect our business, financial condition and results of operations. Meanwhile, with customers who switch away from us retaining their mobile numbers, the mobile number prefixes which used to be exclusive to our subscribers will no longer be so. As such, we will lose exclusivity to our mobile number prefixes, and such loss may result in the dilution of any premium nature of our brand. We cannot guarantee you that in the future, there will not be similar changes in law, regulations or Government initiatives that may incentivize customers to switch away from us.

Our ability to compete effectively will depend on, among other things, network coverage, quality of service, price, our development of new and enhanced products and services, the reach and quality of our sales and distribution channels and our capital resources. It will also depend on how successfully we anticipate and respond to various factors affecting our industry, including new technologies and business models, changes in consumer preferences and demand for existing services, demographic trends and economic conditions. If we are not able to respond successfully to these competitive challenges, our business, results of operations, financial condition and prospects could be materially and adversely affected.

The success of our business depends on our ability to maintain and enhance our brands.

We believe that our reputation and brands in the industry are crucial to the success of our business. To maintain and enhance our reputation and brands, we need to successfully provide the best customer experience such that we not only maintain our current customer base but attract new subscribers as well. If we are not successful in maintaining and improving our brands, our business, financial position and results of operations may be negatively affected.

Our reliance on outsourcing and strategic sourcing arrangements, technology vendor contracts, and other partnerships and/or joint ventures may prevent us from meeting organizational targets or impact our brand image.

We have entered into a number of outsourcing agreements with technology vendors covering key operations in order to improve efficiencies and maximize knowledge transfer. These arrangements may disrupt existing operations and result in resistance among employees. Furthermore, any delays in implementation or failure to bring about the desired results will hamper our ability to meet our medium-term targets.

In particular, as part of our extensive capital expenditures program to overhaul our fixed and wireless networks infrastructure and our IT systems, we have entered into agreements with Amdocs Philippines, Inc. and Huawei Technologies Co. Ltd. ("**Huawei**"), to upgrade and modernize a significant portion of our IT infrastructure. We cannot guarantee that we will be able to accomplish this transformation in a timely fashion, or at all, or in the manner intended. Furthermore, we cannot guarantee that such transformation will not result in service disruptions, network outages or encounter other issues that may detrimentally affect consumer experience. This may adversely affect our business, financial condition and results of operations. We continue to monitor developments on Huawei's cooperation with other telecommunications service providers worldwide. For example, we note that some countries and telecommunications service providers have banned or limited the use of Huawei's technologies for different reasons. We have factored in such developments in our decision-making with respect to our operation with Huawei, and plan to continue to do so.

Our business relies heavily as well on third party vendors, some of whom may encounter financial difficulties or consolidate with other vendors. This may result in shrinking the already limited pool of qualified vendors which in turn may materially impact their ability to fulfil their obligations and thereby impact our operations. The limited number of vendors may also result on our dependence on a single vendor to provide critical services.

Our ability to earn revenues could be disrupted if our supplier(s) is no longer able or willing to provide us with our product or cannot provide us with our products due to extenuating territorial circumstances. In the event that either of our potential suppliers cannot or will not provide us with our products, we may be forced to find alternative supplies. We cannot guarantee that we will be able to obtain our products or products of similar quality from alternate suppliers, in part or at all. Failure to obtain alternative sources will disrupt our operations and hinder our ability to generate revenues.

The mobile telecommunications industry in the Philippines may not continue to grow.

The majority of our total revenues are currently derived from the provision of mobile services to customers in the Philippines. As a result, we depend on the continued development and growth of this industry in the Philippines. We believe the mobile penetration rate in the country, however, was already approximately 159% as at December 31, 2019, based on the number of SIM cards issued, and the industry may well be considered mature insofar as services such as SMS and domestic voice are concerned.

Data has emerged as the key driver for revenues. However, further growth of the market depends on many factors beyond our control, including the continued introduction of new and enhanced mobile devices, the price levels of mobile handsets, consumer tastes and preferences, and the amount of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for mobile services or otherwise causing the Philippine mobile telecommunications industry to stop growing or reducing the rate of its growth, could materially harm our business, results of operations, financial condition and prospects.

The licenses, franchises and regulatory approvals, upon which PLDT relies, may be subject to revocation or delay, which could result in the suspension of our services or abandonment of any planned expansions and could thereby have a material adverse effect on our business, results of operations, financial condition and prospects.

Failure to comply with the foreign ownership restrictions

Section 11, Article XII of the 1987 Philippine Constitution (the "**Constitution**") provides that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least 60% of whose capital is owned by such citizens. Exceeding the foreign ownership restrictions imposed under the Constitution may subject the Company to (1) sanctions set out in Section 14 of the Philippine Foreign Investments Act of 1991, as amended, comprising a fine not exceeding (a) the lower of (x) 0.5% of the total paid in capital of the Company and (y) ₱5 million, in the case of a corporate entity, (b) ₱200,000, in the case of the president of the Company or other responsible officers, and (c) ₱100,000, in the case of other natural persons, which we refer to collectively as the Monetary Sanctions, and/or (2) the Philippine Government commencing a quo warranto case in the name of the Republic of the Philippines against the Company to revoke the Company's franchise that permits the Company to engage in telecommunications activities.

We believe that as at the date of this report, PLDT is in compliance with the requirements of the Constitution, and this position was supported by the Supreme Court; however, we cannot assure you that subsequent changes in law or additional litigation would not result in a different conclusion. See "*Business — Legal Proceedings*" for further discussion.

Failure to renew CPCNs

We operate our business under franchises, each of which is subject to amendment, termination or repeal by the Philippine Congress, and to various provisional authorities and CPCNs, which have been granted by the NTC and will expire between now and 2028. Some of our CPCNs and provisional authorities have already expired, but applications for the renewal of such CPCNs and provisional authorities were filed prior to their expiry. Under the Philippine Revised Administrative Code of 1987 and the Ease of Doing Business and Efficient Government Service Delivery Act of 2018, CPCNs and provisional authorities for which renewal applications have been filed are deemed effective until the applications for renewal are finally decided upon by the NTC. Although we have filed applications for extension of these CPCNs and provisional authorities, we cannot assure you that the NTC will grant the applications for renewal. Failure to renew CPCNs can materially and adversely affect our ability to conduct the essential functions of our business, and therefore adversely affect our financial condition and results of operations. See "*Licenses and Regulations*" for more information.

Failure to comply with Republic Act No. 7925 or the Public Telecommunications Policy Act of the Philippines

The Philippine Congress may revoke, or the Solicitor General of the Philippines may file a *quo warranto* case against Smart and Digitel Mobile Philippines Inc. ("DMPI") to revoke, the franchise of Smart and DMPI for their failure to comply with Republic Act No. 7925, which requires making a public offering of at least 30% of the aggregate common shares of a telecommunications entity with regulated types of services. See "*Regulation and Environmental Matters*" for further discussion.

On May 19, 2017, Republic Act No. 10926 took effect which extended the legislative franchise of Smart. The law contains a provision which exempts Smart from the requirement of listing of shares if a grantee is wholly owned by a publicly listed company with at least thirty per centum (30%) of whose authorized capital stock is publicly listed. As Smart is a wholly owned subsidiary of PLDT, a publicly listed company, Smart is not required to offer any of its shares to the public under Republic Act No. 7925.

We cannot assure you that any of our franchise, permits or licenses will not be revoked in the future. Any such revocation could have a material adverse effect on our business, financial conditions or prospects.

Our business is significantly affected by laws and regulations, including regulations in respect of rates and taxes and laws relating to anti-competitive practices and monopoly.

The NTC regulates the rates we are permitted to charge for services that have not yet been deregulated, such as local exchange services. We cannot assure you that the NTC will not impose additional obligations on us that could lead to the revocation of our licenses if not adhered to and/or to the reduction in our total revenues or profitability. The NTC could adopt changes to the regulations or implement additional guidelines governing our interconnection with other telecommunications companies or the rates and terms upon which we provide services to our customers. The occurrence of any of these changes could materially reduce our revenues and profitability. There is no assurance that the regulatory environment will support any increase in our business and financial activity.

The Government's communication policies have been involving since 1993 when former President Fidel V, Ramos initiated a more liberalized Philippine communications industry. Changes in regulations or Government policies or differing interpretations of such regulations or policies have affected, and will continue to affect PLDT's business, financial condition and results of operation. The NTC was established in 1979 to act as an independent regulatory body to oversee, administer and implement the policies and procedures governing the communications industry. The NTC grants licenses for varied terms. It may grant a long-term license called a CPCN. PLDT has obtained CPCNs for its international gateway facility, local exchange carrier, cellular mobile telephone services and interexchange carrier services. Though valid for 25 years, the NTC may amend certain terms of a CPCN, or revoke it for cause, subject to due process procedures. Additionally, the exercise of regulatory power by regulators, including monetary regulators, may be subject to review by the courts on the complaint of affected parties.

Meanwhile, the Revised Corporation Code now entitles corporations to have a perpetual existence, unless its articles of incorporation provides otherwise. While PLDT's amended articles of incorporation states that its corporate term is limited through 2028, PLDT has not elected to retain such specific corporate term stated in its amended articles of incorporation. Accordingly, PLDT has a perpetual corporate term.

No assurance can be given that the regulatory environment in the Philippines will remain consistent or open. Current or future policies may affect our business and operations.

In addition, any future expansions in our services, particularly in our mobile services, could subject us to additional conditions in the granting of our provisional authorities by the NTC and to increased regulatory scrutiny, which could have a material adverse effect on our growth and prospects. Such events could also impose substantial costs or cause interruptions or considerable delays in the provision, development or expansion of our services.

We are also subject to a number of national and local taxes. We cannot assure you that we will not be subject to new, increased and/or additional taxes and that we would be able to pass on additional charges or fees to its customers to compensate for the imposition of such taxes or charges. See Note 27 to the audited consolidated financial statements for more information.

Moreover, we are subject to laws and regulations relating to anti-competitive practices and anti-monopoly. The Republic Act No. 10667 (the "**Philippine Competition Act**") came into effect on August 8, 2015 and prohibits practices that restrict market competition through anti-competitive agreements and abuse of a dominant position. It also requires parties to provide notification and obtain clearance for certain mergers and acquisitions. The Philippine Competition Act prescribes administrative and criminal penalties for violations of these prohibitions. While our business practices have not in the past been found to have violated any laws and regulations related to anti-competition and anti-monopoly, we cannot assure you that any new or existing governmental regulators will not, in the future, take the position that our current or past business practices have an anti-competitive effect on the Philippine telecommunications industry.

In particular, PLDT is currently involved in a litigation with the Philippine Competition Commission (the "**PCC**"), relating to PLDT's investments in Vega Telecom Inc., Bow Arken Holdings Company and Brightshare Holdings, Inc. (collectively, the "**SMC Transactions**"). Although the Court of Appeals (the "**CA**"), among other things, compelled the PCC to recognize the SMC Transactions as deemed approved by operation of law, the CA did clarify that the deemed approved status of the SMC Transactions does not, however, remove the power of the PCC to conduct post-acquisition review to ensure that no anti-competitive conduct was committed by the parties. The CA's decision is on appeal with the Supreme Court and is not final and executory. An adverse judgment could materially and adversely affect our business and outlook. See "*Business — Legal Proceedings*."

Changes in regulations or user concerns regarding privacy and protection of user data, or any failure to comply with such laws, could adversely affect our business.

Legislations such as Republic Act No. 10173 and its implementing rules and regulations (the "**Data Privacy Act**") aim to protect individual privacy. The rules apply to the processing of personal data in the public and private sectors, as well as to acts done or practices engaged in and outside of the Philippines under certain conditions. From 2018, the National Privacy Commission (the "**NPC**"), has gradually shifted its focus from campaigning for Data Privacy Act awareness to compliance checks on entities engaged in personal data processing. Personal data breaches and other controversies relating to the unauthorized processing of personal data both within the Philippines and abroad have also increased public scrutiny on the activities of entities engaged in personal data processing. Provisions in the Data Privacy Act on the Rights of Data Subjects and the NTC issuances under Memorandum Circular No. 04-06-2007 and NTC Memorandum Circular No. 05-06-2007 on the rights of the subscriber on record to their data and call data records highlight PLDT's statutory obligation to be able to furnish complete and correct data to its users upon their request. These developments lead to increased impetus on PLDT not only to ensure compliance with Data Privacy Act and similar laws, rules and regulations but also to meet industry best practices and customer expectations on data protection.

Any failure, or perceived failure, by us to make effective modifications to our policies, or to comply with any privacy, data-retention or data-protection-related laws, regulations, orders or industry self-regulatory principles, including the Data Privacy Act, could result in proceedings or actions against us by governmental entities or others, loss of user confidence, damage to the PLDT brands, and loss of users or advertising partners, any of which could potentially have a material adverse effect on our business.

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning privacy, data-retention and data-protection issues, including laws or regulations mandating disclosure to domestic or international law enforcement bodies, which could adversely impact our results of operations, businesses, brand or reputation with users. For instance, in May 2018, the General Data Protection came into force in the European Union and European Economic Area countries. In the United States, there is also increasing clamor for the enactment of a federal privacy law. In the Philippines, proposed amendments to the Data Privacy Act have been filed with the Congress of the Philippines. In general, the amendments focus on a review of the penalties for criminal offenses, as well as the authority of the NPC to levy fines for administrative offences. Since stakeholders, including telecommunications service providers, have significant interest in these amendments, it is likely that the amendments will only be approved by the Philippine Congress after a lengthy period of solicitation of public opinion and discussion.

The interpretation and application of privacy, data protection and data retention laws and regulations are often uncertain as these are highly dependent on the local context and culture and they can also be impacted by changes in technology. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices, complicating long-range business planning decisions. If privacy, data protection or data retention laws are interpreted and applied in a manner that is inconsistent with our current policies and practices we may be fined or ordered to change our business practices in a manner that adversely impacts our operating results. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices or operating platforms in a manner adverse to our business.

Inadequate handling of confidential information, including personal customer information by our corporate group, contractors and others, may adversely affect our credibility or corporate image.

We possess a substantial amount of personal information of our customers. In the event an information leak or cyber security breach occurs, whether on our end or on the part of our contractors and service providers, we might be subject to penalties under the Data Privacy Act, our credibility and corporate image may be significantly damaged and we may experience an increase in cancellations of customer contracts and slower increase in additional subscriptions, any of which could have a material adverse effect on our business, results of operations, financial condition and prospects.

In 2019, we were subject to ten personal data breaches that met the Data Privacy Act's requisites for mandatory reporting to the NPC and notice to affected data subjects. These reported incidents ranged from the physical, such as unauthorized access to a customer's call data records and inadvertent disclosure of customer information by a negligent employee, to the technical, such as glitches in the website and mobile applications access IDs that enabled certain customers to view information of other customers. We cannot guarantee that we will not encounter personal data breaches in the future. Such breaches could result in litigation or regulatory actions and penalties against us, and adversely impact on our business operations and financial conditions.

Legislation and regulation of online payment systems could create unexpected costs, subject us to enforcement actions for compliance failures, or cause us to change our digital technology platforms or business models.

Regulators have been increasing their focus on online and mobile payment services, and recent regulatory and other developments could reduce the convenience or utility of our payment services for users. Governmental regulation of certain aspects of mobile payments systems under which PLDT operates could result in obligations or restrictions with respect to the types of products that we may offer to consumers, the payment card systems that link to our mobile payments systems, the jurisdictions in which our payment services or apps may be used, and higher costs, such as fees charged by banks to process funds through our mobile payments systems. Such obligations and restrictions could be further increased as more jurisdictions regulate payment systems. Moreover, if this regulation is used to provide resources or preferential treatment or protection to selected payments and processing providers, it could displace us from, or prevent us from entering into, or substantially restrict us from participating in, particular geographies.

Limitations in the amount of frequency spectrum or facilities made available to us could negatively affect our ability to maintain and improve our service quality and level of customer satisfaction, could increase our costs and could reduce our competitiveness.

The available radio frequency spectrum is one of the principal limitations on a wireless network's capacity, and there are limitations in the spectrum and facilities available to us to provide our services. Our future wireless growth will increasingly depend on our ability to offer innovative video products and data services and a wireless network that has sufficient spectrum and capacity to support these innovations. Improvements in our service depend on many factors, including continued access to and deployment of adequate spectrum.

In order to acquire spectrum, a duly enfranchised mobile network operator ("**MNO**") must apply and secure a provisional authority from the NTC to render a specific telecommunications service that it is allowed to render through its franchise. After a hearing, the NTC then grants provisional authority to the MNO, which will specify the period, service area and essential frequencies to deliver the telecommunications service assigned to the MNO.

Our competitiveness may decline if we cannot obtain the necessary or optimal allocation of spectrum from the Philippine Government. If the Philippine Government does not fairly allocate spectrum to wireless providers in general, revoke spectrum previously granted to us, or if we cannot acquire needed spectrum or deploy the services customers desire on a timely basis without burdensome conditions or at adequate cost while maintaining network quality levels, then our ability to attract and retain customers, and therefore maintain and improve our operating margins, could be materially and adversely affected.

Other mobile service providers in the world may not adopt or use the technologies and the frequency bands that are compatible with ours, which could affect our ability to sufficiently offer international services.

If a sufficient number of mobile service providers do not adopt the technologies and the frequency bands that are compatible with ours, if mobile service providers switch to other technologies or frequency bands, or if there is a delay in the introduction and expansion of compatible technologies and frequency bands, we may not be able to offer international roaming or other international services as expected, which may adversely affect our business.

We may not be successful in our acquisitions of, and investments in, other companies and businesses, and may therefore be unable to fully implement our business strategy.

As growth slows or reverses in our traditional fixed line and mobile businesses, and as part of our strategy to grow other business segments, we make acquisitions and investments in companies or businesses to enter new businesses or defend our existing markets. The success of our acquisitions and investments depends on a number of factors, such as:

- our ability to identify suitable opportunities for investment or acquisition;
- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to influence or exercise control over the acquired company;
- the compatibility of the economic, business or other strategic objectives and goals of the acquired company with those of the PLDT Group, as well as the ability to execute the identified strategies in order to generate fair returns on the investment; and
- our ability to successfully integrate the acquired company or business with our existing businesses.

Any of our contemplated acquisitions and investments may not be consummated due to reasons or factors beyond our control. Even if any contemplated acquisitions and investments are consummated, we may not be able to realize any or all of the anticipated benefits of such acquisitions and investments and we cannot assure you that the consummation of such acquisitions and investments will not result in losses for a prolonged period of time. Moreover, if we are unsuccessful in our contemplated acquisitions and investments, we may not be able to fully implement our business strategy to maintain or grow certain of our businesses and our results of operations and financial position could be materially and adversely affected.

We are exposed to the fluctuations in the market values of our investments.

Given the nature of our business and our foray into the digital business, we have made investments in various start-up companies. For example, in 2014, we invested in Rocket Internet SE (formerly Rocket Internet AG) to drive the development of online and mobile payment solutions, the fair value of which has declined significantly since our investment. Due to the significant decline in fair value of our investment in Rocket Internet SE, we recognized a series of impairments that amount to, in the aggregate, ₱11,045 million, since then. We also continue to hold an investment in VIH, an important player in the financial technology space and an integral part of our digital payments ecosystem. In accordance with IAS 28, we account for our investment in VIH using the equity method, whereby we recognize our proportionate share of VIH's losses, which amount to ₱2,268 million in the year ended December 31, 2019 and ₱579 million in the three months ended March 31, 2020. Credit ratings and the value of this investment and similar investments can be negatively impacted by liquidity, credit deterioration or losses, financial results, foreign exchange rates, or other factors. As a result, our investments could decline and result in a material impairment, which could have a material adverse effect on our financial condition and operating results.

Smart Tower, Smart's headquarters, is currently listed for sale. Our operations and financial conditions may be negatively affected if we fail to secure a permanent office building at the expiration of the lease-back agreement, which will form part of the agreement to sell Smart Tower.

We currently own Smart's headquarters building, Smart Tower, or the Smart Towers Property, which is located in Makati City, Metro Manila. On January 28, 2020, PLDT was authorized by its Board of Directors to negotiate and enter into a contract for the sale of Smart Towers Property. The sale will be subject to a lease-back agreement with the eventual buyer, in order for us to keep occupying the building until we find a suitable alternative office building. If at the expiration of such lease-back agreement, we fail to find a suitable office building on favorable terms or at all, we may need to negotiate to extend the lease-back or find an alternative within a short period of time. On the one hand, we cannot guarantee that we will be able to extend the lease-back agreement or extend it on terms favorable to us. On the other hand, any relocation could cause disruption to our operations.

The proposed transaction remains subject to the compulsory notification process of the PCC pursuant to Sections 12(b) and 16 of the Philippine Competition Act. PLDT and the prospective buyer may close the transaction only after having completed the compulsory notification process and receiving the PCC's clearance to proceed.

If we are unable to install and maintain telecommunications facilities and equipment in a timely manner, we may not be able to maintain our current market share and the quality of our services, which could have a material adverse effect on our results of operations and financial condition.

Our business requires the regular installation of new, and the maintenance of existing, telecommunications transmission and other facilities and equipment, which are being undertaken. The installation and maintenance of these facilities and equipment are subject to a number of risks and uncertainties, such as:

- shortages of equipment, materials and labor;
- delays in issuance of national and local government building permits;
- work stoppages and labor disputes;
- interruptions resulting from man-made events (e.g., sabotage), outbreak of epidemics, pandemics or other public health crises, inclement weather and other natural disasters;
- rapid technological obsolescence;
- inability of vendors to deliver on commitments;

- unforeseen engineering, environmental and geological problems; and
- unanticipated cost increases.

Any of these factors could give rise to delays or cost overruns in the installation of new facilities or equipment or could prevent us from deploying our networks and properly maintaining the equipment used in our networks, and hence could affect our ability to maintain existing services and roll-out new services, for example, which could have a material adverse effect on our results of operations and financial condition.

Our business may be materially and adversely affected by the coronavirus outbreak and other adverse public health developments.

In December 2019, an outbreak of the disease COVID-19, caused by a novel coronavirus (SARS-CoV-2) was first reported to have surfaced in Wuhan, the People's Republic of China (the "**PRC**"), later resulting in millions of confirmed cases and hundreds of thousands of fatalities globally, with thousands of confirmed cases and more than a thousand fatalities in the Philippines. In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. As at the date of this Offering Circular, the COVID-19 disease has continued to spread globally, with the number of reported cases and related deaths increasing daily, and in many countries, exponentially.

Governments and health authorities around the world have imposed sweeping measures designed to contain the pandemic, including, among others, travel restrictions, border closures, curfews, quarantines, cancellations of gatherings and events and closures of universities, schools, restaurants, stores and other business. The economic repercussions of the pandemic and the efforts around the world to contain it have been severe, and include reduced global trade, lower industrial production, broad reductions in general consumption and economic activity and major disruptions to international travel and global air traffic.

In a move to contain the COVID-19 outbreak, on March 12, 2020, the Office of the President of the Philippines issued a memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months from March 17, 2020 (at midnight), unless earlier lifted or extended as circumstances may warrant, and imposed an enhanced community quarantine ("**ECQ**") throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended as circumstances may warrant. On March 24, 2020, Republic Act No. 11469, otherwise known as the "Bayanihan to Heal As One Act", was signed into law, declaring a state of national emergency over the entire country, and authorizing the President of the Philippines to exercise certain powers necessary to address the COVID-19 pandemic. On April 7, 2020, the Office of the President of the Philippines released a memorandum extending the ECQ over the entire Luzon island until April 30, 2020. On May 1, 2020, the Government further extended the ECQ over, among others, certain portions of Luzon, including Metro Manila, until May 15, 2020, while easing restrictions in other parts of the country. On May 11, 2020, the Inter-Agency Task Force of Emerging Infectious Disease ("**IATF**") placed high-risk local government units under modified ECQ ("**MECQ**") from May 16, 2020 until May 31, 2020, where certain industries were allowed to operate under strict compliance with minimum safety standards and protocols. On May 27, 2020, the IATF reclassified various provinces, highly urbanized cities and independent component cities depending on the risk-level. Meanwhile, on May 28, 2020, the Government placed Metro Manila under general community quarantine, allowing for the partial reopening of certain businesses and public transportation while continuing to limit general movements. These measures have caused disruption to businesses and economic activities, and their impacts on businesses continue to evolve.

The Philippine Government expects the country's gross domestic product to fall by 2% to 3.4% due to the economic effects of the outbreak, and the resulting domestic shutdowns, reduced tourism, disrupted trade and manufacturing and financial market spillovers. On May 7, 2020, the National Economic Development Authority reported that the Philippine economy had slowed down for the first time in 22 years, contracting 0.2% in the first quarter of 2020, from a 5.6% growth rate in the first quarter of 2019.

The outbreak of the COVID-19 and other adverse public health developments, such as the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, Zika virus and Ebola virus could materially and adversely affect our business, financial condition and results of operations. These may include, temporary closures of our facilities or premises, hospitalization or quarantine of our employees, delay or suspension of supplies from our suppliers, especially those located in the PRC, disruptions or suspension of our operational activities, labor shortage due to restrictions on our employees' ability to travel. Although we have taken certain measures to try and minimize the negative effect of COVID-19 on our operations, there is no certainty that such measures will be sufficient or that we will not be required to incur additional expense to address the effect of COVID-19 on our operations. See "*Business — Recent Developments — Measures We Have Taken in Light of the COVID-19 Outbreak*".

In addition, the continued spread of COVID-19 has led to disruption and volatility in the global capital markets. It is possible that the continued spread of COVID-19 could cause a global economic slowdown or recession. The deterioration of the regional economy and financial markets in general will have a material adverse effect on our business, financial condition and results of operations. Furthermore, there is significant uncertainty relating to future developments of the outbreak of the COVID-19 and what actions the Philippine Government will take. The impacts of the outbreak of the COVID-19 on our results of operations are highly uncertain.

As at March 31, 2020, we have incurred additional expenses relating to the purchase of protective equipment for our employees, the disinfection and reconfiguration of company premises, the provision of shuttle services for employees with no private transport and donations to various non-profit institutions, among others. In addition, we recalibrated our network configuration to adjust for geographical and usage shifts during the pandemic. The lockdown has also prevented us from proceeding with our network roll out as scheduled, resulting in the postponement of some activities to 2021.

Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.

The effects of, and any damage caused by, exposure to an electromagnetic field remain the subject of careful evaluations by the international scientific community. We cannot rule out that exposure to electromagnetic fields or other emissions originating from mobile handsets will not be identified as a health risk in the future. Our mobile business may be harmed as a result of any future alleged, or actual, health risk or the perception of any health risk, which could result in a lower number of customers, reduced usage per customer or even potential consumer liability.

Our business relies on secure network infrastructure and computer systems, and any cyber-attacks against them, or the perception of such attacks, may materially and adversely affect our operations, financial condition and results of operations.

We need to constantly upgrade our cyber security capabilities to support our business needs. We depend on information and digital services to run our business and deliver value. Our Company faces the following challenges in an era of connectivity, digital identity, decentralized decisions, information monetization, transparency, and variable trust:

- The increase in the variety of products and services that we provide to our customers (e.g. customer premise equipment, systems, devices, IoT, data and their dynamic relationships) exposes relevance as well as scalability issues in our existing security control solutions;

- Our existing deterrence measures against cyber security breaches may become less effective. For instance, defensible gates and impermeable walls that are designed to secure our service and information infrastructure have become less effective. While such tools and measures make it difficult to breach into our system, these tools do not stop breaches altogether;

- The infrastructure underpinning the digitalization of consumer and enterprise services, has become more complex. In order to enhance work efficiency, we allow our employees to work away from the office. This means giving employees cloud access to collaboration platforms and controlled remote access to pre-identified operational systems on their personal devices, such as mobile phones and workstations. Given the large number of points of access to our internal network, we need to constantly make improvements to our cyber infrastructure, and utilize more sophisticated tools to protect it from attacks;

- The consequences of a cyber security breach could be severe. Breaches resulting in leakage of our Company's confidential commercial and/or personal information may result in irreparable damage to our reputation and brand. Moreover, leakage of sensitive personal information could, in some cases, result in a threat to personal safety;

- Perpetrators are adopting more sophisticated technologies in their attempts to breach our defensive security measures. We see a growing number of automated computer programs being used in initiating attacks; and

- While encrypted internet traffic protects private information, it inadvertently hampers cyber protection efforts. Perpetrators could abuse encrypted communication tools and use them in their efforts to breach into our systems, with less risk of such efforts being discovered by cyber security measures.

In 2019, our Cyber Security Operations Group detected close to 3,000 unique cyber security-related incidents. These incidents involve the following: (1) malware attacks; (2) use of unauthorized applications; (3) Distributed Denial of Service, or DDoS, attacks, (4) network intrusion attempts; (5) unauthorized access (6) failed log in attempts of corporate credentials; and (7) spam emails.

In addition to protecting our internal infrastructure and platforms, our Cyber Security Operations Group began to safeguard our subscriber base in 2019, preventing it from falling victim to cyberattacks, such as malware and phishing. With the upsurge in demand for bandwidth and digital services during the COVID-19 outbreak, there has been a corresponding increase in cyber threat activities, mainly in the form of phishing emails, malware websites and download ransomware, all of which use information regarding COVID-19 as a bait.

On their own and taken as a whole, these incidents did not cause any material financial, legal, or regulatory impact to the Company, neither did they cause any material disruptions to our business operations. However, as cyberattacks have become a persistent global and domestic threat, we cannot assure you that we will be able to successfully prevent all forms of cyber intrusions. Any successful attack on our infrastructure could result in legal and/or regulatory liability, disruption to our business operations, damage to our reputation, and financial losses.

Cable and equipment theft, equipment failures, natural disasters, man-made events, terrorist acts and territorial disputes may materially and adversely affect our operations.

Theft of telecommunication cables, major equipment failures or natural disasters, including severe weather, terrorist acts or other similar or related contingencies could adversely affect our wired and wireless networks, including telephone switching offices, microwave links, third-party-owned local and long-distance networks on which we rely, our cell sites or other equipment, our customer account support and information systems, or employee and business records, and could have a material adverse effect on our operations.

Natural disasters, terrorist acts or acts of war could cause damage to our infrastructure and/or result in significant disruptions to our operations.

Our business operations are subject to interruption by natural disasters, power outages, terrorist attacks, cyber-attacks and other events beyond our control. Such events could cause significant damage to our infrastructure upon which our business operations rely, resulting in degradation or disruption of service to our customers. While we maintain insurance coverage for some of these events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Our system redundancy may be ineffective or inadequate, and our disaster recovery planning may be insufficient for all eventualities. These events could also damage the infrastructure of the suppliers that provide us with the equipment and services that we need to operate our business and provide products to our customers. A natural disaster or other event causing significant physical damage could cause us to experience substantial losses resulting in significant recovery time and expenditures to resume operations. In addition, these occurrences could result in lost revenues from business interruption as well as damage to our reputation.

Climate change could increase the impact of natural disasters and environmental legislation and regulations on our operations.

Climate change poses a number of potential risks for telecommunications operators like us, from both a physical and regulatory perspective. The ongoing global climate change may exacerbate the severity and frequency of natural disasters. The rising intensity and frequency of occurrence of storms, heatwaves and earthquakes could increase the damage to our infrastructure and failures of our wired and wireless networks caused by such natural disasters. Should severe natural disasters occur in quick succession, we may not have sufficient resources to repair and restore our infrastructure in a timely and cost-effective manner. The increase in likelihood of our infrastructure being damaged by natural disasters could have a material adverse impact on our operations.

In light of the heightened awareness seen across the globe on climate change, the Philippine Government could introduce further and more stringent environmental legislation and regulations. If such legislation or regulations are enacted, we could incur increased energy, environmental and other costs and capital expenditures to comply with the limitations. We cannot guarantee that we will at all times be in compliance with any new environmental legislation and regulations. The failure to comply with new environmental legislation and regulations could have a material adverse impact on our operations and financial conditions.

Our businesses require substantial capital investment, which we may not be able to finance.

Our projects under development and the continued maintenance and improvement of our networks and services, including Smart's projects, networks, platforms and services, require substantial ongoing capital investment. Our consolidated capital expenditures, reflecting gross additions to property, plant and equipment totaled ₱40,299 million, ₱58,490 million and ₱72,871 million for the years ended December 31, 2017, 2018 and 2019, respectively. As at the date of this Offering Circular, we expect our original capital expenditure guidance for 2020 of ₱83.0 billion to be reduced by 20% to 25%, with the remaining budget rolled over to 2021, due to constraints placed on our network roll out activities by the ECQ. In 2020, we will prioritize projects that support the changing demand profile of our customers and help corporates revive their businesses.

Future strategic initiatives could require us to incur significant additional capital expenditures. For example, as part of our environmental protection initiative, we plan to conduct inspection of our submarine cables in the next few years. Depending on the results of inspection, we may need to undertake maintenance work for our submarine cables, which may involve a significant sum of capital expenditures. We may be required to finance a portion of our future capital expenditures from external financing sources, some of which have not yet been fully arranged. There can be no assurance that financing for new projects will be available on terms acceptable to us, or at all. If we cannot complete our development programs or other capital projects on time due to our failure to obtain the required financing, our growth, results of operations, financial condition and prospects could be materially and adversely affected. Furthermore, if we are unable to monetize our investments and generate the expected revenues, our cash flows and gearing may be negatively impacted.

Our results of operations and our financial position could be materially and adversely affected if the Philippine peso significantly fluctuates against the U.S. dollar.

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 U.S. dollars and other foreign currencies, whereas most of our revenues are denominated in Philippine pesos.

A depreciation of the Philippine peso against the U.S. dollar would increase the amount of our U.S. dollar-denominated debt obligations, capital expenditures, and operating and interest expenses in Philippine peso terms. In the event that the Philippine peso depreciates against the U.S. dollar, we may be unable to generate enough funds through operations and other means to offset the resulting increase in our obligations in Philippine peso terms. Moreover, a depreciation of the Philippine peso against the U.S. dollar may result in our recognition of significant foreign exchange losses, which could materially and adversely affect our results of operations. A depreciation of the Philippine peso could also cause us not to be in compliance with the financial covenants imposed on us by our lenders under certain loan agreements and other indebtedness. Further, fluctuations in the Philippine peso value and of interest rates impact the mark-to-market gains/losses of certain of our financial debt instruments, which were designated as non-hedged items.

The Philippine peso has been subject to significant depreciation in recent years with the Philippine peso depreciated by 24% from a high of ₱41.08 for 2012 to ₱50.80 as at December 31, 2019. As at May 31, 2020, the Philippine peso appreciated to ₱50.59. We cannot assure you that the Philippine peso will not depreciate further and be subject to significant fluctuations going forward, due to a range of factors, including:

- political and economic developments affecting the Philippines, including the level of remittances from overseas Filipino workers;
- global economic and financial trends;
- the volatility of emerging market currencies;
- any interest rate increases by the Federal Reserve Bank of the United States and/or the BSP; and
- higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations or foreign exchange traders including banks covering their short U.S. dollar positions, among others.

Our debt instruments contain restrictive covenants which require us to maintain certain financial tests and our indebtedness could impair our ability to fulfill our financial obligations and service our other debt.

Our existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios and other financial tests, calculated on the basis of IFRS at relevant measurement dates, principally at the end of each quarter period. In addition, the Notes will contain covenants that limit our ability to take certain actions.

Our indebtedness and the requirements and limitations imposed by our debt covenants could have important consequences. For example, we may be required to dedicate a substantial portion of our cash flow to payments on our indebtedness, which could reduce the availability of our cash flow to fund working capital, capital expenditures and other general corporate requirements.

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, 7.4% was denominated in U.S. dollars as at March 31, 2020. Considering our consolidated hedges, the unhedged portion of our consolidated debt amounts was 6.7%, as at March 31, 2020, 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.

If we are unable to meet our debt service obligations or comply with our debt covenants, we may need to restructure or refinance our indebtedness, seek additional equity capital or sell assets. An inability to implement these measures successfully could result in a declaration of default and an acceleration of maturities of some or all of our indebtedness, which could have a material adverse effect on our business, results of operations and financial condition.

Our subsidiaries could be limited in their ability to pay dividends to us due to internal cash requirements and their creditors having superior claims over their assets and cash flows, which could materially and adversely affect our financial condition.

A significant part of our total revenues and cash flows from operating activities are derived from our subsidiaries, particularly Smart. Smart has significant internal cash requirements for debt service, capital expenditures and operating expenses and as a result, may be financially unable to pay any dividends to PLDT. Although Smart has been making dividend payments to PLDT regularly since December 2002, there can be no assurance that PLDT will continue to receive these dividends or other distributions, or otherwise be able to derive liquidity from Smart or any other subsidiary or investee in the future.

Creditors of our subsidiaries generally have priority claims over our subsidiaries' assets and cash flows. We and our creditors will effectively be subordinated to the existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries, except that we may be recognized as a creditor with respect to loans we have made to subsidiaries. If we are recognized as a creditor of a subsidiary, our claim will still be subordinated to any indebtedness secured by assets of the subsidiary and any indebtedness of the subsidiary otherwise deemed superior to the indebtedness we hold.

We may have difficulty meeting our debt payment obligations if we do not continue to receive cash dividends from our subsidiaries and our financial condition could be materially and adversely affected as a result.

A significant number of shares of PLDT's voting stock are held by four shareholders, which may not act in the interests of other shareholders or stakeholders in PLDT.

As at March 31, 2020, the First Pacific Company Limited ("**First Pacific**") and its Philippine affiliates (together, the "**FP Parties**"), NTT Communications Corporation ("**NTT Communications**") and NTT DOCOMO, Inc. ("**NTT DOCOMO**") and JG Summit Holdings, Inc. and its affiliates (the "**JG Summit Group**"), collectively, beneficially own 57.2% in PLDT's outstanding common stock (representing 33.8% of our overall voting stock).

Additionally, all of PLDT's shares of voting preferred stock, which represent 41% of PLDT's total outstanding shares of voting stock are owned by a single stockholder, BTF Holdings, Inc. ("**BTFHI**").

The FP Parties and/or NTT Communications and/or NTT DOCOMO and/or JG Summit Group and/or BTFHI may exercise their respective voting rights over certain decisions and transactions in a manner that could be contrary to the interests of other shareholders or stakeholders in PLDT. See Note 1 to the unaudited interim consolidated financial statements and the audited consolidated financial statements for more information.

We are unionized and are vulnerable to work stoppages, slowdowns or increased labor costs.

As at March 31, 2020, PLDT has three employee unions, representing in the aggregate 9,099, or 48%, of the employees of the PLDT Group. This unionized workforce could result in demands that may increase our operating expenses and adversely affect our profitability. For instance, PLDT experienced significant charges from its manpower rightsizing program in 2017, 2018 and 2019, mainly incurred in the fixed-line business. Each of our different employee groups require separate collective bargaining agreements. If PLDT and any of its unions are unable to reach an agreement on the terms of their collective bargaining agreement or if PLDT were to experience widespread employee dissatisfaction, PLDT could be subject to collective bargaining deadlocks, strikes, work slowdowns or stoppages. Any of these events would be disruptive to our operations and could have a material adverse effect on our business.

Additionally, on July 3, 2017, PLDT received a Compliance Order from the Department of Labor and Employment of the Philippines ("**DOLE**"), in connection with the non-payment of statutorily required monetary benefits, including the 13th month pay by certain PLDT contractors to their employees, as well as the regularization of 7,344 contractor employees. On July 31, 2018, the CA promulgated a decision granting PLDT's prayer for an injunction against the Compliance Order and remanded the case back to the DOLE for further proceedings regarding the computation of the monetary awards, which amounted to ₱51.8 million according to the regularization orders, and the determination of employees engaged in installation, repair and maintenance work who must be regularized. On April 5, 2019, PLDT filed a petition for review with the Supreme Court that is now pending resolution. See "*Business — Legal Proceedings*".

We cannot guarantee that PLDT or its subsidiaries will not be subject to similar proceedings or other labor-related regulatory activities, the results of which may have an adverse reputational and/or financial impact. While we believe that PLDT has a strong legal position in its pending labor cases, we note that labor tribunals are mandated to resolve cases in favor of employee where there is any doubt.

The loss of key personnel or the failure to attract and retain highly qualified personnel could compromise our ability to effectively manage our business and pursue our growth strategy.

Our future performance depends on our ability to attract and retain highly qualified key technical, development, sales, services and management personnel. The loss of key employees could result in significant disruptions to our business, and the integration of replacement personnel could be costly and time consuming, could cause additional disruptions to our business, and could be unsuccessful. We cannot guarantee the continued employment of any of the members of our senior leadership team, who may depart our Company for any number of reasons, such as other business opportunities, differing views on our strategic direction or other personal reasons. Any inability to attract, retain or motivate our personnel could have a material adverse effect on our results of operations and prospects.

Adverse results of any pending or future litigation, internal or external investigations and/or disputes may impact PLDT's cash flows, results of operations and financial condition.

We are currently involved in various legal proceedings. Our estimate 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 is based upon our analysis of potential results. Our future financial performance could be materially affected by an adverse outcome or by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See "*Business — Legal Proceedings*".

While PLDT believes that the positions it has taken in these cases have strong legal bases, the final outcome of these cases may prove to be different from its expectations. In addition, we cannot assure you that PLDT will not be involved in future litigation or other disputes, the results of which may materially and adversely impact its business and financial conditions.

Our financial condition and operating results will be impaired if we experience high fraud rates related to device financing, credit cards, dealers, or subscriptions.

Our operating costs could increase substantially as a result of fraud, including device financing, customer credit card, subscription, or dealer fraud. If our fraud detection strategies and processes are not successful in detecting and controlling fraud, whether directly or by way of the systems, processes, and operations of third parties such as customers, national retailers, dealers, and others, the resulting loss of revenue or increased expenses could have a material adverse effect on our financial condition and operating results.

RISKS RELATING TO THE PHILIPPINES

Political and social instability.

The Philippines has, from time to time, experienced political and military instability, including acts of political violence. In the last decade, there has been political instability in the Philippines, including extra-judicial killings, alleged electoral fraud, impeachment proceedings against two former presidents, two chief justices of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by the previous and current administrations. In addition, a number of officials of the Philippine Government are currently under investigation or have been indicted on corruption charges stemming from allegations of misuse of public funds, extortion, bribery or usurpation of authority.

In addition, the Philippine has also been subject to a number of terrorist attacks and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in May 2017, the city of Marawi in Lanao del Sur, Mindanao, was assaulted by the Maute Group, terrorists who were inspired by pledged allegiance to the Islamic State of Iraq and Syria. Due to the clash between the Philippine Government forces and the terrorists and the risk of the armed conflict spilling over to other parts of Mindanao, martial law was declared in the entire island of Mindanao, Philippines. In October 2017, the city was declared liberated from the terrorists. Despite this, the Philippine Congress extended the imposition of martial law in Mindanao until the end of 2019, citing persistent threats of terrorism and rebellion. The martial law in Mindanao was lifted on January 1, 2020, however Mindanao remains under a state of emergency as a measure against potential terror threats and communist insurgency and to maintain peace and order in the region. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy. These armed conflict and terror attacks could lead to further injuries or deaths by civilians and members of the military, which could destabilize parts of the country and adversely affect the country's economy. In addition, the Philippine legislature recently passed the Anti-Terrorism Act of 2020, which has drawn criticism from, and sparked protests by, various sectors because of its controversial provisions on warrantless arrests and its broad definition of terrorist acts, which may be used to target government critics. The said bill will pass into law upon approval by, or within 30 days of receipt upon inaction of, President Rodrigo Duterte.

We cannot assure you that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies that are conducive to sustained economic growth or which do not materially and adversely impact the current regulatory environment for the telecommunications and other companies. An unstable political or social environment in the Philippines could negatively affect the general economic conditions and business environment in the Philippines which, in turn, could have a materially and adverse impact on our business, financial position and financial performance.

Territorial disputes.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes arising from competing and overlapping claims over certain islands and features in the West Philippine Sea. China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea which has raised tension in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the internal arbitration tribunal based at the Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea. In July 2016, the Permanent Court of Arbitration rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line" claim of China is invalid. The Philippine Government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China.

There is no guarantee that the territorial dispute between the Philippine and other countries, including China, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory. Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and our operations could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect our business, financial position and financial performance.

If foreign exchange controls were to be imposed, our ability to meet our foreign currency payment obligations could be adversely affected.

In general, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. However, the Monetary Board of the BSP has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to:

- suspend temporarily or restrict sales of foreign exchange;
- require licensing of foreign exchange transactions; or
- require the delivery of foreign exchange to the BSP or its designee banks for the issuance and guarantee of foreign currency-denominated borrowings.

The Philippine Government has, in the past, instituted restrictions on the conversion of the Philippine peso into foreign currencies and the use of foreign exchange received by Philippine companies to pay foreign currency-denominated obligations.

We cannot assure you that foreign exchange controls will not be imposed in the future. If imposed, these restrictions could materially and adversely affect our ability to obtain foreign currency to service our foreign currency obligations.

The credit ratings of the Philippines may restrict the access to capital of Philippine companies, including PLDT.

Historically, the Philippines' sovereign debt has been rated non-investment grade by international credit rating agencies. In 2019, the Philippines' long-term foreign currency-denominated debt was upgraded by S&P Global ("**S&P**"), to BBB+ with stable outlook, while Fitch Ratings ("**Fitch**"), and Moody's Investors Service ("**Moody's**"), affirmed the Philippines' long-term foreign currency-denominated debt to the investment-grade rating of BBB and Baa2, respectively, with a stable outlook. On February 28, 2020, Fitch revised its rating of Philippines long-term foreign currency-denominated debt to BBB, with a positive outlook, following its expectation that sound macroeconomic management will continue to support high growth rates with stable inflation while ongoing tax reforms were expected to improve fiscal finances. On May 7, 2020, Fitch affirmed its rating of Philippines long-term foreign currency-denominated debt to BBB, but revised the outlook to stable, to reflect the deterioration in the Philippines' near-term macroeconomic and fiscal outlook as a result of the impact of the COVID-19 pandemic and domestic lockdown to contain the spread of the virus. In May 2020, S&P and Moody's affirmed its rating of BBB+ and Baa2, with stable outlook, respectively, for the Philippines' long-term foreign currency-denominated debt.

The Philippine Government's credit ratings directly affect companies domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Fitch, Moody's, S&P, or any other international credit rating agency will not downgrade the credit ratings of the Philippine Government in the future and, therefore, Philippine companies, including PLDT. Any such downgrade could have a material adverse impact on the liquidity in the Philippine financial markets, the ability of the Philippine Government and Philippine companies, including PLDT, to raise additional financing, and the interest rates and other commercial terms at which such additional financing is available.

RISKS RELATING TO THE NOTES

The Notes are unsecured obligations.

The Notes are unsecured obligations of the Issuer. The conditions of the Notes restrict the Issuer and its Material Subsidiaries (as defined in the Terms and Conditions) from creating security over their respective properties, assets or revenues to secure any Relevant Indebtedness (as defined in the Terms and Conditions). However, there is no restriction on the Issuer or the Material Subsidiaries granting security to secure obligations other than Relevant Indebtedness. To the extent such security was granted, the obligations secured thereby would rank ahead of the Notes. To the extent that assets are held by other subsidiaries of the Issuer, those assets would only be available to meet claims of Noteholders after the satisfaction of all liabilities of such subsidiaries and the return of any surplus assets as equity to the holding company of the subsidiary. There is no restriction on the liabilities that may be incurred by subsidiaries of the Issuer.

The repayment of the Notes may also be adversely affected if:

- the Issuer enters into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is default in payment under the Issuer's future secured indebtedness or other unsecured indebtedness; or
- an acceleration event materializes under any of the Issuer's contracted indebtedness.

If any of these events were to occur, the Issuer's assets may not be sufficient to pay amounts due on the Notes.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

In addition, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Notes constitute legal investments for it; (b) the Notes can be used as collateral for various types of borrowing; and (c) other restrictions apply to any purchase or pledge of any Notes by the investor. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules and regulations.

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines.

The imposition of exchange controls could result in an investor not receiving payments on the Notes.

The Government has, in the past, instituted restrictions on the conversion of Philippine pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency denominated obligations. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee. The Issuer is not aware of any pending proposals by the Government regarding such restrictions. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there can be no assurance that the Government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restriction imposed in the future could adversely affect the ability of investors to repatriate foreign currency upon receipt of any payments from the Issuer.

The Notes may have limited liquidity and a trading market may not develop.

The Notes will constitute a new issue of securities for which there is no existing market. Approval in-principle has been obtained from the SGX-ST for the listing and quotation of the Notes. The offer and sale of the Notes is not conditioned on obtaining a listing of the Notes on the SGX-ST or any other exchange. Although the Managers have advised the Issuer that they currently intend to make a market for the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice in their sole discretion.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including:

- prevailing interest rates;
- our results of operations and financial condition;
- political and economic developments in and affecting the Philippines;
- the market conditions for similar securities; and
- the financial condition and stability of the Philippine financial sector.

The Issuer may not be able to redeem the Notes upon maturity.

The Issuer is required under the Terms and Conditions to redeem the Notes upon maturity. The source of funds for any such redemption by the Issuer would be the Issuer's available cash or third-party financing. However, the Issuer may not have sufficient available funds upon maturity. A failure to redeem the outstanding Notes when due could constitute an Event of Default (as defined in the Terms and Conditions) under the Notes. Such Event of Default may, in turn, constitute an event of default under other indebtedness, any of which could cause related debt to be accelerated after any applicable notice or grace periods. If other debt of the Issuer were to be accelerated, the Issuer may not have sufficient funds to satisfy their respective obligations, resulting in the Issuer being unable to redeem the Notes.

The Terms and Conditions will contain provisions which may permit their modification without the consent of all investors and which will confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

The Terms and Conditions will contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions will permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions will also provide that the Trustee may, without the consent of Noteholders, (i) agree to any modification (except as mentioned in the Trust Deed) of, or to the waiver or authorization of any breach or proposed breach of, any of the provisions of Notes or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such if, in any such case, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby; or (ii) agree to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or is made to comply with mandatory provisions of law.

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments, and this would result in holders receiving less distributions than expected and could significantly adversely affect their return on the Notes.

The U.S. Foreign Account Tax Compliance Act (or "**FATCA**") imposes a new reporting regime and, potentially, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the clearing systems and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries.

The Issuer has not registered the Notes with the BSP.

The Issuer has not registered the Notes with the BSP and, accordingly, the Issuer will not be able to purchase U.S. dollars from the Philippine banking system for the purpose of funding payments under the Notes. The Issuer believes that it will be able to obtain sufficient U.S. dollars to meet its obligations under the Notes from sources outside the Philippine banking system.

The transfer of Notes is restricted which may adversely affect their liquidity and the price at which they may be sold.

The Notes have not been registered under, and the Issuer is not obligated to register the Notes under, the Securities Act or the securities laws of any other jurisdiction and, unless so registered, the Notes may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See "*Subscription and Sale*". The Issuer has not agreed to or otherwise undertaken to register the Notes (including by way of an exchange offer), and the Issuer has no intention of doing so.

The Notes may be redeemed at the Issuer's option upon the occurrence of certain events.

The Notes will be redeemable at the option of the Issuer, in whole but not in part, at their principal amount together with accrued but unpaid interest in the circumstances set out in "*Terms and Conditions of the Notes — Redemption and Purchase*". The date on which the Issuer elects to redeem the Notes may not accord with the preference of individual Noteholders. This may be disadvantageous to the Noteholders in light of market conditions or the individual circumstances of the holder of the Notes. In addition, an investor may not be able to reinvest the redemption proceeds in comparable notes at an effective interest rate at the same level as that of the Notes.

The Issuer may raise other capital which affects the price of the Notes.

The Issuer may from time to time and without prior consultation of the holders of the Notes create and issue further Notes (see "*Terms and Conditions of the Notes — Further Issues*"). Furthermore, the Issuer may raise additional capital through the issue of other securities or other means. Under the terms of the Notes, there is no restriction, contractual or otherwise, on the amount of Notes which the Issuer may further issue or securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Notes. The issue of any further Notes or such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by holders of the Notes on a winding-up of the Issuer, and may also have an adverse impact on the trading price of the Notes or the ability of holders to sell them.

The Trustee may request the Noteholders to provide an indemnity or security or prefunding to its satisfaction.

In certain circumstances, including without limitation the giving of notice to the Issuer pursuant to Condition 9 of the Terms and Conditions and the taking of enforcement and other steps and action pursuant to Condition 12 of the Terms and Conditions, the Trustee may (at its sole discretion) request Noteholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes actions on behalf of Noteholders. The Trustee shall not be obliged to take any such actions if not first indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity or security or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity and/or security and/or pre-funding to it, in breach of the terms of the Trust Deed constituting the Notes and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable laws and regulations, it will be for the Noteholders to take such actions directly.

A holder of a significant portion of the Notes may be able to significantly influence matters which require to be voted on by the Noteholders. Additionally, this may reduce the liquidity of the Notes in the secondary trading market.

Any holder of a significant portion of the Notes may be able to significantly influence matters which require to be voted on by the Noteholders. Additionally, the interests of these substantial investors may be different from the interests of the other holders of the Notes and the significant portion of the Notes to be held by them may reduce the liquidity of the Noteholders in the secondary trading market.

Certain Noteholders may be exposed to currency conversion risks due to the Notes being denominated in U.S. dollars.

Payments to Noteholders will be made in U.S. dollars. If an investor's financial activities are principally denominated in a currency other than U.S. dollars, it will be subject to certain currency conversion risks. These risks include (i) the risk that exchange rates may significantly change (including changes due to the devaluation of the U.S. dollar or revaluation of the investor's currency); and (ii) the risk that authorities with jurisdiction over the investor's currency may impose or modify exchange controls which could adversely affect any applicable exchange rate. In recent years, exchange rates between certain currencies have been volatile and such exchange rate volatility with a variety of currencies may continue in the future. Any appreciation of an investor's currency relative to the U.S. dollar would decrease the investor's currency-equivalent value of the amounts payable in respect of the Notes and the investor's currency equivalent market value of the Notes. In addition, exchange controls could adversely affect the availability of a specified foreign currency at the time of payments of amounts on a Note. As a result, investors may receive less payment than expected, or no payment at all.

Developments in other markets may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Notes is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including the Philippines. Since the sub-prime mortgage crisis in 2008 and, more recently, the trade war between the United States and China and the outbreak of COVID-19, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

The Issuer will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, and such standards may be different from those applicable to debt securities listed in certain other countries.

The Issuer will be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different than those imposed by securities exchanges in other countries or regions. As a result, the level of information that is available may not correspond to what investors in the Notes may be accustomed to.

Changes of law.

The Terms and Conditions of the Notes are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the issue date of the Notes. The Issuer must also comply with various legal requirements including requirements imposed by securities corporate laws in the Philippines. Should any of those laws change over time, the legal requirements to which we may be subject could differ materially from current requirements.

The Notes will initially be represented by a Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System(s).

The Notes will initially be represented by a Global Certificate. Such Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (each of Euroclear and Clearstream, Luxembourg, a "**Clearing System**"). Except in the limited circumstances described in the Global Certificate, investors will not be entitled to receive definitive certificates. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by the Global Certificate, the Issuer will discharge its payment obligations under the Notes by making payments to Euroclear and Clearstream, Luxembourg for distribution to their respective accountholders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System to receive payments under the Notes. The Issuer does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Certificate will not have a direct right thereunder to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Trust Deed in relation to the Notes.

A definitive Certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

In relation to any Note which has a principal amount consisting of a minimum specified denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of the minimum specified denomination that are not integral multiples of such minimum specified denomination. In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum specified denomination, will not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more specified denominations. If definitive Notes are issued, holders should be aware that a definitive Certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

A downgrade in ratings may affect the trading price of the Notes.

The Notes have been rated BBB+ by S&P. The ratings do not reflect the Issuer's ability to make timely payments of principal and interest on senior unsecured debts. A rating is not a recommendation to buy, sell or hold any security, does not address the likelihood or timing of repayment of the Notes and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. There can be no assurance that the ratings assigned to it or the Notes will remain in effect for any given period or that the ratings will not be revised by the rating agencies in the future if, in their judgment, circumstances so warrant. A downgrade in ratings may affect the trading price of the Notes.

Noteholders are exposed to risks relating to Singapore taxation.

The Notes are intended to be "qualifying debt securities" for the purposes of the Income Tax Act, Chapter 134 of Singapore, subject to the fulfillment of certain conditions more particularly described in the "*Taxation — Singapore Taxation*" section of this Offering Circular. However, there is no assurance that the Notes will continue to enjoy the tax concessions in connection therewith should the relevant tax laws be amended or revoked at any time.

TERMS AND CONDITIONS OF THE 2031 NOTES

The following (other than any words in italics), subject to alteration, are the terms and conditions of the Notes which will be endorsed on the Certificates issued in respect of the Notes.

The U.S.$300,000,000 aggregate principal amount of 2.50 per cent. notes due 2031 (the "**Notes**", which expression, unless the context otherwise requires, includes any further Notes issued pursuant to Condition 9 and consolidated and forming a single series with the Notes) of PLDT Inc. (the "**Issuer**") are constituted by a Trust Deed to be dated on or about June 23, 2020 (as amended, restated, replaced or supplemented from time to time, the "**Trust Deed**") made between the Issuer and The Bank of New York Mellon, London Branch (the "**Trustee**", which expression includes its successor(s)) as trustee for the holders of the Notes (the "**Noteholders**")).

The statements in these terms and conditions of the Notes (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed and the agency agreement to be dated on or about June 23, 2020 (as amended, restated, replaced or supplemented from time to time, the "**Agency Agreement**") made between the Issuer, The Bank of New York Mellon, London Branch as initial principal paying agent (the "**Principal Paying Agent**", which expression includes any successor thereto) and The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar and transfer agent (in such capacities, the "**Registrar**" and the "**Transfer Agent**", which expression includes any successor thereto), the other agents specified therein and the Trustee. References herein to "**Paying Agents**" includes the Principal Paying Agent, and "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time under the Agency Agreement with respect to the Notes. Copies of the Trust Deed and the Agency Agreement are available for inspection upon prior written request and satisfactory proof of holding during normal business hours by the Noteholders at the specified office of the Principal Paying Agent (being as at the date of issue of the Notes at One Canada Square, London E14 5AL, United Kingdom). The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Deed and are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and denomination

The Notes are issued in registered form in amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. A certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar.

*Upon issue, the Notes will be evidenced by a global note certificate (the "**Global Certificate**") substantially in the form scheduled to the Trust Deed. The Global Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Except in the limited circumstances set out in the Global Certificate, definitive certificates for the Notes will not be issued in exchange for beneficial interests in the Global Certificate. The Notes are not issuable in bearer form.*

1.2 Title

Title to the Notes passes only by registration in the register of Noteholders. The person in whose name a Note is registered in the register of Noteholders will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be deemed to be and treated as the absolute owner of that Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "**Noteholder**" and (in relation to a Note) "**Holder**" mean the person in whose name a Note is registered in the register of Noteholders.

For a description of the procedures for transferring title to book-entry interests in the Notes, see "Clearance and Settlement of the Notes".

1.3 Transfers

Subject to Condition 1.6, a Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or the Transfer Agents (as defined in the Trust Deed), together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. No transfer of a Note will be valid until and unless entered on the register of Noteholders.

Transfers of interests in the Notes evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing system. For a description of certain restrictions on transfers of interests in the Notes, see "Subscription and Sale".

1.4 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate and such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require, be mailed by uninsured mail at the risk of the Holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city in which the specified office of the Registrar or Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described herein (see "The Global Certificate"), owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the Holder of the Notes not so transferred to the address of such Holder appearing on the register of Noteholders or as specified in the form of transfer.

1.5 Formalities free of charge

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer, the Registrar or any Agent but upon payment (or the giving of such indemnity and/or security and/or pre-funding as the Issuer, the Registrar or any Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer, provided that the Issuer shall not be responsible for any Philippine documentary stamp tax in relation to such transfer unless the Issuer is the counterparty directly liable for such documentary stamp tax.

1.6 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal, premium (if any) or interest on that Note.

1.7 Regulations

All transfers of Notes and entries on the register of Noteholders will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Trust Deed. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee, or by the Registrar with the prior written approval of the Trustee. A copy of the current regulations will be made available for inspection by the Registrar to any Noteholder who requests one in writing and provides proof of holding to the satisfaction of the Registrar.

2. STATUS

2.1 Status of the Notes

The Notes constitute the direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* in right of payment with all other present and future unconditional, unsubordinated and unsecured obligations of the Issuer, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3. COVENANTS

3.1 Negative Pledge

So long as any Note remains outstanding (as defined in the Trust Deed), (a) the Issuer will not, and the Issuer will ensure that none of its Material Subsidiaries (as defined below) will, create or permit to subsist any mortgage, lien, pledge, charge, security interest, encumbrance or claim of any kind or nature, whatsoever, upon the whole or any part of the property, assets or revenues, present or future, of the Issuer or any Material Subsidiary, respectively, to secure any Relevant Indebtedness (as defined below) or to secure any guarantee of or indemnity in respect of, any Relevant Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed (i) are secured equally and rateably therewith, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders, and (b) the Issuer will not create or permit to subsist any preference or priority in respect of any other Relevant Indebtedness of the Issuer pursuant to Article 2244(14) of the Civil Code of the Philippines, or any successor Philippine law providing for preferences or priority in respect of notarised Relevant Indebtedness, unless amounts payable under the outstanding Notes are granted preference or priority equally and rateably therewith.

3.2 Provision of Financial Statements and Reports

The Issuer will furnish to the Trustee and, upon request, any Noteholder:

(i) as soon as they are available, but in any event within 120 calendar days after the end of the Financial Year of the Issuer, copies of its financial statements (on a consolidated basis) in respect of such Financial Year (including at least a statement of income, statement of financial position and statement of cash flows) audited by a member firm of an internationally recognised firm of independent accountants; and

(ii) as soon as they are available, but in any event within 60 calendar days after the end of each quarterly period (other than the final period of a Financial Year) of the Issuer, copies of its unaudited financial statements (on a consolidated basis) in respect of such quarterly period or (in the case of the second quarter of each Financial Year) the relevant semi-annual period (including at least a statement of income, statement of financial position and statement of cash flows).

The Trustee shall not be required to review any financial statements furnished or delivered to it as contemplated in this Condition 3.2, and the Trustee shall not be liable to any Noteholder or any other person for not doing so.

3.3 Interpretation

For the purpose of these Conditions:

"**Affiliate**" means, with respect to any Person, any other Person (a) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, or (b) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (a) of this definition. For purposes of this definition, "**control**" (including, with correlative meanings, the terms "**controlling**", "**controlled by**" and "**under common control with**"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding (a) any debt security convertible or exchangeable into such equity and (b) any perpetual capital securities, subordinated capital securities or other similar instruments (or portions thereof) that are classified as equity under PFRS.

"**Change of Control**" means the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person or group of Affiliates of such Persons (other than one or more Permitted Holders) becomes the beneficial owner, directly or indirectly, of more than 50 per cent. of the outstanding capital stock of the Issuer, measured by voting power rather than number of shares.

"**Change of Control Triggering Event**" means (i) the occurrence of both a Change of Control and a Rating Decline if the Notes are rated by at least one Rating Agency or (ii) the occurrence of a Change of Control if the Notes are not rated.

"**Common Stock**" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding on the Issue Date, and include, without limitation, all series and classes of such common stock or ordinary shares.

"**Dollar Equivalent**" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the reference exchange rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by Bangko Sentral ng Pilipinas on the date of determination.

"**Extraordinary Resolution**" has the meaning given to it in the Trust Deed.

"**Financial Year**" means a financial year of the Issuer, for the time being ending on December 31.

"**Fitch**" means Fitch Ratings Ltd. or any successor to the rating agency business thereof.

"**Investment Grade**" means a rating of "*AAA*", "*AA*", "*A*" or "*BBB*", as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns, or a rating of "*Aaa*", or "*Aa*", "*A*" or "*Baa*", as modified by a "1", "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's or any of its successors or assigns, or a rating of "*AAA*", "*AA*", "*A*" or "*BBB*", as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories of Fitch or any of its successors or assigns; and the equivalent ratings of any internationally recognised rating agency or agencies, as the case may be, which shall have been designated by the Issuer as having been substituted for any of S&P, Moody's or Fitch, as the case may be.

"**Issue Date**" means the date on which the Notes are originally issued under the Trust Deed.

"**Material Subsidiary**" means:

(a) any Subsidiary of the Issuer whose revenues (consolidated in the case of a Subsidiary which has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent, in each case, at least 10 per cent. of the consolidated revenues or, as the case may be, consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated, respectively, by reference to the then latest available consolidated audited balance sheet and profit and loss accounts of the Issuer and its consolidated Subsidiaries, provided that:

   (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are available, be deemed to be a reference to the then latest consolidated audited accounts of the Issuer adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary;

   (ii) if at any relevant time in relation to the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenues or total assets of the Issuer and any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Issuer for the purposes of preparing a certificate thereon to the Trustee;

   (iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenues or total assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer for the purposes of preparing a certificate thereon to the Trustee; and

   (iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Issuer, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a pro forma consolidation of such Subsidiary's accounts (consolidated, in each case, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer; or

(b) any Subsidiary to which is transferred the whole or substantially the whole of the assets and undertaking of a Subsidiary which immediately prior to such transfer was a Material Subsidiary, whereupon (i) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (ii) the transferee Subsidiary shall immediately become a Material Subsidiary, provided that on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of the sub-paragraphs above.

For the avoidance of doubt, (i) a Person will cease to be a Material Subsidiary in the event that and at such time such Person ceases to be a Subsidiary, and (ii) in the event of a Material Subsidiary ceasing to be a Subsidiary, determination of the remaining Material Subsidiaries shall be made upon the availability of the annual consolidated audited balance sheet and profit and loss accounts of the Issuer and its consolidated Subsidiaries after such Material Subsidiary ceases to become a Subsidiary.

"**Moody's**" means Moody's Investors Service and its affiliates.

"**Permitted Holders**" means, collectively, (i) First Pacific Company Limited, (ii) Nippon Telegraph and Telephone Corporation, (iii) BTF Holdings, Inc., and (iv) any Affiliate with respect to those mentioned in (i), (ii) or (iii) above.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof.

"**PFRS**" means Philippine Accounting Standards and Philippine Financial Reporting Standards. All ratios and computations contained or referred to in the Trust Deed shall be computed in conformity with PFRS either as in effect on the date hereof or from time to time as determined by the Issuer applied on a consistent basis.

"**Potential Event of Default**" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"**Preferred Stock**" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, or as to redemption, over any other class of Capital Stock of such Person.

"**Rating Agencies**" means each of (a) S&P, (b) Moody's and (c) Fitch; provided that if S&P, Moody's or Fitch shall not make a rating of the relevant Notes publicly available, one or more internationally recognised statistical rating organisations, as the case may be, as the Issuer may select, which will be substituted for any of S&P, Moody's or Fitch, as the case may be.

"**Rating Category**" means (1) with respect to S&P, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (2) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," Ca," "C" and "D" (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); and (4) the equivalent of any such category of S&P, Moody's or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P; "1," "2," and "3" for Moody's; "+" and "-" for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from "BB+" to "BB," as well as from "BB-" to "B+," will constitute a decrease of one gradation).

"**Rating Date**" means in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (a) a Change of Control and (b) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control.

"**Rating Decline**" means in connection with a Change of Control Triggering Event, the occurrence on, or within six months after the date of public notice of the occurrence of a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below,

(a) in the event the Notes are rated by all three of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any two of the three Rating Agencies shall be below Investment Grade;

(b) in the event the Notes are rated by any two, but not all three, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any of such two Rating Agencies shall be below Investment Grade;

(c) in the event the Notes are rated by one, and only one, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or

(d) in the event the Notes are rated by three or less than three Rating Agencies and are rated below Investment Grade by all such Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

"**Relevant Indebtedness**" means any present or future indebtedness in the form of, or represented by, debentures, loan stock, bonds, notes or other similar securities (a) which are, or are issued with the intention that they should be, and are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or any other securities market (whether or not initially distributed by way of private placement) and (b) denominated in a currency other than the Philippine peso.

"**S&P**" means Standard & Poor's Rating Services, a division of McGraw-Hill Financial.

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity:

(a) of which more than 50.0 per cent. of the voting power of the outstanding Voting Stock is owned or controlled, directly or indirectly, by such Person and one or more other Subsidiaries of such Person; or

(b) of which 50.0 per cent. or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is "controlled" and consolidated by such Person in accordance with PFRS.

"**Voting Stock**" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"**Winding-Up**" means, with respect to the Issuer, a final and effective order or resolution for the bankruptcy, winding up, liquidation, receivership, insolvency or similar proceedings in respect of the Issuer.

4. INTEREST

4.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including June 23, 2020 at the rate of 2.50 per cent. per annum. Interest for the period commencing on, and including, June 23, 2020 to, but excluding, January 23, 2021, shall be payable in arrears on January 23, 2021 in an instalment amount of U.S.$14.58 per U.S.$1,000 in principal amount of the Notes. Thereafter, interest shall be payable in equal instalments of U.S.$12.50 per U.S.$1,000 in principal amount of Notes semi-annually in arrears on January 23 and July 23 of each year (together with January 23, 2021, each an "**Interest Payment Date**") commencing on July 23, 2021.

4.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

4.3 Calculation of Broken Interest

Save in relation to the period commencing on, and including, June 23, 2020 to, but excluding, January 23, 2021, when any interest is required to be calculated in respect of a period of less than a full six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days, and the resulting figure shall be rounded to the nearest U.S. cent, half of any U.S. cent being rounded upwards.

5. REDEMPTION AND PURCHASE

5.1 Redemption

Unless previously redeemed or repurchased and cancelled as provided in these Conditions, the Notes will be redeemed at their principal amount on January 23, 2031.

5.2 Optional redemption at par

At any time or from time to time on or after October 23, 2030, the Issuer will have the right to redeem the Notes, in whole or in part, on at least 10 days' but not more than 60 days' prior notice, as provided in Condition 13 at a redemption price equal to 100% of the outstanding principal amount of the Notes to be redeemed plus accrued but unpaid interest (if any) on the principal amount of the Notes to be redeemed and any Additional Amounts to, but excluding, the redemption date (subject to the right of the Holders of record on the relevant Record Date to receive interest and Additional Amounts (if any) on the relevant redemption date).

5.3 Early redemption due to a Gross-up Event

(a) If a Gross-up Event occurs, the Issuer may redeem the Notes (in whole but not in part) at 100 per cent. of the principal amount of the Notes plus any accrued but unpaid interest (the "**Redemption Price**"), on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Noteholders in accordance with Condition 13.1.

(b) No such notice of redemption may be given earlier than 45 calendar days prior to the earliest calendar day on which the Issuer or, as the case may be, the Issuer would be for the first time obliged to pay the Additional Amounts in question on payments due in respect of the Notes.

(c) Prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Trustee:

(i) a certificate signed by two Authorised Signatories (as defined in the Trust Deed) of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that the conditions to the exercise of the right of the Issuer to redeem have been satisfied and that the obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it; and

(ii) an opinion of an independent legal or tax adviser of recognised standing to the effect that the Issuer has or will become obliged to pay the Additional Amounts in question as a result of a Gross-up Event,

and the Trustee shall be entitled to accept and conclusively rely upon the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Trustee shall be protected and shall have no liability to any Noteholder or any other person for so accepting and relying on such certificate or opinion.

(d) For purposes of these Conditions:

"**Gross-up Event**" means that as a result of any change in, or amendment to, the laws or treaties (or any rules or regulations thereunder) of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws, treaties or rules or regulations, which change or amendment becomes effective on or after the Issue Date the Issuer has or will become obliged to pay Additional Amounts with respect to a deduction or withholding at a rate higher than that applicable on the Issue Date; provided that (in either case) the payment obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided further that where any Additional Amounts due in accordance with Condition 7 are a consequence of any change in laws or treaties of the Republic of the Philippines after the Issue Date, a Gross-up Event shall have occurred only in the event that the rate of withholding or deduction required by such law or treaty is in excess of 20 per cent.

5.4 Early redemption due to a Change of Control Triggering Event

(a) Following the occurrence of a Change of Control Triggering Event, each Noteholder will have the right ("**Change of Control Triggering Event Put Right**") at such Noteholder's option, to require the Issuer to redeem in whole but not in part such Noteholder's Notes on the Change of Control Triggering Event Put Date at 101 per cent. of the principal amount of the Notes plus any accrued but unpaid interest. To exercise such right, the Holder of the relevant Note must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent ("**Change of Control Triggering Event Put Exercise Notice**") together with the Certificate evidencing the Notes to be redeemed by not later than 30 days following a Change of Control Triggering Event, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 13. The "**Change of Control Triggering Event Put Date**" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

(b) A Change of Control Triggering Event Put Exercise Notice, once delivered, shall be irrevocable and may not be withdrawn without the Issuer's consent and the Issuer shall redeem the Notes which form the subject of the Change of Control Triggering Event Put Exercise Notices delivered as aforesaid on the Change of Control Triggering Event Put Date.

(c) Neither the Trustee nor any Agent shall be required to monitor or take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to the occurrence of a Change of Control Triggering Event has occurred and will not be responsible or liable to Noteholders or any other person for any loss arising from any failure by any of them to do so.

(d) Not later than seven days after becoming aware of a Change of Control Triggering Event, the Issuer shall procure that notice regarding the Change of Control Triggering Event shall be delivered to the Trustee and Principal Paying Agent in writing and to the Noteholders (in accordance with Condition 13) stating:

(i) the Change of Control Triggering Event Put Date;

(ii) the date of such Change of Control Triggering Event and, briefly, the events causing such Change of Control Triggering Event;

(iii) the date by which the Change of Control Triggering Event Put Exercise Notice must be given;

(iv) the redemption amount and the method by which such amount will be paid;

(v) the names and addresses of all Paying Agents;

(vi) the procedures that Noteholders must follow and the requirements that Noteholders must satisfy in order to exercise the Change of Control Triggering Event Put Right; and

(vii) that a Change of Control Triggering Event Put Exercise Notice, once validly given, may not be withdrawn.

(e) Upon the exercise of any Change of Control Triggering Event Put Right, payment of the applicable redemption amount shall be conditional upon delivery of the Noteholder's Certificate (together with any necessary endorsements) to any Paying Agent on any business day together with the delivery of any other document(s) required by these Conditions, and will be made promptly following the later of the date set for redemption and the time of delivery of such Certificate.

5.5 Purchase of Notes

The Issuer or any Subsidiary of the Issuer may, in compliance with applicable laws, purchase Notes in any manner and at any price. Such acquired Notes may be surrendered for cancellation or held or resold. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the Noteholders to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 10 and 15.1.

6. PAYMENTS

6.1 Payments in respect of Notes

Payment of principal, premium (if any) and interest will be made by transfer to the registered account of the Noteholder. Payments of principal and premium (if any) and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the Holder shown on the register of Noteholders at the close of business on the date being the fifteenth day before the relevant Interest Payment Date (the "**Record Date**").

For the purposes of this Condition, a Noteholder's "**registered account**" means the U.S. Dollar account maintained by or on behalf of it with a bank that processes payments in U.S. Dollars, details of which appear on the register of Noteholders at the close of business, in the case of principal and premium (if any) and interest due otherwise than on an Interest Payment Date, on the second Payment Business Day (as defined in Condition 6.4) before the due date for payment and, in the case of interest due on an Interest Payment Date, on the relevant Record Date.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the Noteholder in the register of Noteholders at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

6.2 Payments subject to Applicable Laws

Payments in respect of principal, premium (if any) and interest on Notes are subject in all cases to (i) any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7) any law implementing an intergovernmental approach thereto.

6.3 No commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated on the Payment Business Day preceding the due date for payment or, in the case of a payment of principal and premium (if any) or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the Noteholder is late in surrendering its Certificate (if required to do so).

In this Condition, "**Payment Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, New York City, and Makati City, Philippines, and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 Partial Payments

If the amount of principal, premium (if any) or interest which is due on the Notes is not paid in full, the Registrar will annotate the register of Noteholders with a record of the amount of principal, premium (if any) or interest in fact paid.

6.6 Agents

The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other agents provided that:

(a) there will at all times be a Principal Paying Agent;

(b) so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if the Notes are issued in definitive form, there will be at all times be a Paying Agent in Singapore where the Notes may be presented or surrendered for payment or redemption, unless the Issuer obtains an exemption from the SGX-ST; and

(c) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.1.

7. TAXATION AND GROSS-UP

7.1 Payment without withholding

All payments in respect of the Notes by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In the event that the Issuer makes a deduction or withholding required by law, the Issuer or shall pay such additional amount ("**Additional Amounts**") as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required; except that no Additional Amounts will be payable in relation to any payment in respect of any Note:

(a) presented for payment (if applicable) by or on behalf of a Noteholder who is liable to the Taxes in respect of such Note by reason of their having some connection with any Relevant Jurisdiction other than the mere holding of the Note;

(b) presented for payment (if applicable) more than 30 days after the Relevant Date (as defined in Condition 7.2) except to the extent that a Holder of such Note would have been entitled to such Additional Amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day (as defined in Condition 6.4); or

(c) where such withholding or deduction would not have been so imposed but for the failure by the Holder of such Note, after written request made to that Holder at least 30 days before any such withholding or deduction would be payable, by the Issuer, the Trustee or the Paying Agent, as applicable, to comply with any identification, information, documentation or other similar reporting requirement concerning its nationality, residence or connection with the Relevant Jurisdiction, which is required or imposed by statute, regulation or published administrative interpretation of general application of the Relevant Jurisdiction as a precondition to reduction or exemption from such withholding or deduction.

7.2 Interpretation

In these Conditions:

(a) "**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the moneys payable has not been received by the Principal Paying Agent, the Trustee or the Registrar, as the case may be, on or before such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 13.1; and

(b) "**Relevant Jurisdiction**" means the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax, or in the event of any substitution or other corporate action resulting in either the Issuer being incorporated in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax.

7.3 Additional Amounts, principal and interest

Any reference in these Conditions to any amounts in respect of the Notes will be deemed also to refer to any Additional Amounts which may be payable under this Condition 7 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed. Unless the context otherwise requires, any reference in these Conditions to "**principal**" includes any instalment amount or redemption amount and any other amounts in the nature of principal payable pursuant to these Conditions and "**interest**" includes any amounts in the nature of interest payable pursuant to these Conditions.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Noteholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

8. PRESCRIPTION

Notes will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes subject to the provisions of Condition 6.

9. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders to create and issue further Notes or bonds either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same will be consolidated and form a single series with the Notes or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further Notes which are to form a single series with the Notes will be constituted by a deed supplemental to the Trust Deed.

10. EVENTS OF DEFAULT

The Trustee at its sole discretion may, and if so requested in writing by the holders of not less than 25 per cent. of the aggregate principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in either case to being indemnified and/or secured and/or pre-funded by the holders to its satisfaction), give notice in writing to the Issuer that the Notes are, and they shall accordingly thereby become, immediately due and repayable at the Redemption Price if any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) non-payment: (i) failure by the Issuer to pay any principal when due in respect of the Notes; or (ii) failure by the Issuer to pay any premium or interest due in respect of the Notes, and, in the case of (ii) only, such default continues for a period of seven business days in the Philippines;

(b) breach of other obligations: the Issuer defaults in the performance or observance of, or compliance with, any one or more of its other obligations under the Conditions or the Trust Deed, which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after written notice of such default shall have been given to the Issuer by the Trustee;

(c) cross-acceleration: (i) any other present or future indebtedness of the Issuer or any of the Material Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity as a result of acceleration of such indebtedness (and not at the option of the Issuer or relevant Material Subsidiary) by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, provided that the aggregate amount of the relevant indebtedness in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds U.S.$30 million (or the Dollar Equivalent thereof);

(d) judgment, decree or order: a final judgment, decree or order has been entered against the Issuer or any of the Material Subsidiaries by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of U.S.$30 million (or the Dollar Equivalent thereof) and any relevant period specified for payment of such judgment, decree or order shall have expired without it being satisfied, discharged or stayed;

(e) enforcement proceedings: a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against the whole or any material part of the property, assets or revenues of the Issuer or any of the Material Subsidiaries and is not discharged or stayed within 60 days;

(f) security enforced: an encumbrancer takes possession or an administrative or other receiver or an administrator or other similar officer is appointed of the whole or a material part of the property, assets or revenues of the Issuer or any of the Material Subsidiaries (as the case may be) and is not discharged or stayed within 60 days;

(g) involuntary proceedings: (i) proceedings are initiated against the Issuer or any Material Subsidiary under any applicable liquidation, insolvency, composition, reorganisation, rehabilitation or other similar laws or an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, and (ii) such case (other than the appointment of an administrator) is not stayed or discharged within 60 days;

(h) winding-up: any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any Material Subsidiary; or the Issuer or any Material Subsidiary ceases or threatens to cease to carry on the whole or substantially all of its business, save for the purposes of reorganisation or terms approved by an Extraordinary Resolution of Noteholders, or the Issuer or any Material Subsidiary stops or threatens to stop payment of, or is unable to, or admits inability to, pay all or a substantial part of its debts (or any class of its debt) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent;

(i) voluntary proceedings: the Issuer or any Material Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors);

(j) repudiation: the Issuer shall contest in writing the validity or enforceability of the Trust Deed or the Notes or shall deny generally in writing the liability of the Issuer under the Trust Deed or the Notes;

(k) illegality: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed;

(l) nationalisation: any act, deed or judicial or administrative proceedings in the nature of an expropriation, sequestration, confiscation, nationalization, intervention, acquisition, seizure, or condemnation of, or with respect to, the business and operations of the Issuer or any Material Subsidiary, or substantial portions of its property or assets, shall be undertaken or instituted by any government entity, present or future, in such manner as it shall materially and adversely affect the financial condition or operations of the Issuer or such Material Subsidiary, unless such act, deed or proceedings are otherwise contested in good faith by the Issuer or such Material Subsidiary; or

(m) analogous events: any event occurs, which, under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (g), (h) or (i) of this Condition 10.

11. ENFORCEMENT

The Trustee may at any time, at its discretion and without notice, take such actions and/or steps and/or institute such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed and the Notes, but it shall not be bound to take any such actions and/or steps and/or institute such proceedings or any other action in relation to the Trust Deed or the Notes unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all actions, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including but not limited to legal fees) and liabilities which may be incurred.

Neither the Trustee nor any Agent shall be required to take any steps to ascertain whether any Event of Default or Potential Event of Default has occurred and none of them shall be responsible or liable to the Noteholders, the Issuer or any other person for any loss arising from any failure to do so.

No Noteholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

12. REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar, subject to all applicable laws, regulations and relevant stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer and the Registrar may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13. NOTICES

13.1 Notices to Noteholders

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the register of Noteholders maintained by the Registrar and, so long as the Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that exchange or relevant authority so require, published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange or that relevant authority. Any notice shall be deemed to have been given on the seventh day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

Until such time as any individual Certificates are issued and so long as the Global Certificate is held in its entirety on behalf of Euroclear and Clearstream any notice to the Noteholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

13.2 Notices from Noteholders

Notices to be given by any Noteholder must be in writing and given by lodging the same, together with any Certificate in respect of such Note or Notes, with the Registrar or, if the Notes are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

14. SUBSTITUTION OR MODIFICATION TO REMEDY GROSS-UP EVENT

The Trustee may (but shall not be obliged to), without the consent of the Noteholders, agree with the Issuer to:

(a) the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes and the Trust Deed; or

(b) the modification of these Conditions to the extent reasonably necessary,

in order to remedy a pending or existing Gross-up Event, provided that:

(i) in the case of a substitution of an entity other than the Issuer, the Notes remaining unconditionally and irrevocably guaranteed by the Issuer in a manner which would give the Noteholders a status in a Winding-Up of the Issuer which is akin to the status Noteholders would have at that time in respect of a Winding-Up of the relevant issuer;

(ii) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution or modification;

(iii) the Issuer procures, at its own cost, the delivery of legal opinion(s) as to English and any other relevant law, addressed to the Trustee, dated the date of such substitution of the Issuer or modification of these Conditions, as the case may be, and in a form and substance acceptable to the Trustee from legal advisers acceptable to the Trustee; and

(iv) compliance with certain other conditions set out in the Trust Deed.

15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

15.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee if it receives a written request from Noteholders holding not less than 50 per cent. in principal amount of the Notes for the time being outstanding and subject to it being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. Except where the business of such a meeting includes consideration of a Reserved Matter (as defined below), the quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which includes any of the following matters:

(a) reduction or cancellation of the amount payable or, where applicable, modification, except where such modification is in the opinion of the Trustee bound to result in an increase, of the method of calculating the amount payable or modification of the date of payment or, where applicable, of the method of calculating the date of payment in respect of any principal, premium (if any) or interest in respect of the Notes (which includes, for the avoidance of doubt, modifying the maturity of any Notes or modifying any provision of the Conditions relating to the redemption of the Notes);

(b) alteration of the currency in which payments under the Notes are to be made;

(c) alteration of the majority required to pass an Extraordinary Resolution;

(d) substitution of any entity for the Issuer (provided that no such approval is required for such a substitution in accordance with the Trust Deed); or

(e) alteration of the quorum required to pass an Extraordinary Resolution,

(each of (a), (b), (c), (d) and (e) above, a "**Reserved Matter**"),

the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than 25 per cent., of the aggregate principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

The Trust Deed provides that a resolution in writing signed by or on behalf of the Noteholders of not less than three-fourths in principal amount of the Notes for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

So long as the Notes are evidenced by the Global Certificate, Extraordinary Resolution includes a consent given by way of electronic consents through the relevant clearing system(s) by or on behalf of all the Noteholders of not less than three-fourths in principal amount of the Notes for the time being outstanding.

15.2 Modification, Waiver, Authorisation and Determination

The Trustee may (but shall not be obliged to), without the consent of the Noteholders, agree (i) to any modification of these Conditions or the Trust Deed (in each case, other than in respect of a Reserved Matter) if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and (ii) to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Trustee may (but shall not be obliged to), without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Noteholders.

15.3 Trustee to have Regard to Interests of Noteholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee must have regard to the general interests of the Noteholders as a class but must not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, must not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee will not be entitled to require, nor will any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 7 or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

15.4 Notification to the Noteholders

Any modification, waiver, authorisation, determination or substitution agreed to by the Trustee will be binding on the Noteholders and, unless the Trustee agrees otherwise, any modification or substitution will be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.1.

16. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

16.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction in priority to the claims of the Noteholders. The Trust Deed provides that when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Noteholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and an opinion as to the capacity, power and authority of each counterparty or the validity and effectiveness of the security.

16.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (a) to enter into business transactions with the Issuer or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

16.3 Right to obtain instructions from Noteholders

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision or giving any such direction, to seek directions or clarification of such directions from the Noteholders by way of Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Noteholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction as a result of seeking such direction or clarification of such direction from the Noteholders or in the event that no direction or clarification of such direction is given to the Trustee by the Noteholders.

17. GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 Governing law

The Trust Deed, the Agency Agreement, the Notes and any non-contractual obligations arising out or in connection with the Trust Deed, the Agency Agreement and the Notes, are governed by English law, and shall be construed in accordance with, English law.

17.2 Jurisdiction of English courts

(a) The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Noteholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Notes (including any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes) and has accordingly submitted to the exclusive jurisdiction of the English courts.

(b) The Issuer has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee or the Noteholders may take any suit, action or proceeding (referred to as "**Proceedings**") arising out of, or in connection with the Trust Deed or the Notes respectively (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes respectively) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

17.3 Appointment of process agent

The Issuer has irrevocably and unconditionally appoint Cogency Global (UK) Limited at the latter's registered office for the time being as its agent for service of process in England in respect of any Proceedings arising out of, or in connection with, the Trust Deed or the Notes and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

18. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Trust Deed, the Agency Agreement or the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

TERMS AND CONDITIONS OF THE 2050 NOTES

The terms and conditions of the 2050 Notes will be identical to those under the "Terms and Conditions of the 2031 Notes", with reference to "Notes" in that section construed as references to the 2050 Notes, and except as set out below:

1. The principal amount of the 2050 Notes shall be U.S.$300,000,000.

2. The rate of interest of the 2050 Notes shall be 3.45% per annum, payable in equal instalments of U.S.$17.25 per U.S.$1,000 in principal amount of Notes semi-annually in arrears on June 23 and December 23 of each year (each an "**Interest Payment Date**") commencing on December 23, 2020.

3. When any interest is required to be calculated in respect of a period of less than a full six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days, and the resulting figure shall be rounded to the nearest U.S. cent, half of any U.S. cent being rounded upwards.

4. Unless previously redeemed or purchased and called as provided in Condition 5, the Issuer will redeem the 2050 Notes at their principal amount on June 23, 2050.

5. For purposes of Condition 5.2, the Issuer will have the right to redeem the 2050 Notes at any time or from time to time on or after March 23, 2050.

THE GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Notes in respect of which they are issued while they are represented by the Global Certificate, some of which modify the effect of the Terms and Conditions of the Notes. Terms defined in the Terms and Conditions of the Notes have the same meaning in paragraphs 1 to 7 below.

ACCOUNTHOLDERS

For so long as all of the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "**Noteholders**" and references to "**holding of Notes**" and to a "**holder of Notes**" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the nominee for the relevant clearing system (the "**Relevant Nominee**") in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

CANCELLATION

Cancellation of any Notes following its redemption or purchase by the Issuer will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and by the annotation of the appropriate schedule to the Global Certificate.

PAYMENTS

Payments of principal and interest in respect of Notes represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Each payment will be made to or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means a day on which Euroclear and Clearstream, Luxembourg are open for business.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

NOTICES

So long as all the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by the Conditions. For so long as the Notes are listed on the SGX-ST, notices shall also be published in the manner required by the rules and regulations of the SGX-ST.

So long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Certificate representing the Notes is exchanged for definitive certificates. In addition, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore.

REGISTRATION OF TITLE

Registration of title to Notes in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and in each case a successor clearing system approved by the Trustee is not appointed by the Issuer within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances title to a Note may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Conditions, except that Certificates in respect of Notes so transferred may not be available until 21 days after the request for transfer is duly made.

TRANSFERS

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear, Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under "*Clearance and Settlement*". No Noteholder may require the transfer of a Note to be registered during the period from the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) on the date before the relevant due date for any payment of principal or interest on the Notes.

RECORD DATE

Interest on the Notes due on an Interest Payment Date will be paid to the holder shown on the register of Noteholders at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date (the "**record date**").

USE OF PROCEEDS

The net proceeds from the issuance of the Notes, which will be approximately U.S.$593.0 million (after the deduction of fees and commissions), will be used to refinance debt maturing in 2020 and 2021, prepay outstanding loans and partially finance our capital expenditures.

EXCHANGE RATE INFORMATION

The BAP announced that beginning April 2, 2018, spot and forward currency exchange transactions will be effected using the Bloomberg trading platform. Prior to April 2018, the Philippine Dealing System ("**PDS**") rate appearing on the PDS platform, a computer network supervised by the BSP, was quoted as the spot reference rate for foreign exchange transactions.

The following table sets forth certain information concerning the exchange rate as set out in the PDS for the years 2015 to 2017 and on the BAP's website after the publication of the PDS U.S.$/₱ FX Spot Summary ceased on April 1, 2018) between the Peso and the U.S. dollar for the periods and dates indicated, expressed in Philippine Pesos per U.S.$1.00:

	Peso/U.S. dollar exchange rate			
Year	**Period end**	**Average(1)**	**High(2)**	**Low(3)**
2015	47.12	45.50	47.44	44.05
2016	49.77	47.47	49.98	45.92
2017	49.96	50.40	51.80	49.40
2018	52.56	52.69	54.35	49.77
2019	50.80	51.79	52.89	50.49
December	50.80	50.77	51.07	50.57
2020				
January	50.86	50.84	51.16	50.51
February	50.90	50.74	51.05	50.49
March	50.78	50.90	51.32	50.51
April	50.44	50.72	50.91	50.44
May	50.59	50.56	50.79	50.28

Notes:

(1) Weighted average for the period ended.

(2) Highest daily closing exchange rate for the period.

(3) Lowest daily closing exchange rate for the period.

On May 31, 2020, the closing rate quoted on the BAP Foreign Exchange Rate Summary was ₱50.585 = U.S.$1.00.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth, in accordance with PAS 34, Interim Financial Reporting, the Company's capitalization as at March 31, 2020 and as adjusted to give effect to the issuance of the Notes. This table should be read in conjunction with the Company's unaudited interim consolidated financial statements and the notes thereto, included elsewhere in this Offering Circular.

	As at March 31, 2020			
	Actual		As Adjusted	
	(₱ millions)	(U.S.$ millions)	(₱ millions)	(U.S.$ millions)
	(unaudited)			
Debt				
Short-term borrowings	4,000	78.8	4,000	78.8
Long-term borrowings				
Other long-term borrowings	201,338	3,964.9	201,338	3,964.9
Notes to be issued[(1)]	—	—	30,111	593.0
Total Indebtedness	**205,338**	**4,043.7**	**235,449**	**4,636.7**
Equity				
Non-voting serial preferred stock	360	7.1	360	7.1
Voting preferred stock	150	3.0	150	3.0
Common stock	1,093	21.5	1,093	21.5
Treasury stock	(6,505)	(128.1)	(6,505)	(128.1)
Treasury shares under employee benefit trust	(23)	(0.5)	(23)	(0.5)
Capital in excess of par value	130,312	2,566.2	130,312	2,566.2
Other equity reserves	24	0.5	24	0.5
Retained earnings	15,534	305.9	15,534	305.9
Other comprehensive loss	(32,224)	(634.6)	(32,224)	(634.6)
Total equity attributable to equity holders of PLDT	108,721	2,141.0	108,721	2,141.0
Noncontrolling interests	4,308	84.8	4,308	84.8
Total equity	**113,029**	**2,225.9**	**113,029**	**2,225.9**
Total capitalization	**318,367**	**6,269.6**	**348,478**	**6,862.5**

Note:

(1) Net of fees and commissions.

Other than as described above, there has been no material change in the capitalization of the Company since March 31, 2020.

BUSINESS

OVERVIEW

We are one of the leading telecommunications and digital services providers in the Philippines, in terms of both subscribers and revenues, serving the fixed line, wireless and broadband markets. Through our three principal business segments — fixed line, wireless and others — we offer a diverse range of telecommunications and digital services across our extensive fiber optic backbone and wireless and fixed line networks.

We serve 78.2 million users through the provision of mobile, fixed line and data services. In addition to the business segments discussed below, PLDT has found it beneficial to view its business from a customer-served perspective. Accordingly, we also assign metrics along the following marketing verticals: individual, home, enterprise and international customers.

Our common shares are listed and traded on the PSE and our American Depositary Shares are listed and traded on the NYSE in the United States. We had a market capitalization of ₱269,854 million (U.S.$5,314.2 million), as at June 11, 2020.

Our three business units are as follows:

Wireless. Our wireless business focuses on driving growth in our data services while managing our legacy business of voice and SMS. We generate data revenues across all segments of our wireless business, whether through the access of mobile internet via smartphones or mobile broadband using pocket WiFi and other similar devices. We provide the following mobile telecommunications services through our wireless business: (i) mobile services, (ii) home broadband services, and (iii) MVNO and other services.

Fixed Line. We are the leading provider of fixed line telecommunications services throughout the Philippines, servicing retail, corporate and SME clients. Our fixed line business group offers data, voice and miscellaneous services.

Others. Our other business consists primarily of our interests in digital platforms and other technologies, including our interests in VIH and Multisys.

The following table shows the contribution of each business unit to our total revenues for the periods indicated:

	2018		2019			For the three months ended March 31, 2020		
	Revenues	%	Revenues		%	Revenues		%
	₱		₱	U.S.$		₱	U.S.$	
	in millions (except percentages)							
Wireless	89,929	55	96,906	1,908.3	57	25,354	499.3	58
Fixed Line	85,222	52	89,406	1,760.7	53	22,695	446.9	52
Others	1,138	1	—	—	—	—	—	—
Inter-segment Transactions	(13,375)	(8)	(17,125)	(337.2)	(10)	(4,403)	(86.7)	(10)
Total	**162,914**	**100**	**169,187**	**3,331.8**	**100**	**43,646**	**859.5**	**100**

We had total revenues of ₱169,187 million (U.S.$3,331.8 million), and net income attributable to equity holders of PLDT of ₱22,521 million (U.S.$443.5 million), for the year ended December 31, 2019. For the three months ended March 31, 2020, we had total revenues of ₱43,646 million (U.S.$859.5 million) and net income attributable to equity holders of PLDT of ₱5,912 million (U.S.$116.4 million).

HISTORICAL BACKGROUND

PLDT was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928 as Philippine Long Distance Telephone Company, following the merger of four telephone companies under common U.S. ownership. Pursuant to Section 11 of the Revised Corporation Code, which states that corporations shall have perpetual existence unless the corporation elects to retain the specific corporate term indicated in its Articles of Incorporation, PLDT has a perpetual corporate term. While PLDT's amended articles of incorporation states that its corporate term is limited through 2028, PLDT has not elected to retain such specific corporate term stated in its amended articles of incorporation.

PLDT's original franchise was granted in 1928 and was last amended in 1991, extending its effectiveness until 2028 and broadening PLDT's franchise to permit PLDT to provide virtually every type of telecommunications service. PLDT's franchise covers the business of providing basic and enhanced telecommunications services in and between the provinces, cities and municipalities in the Philippines and between the Philippines and other countries and territories including mobile, wired or wireless telecommunications systems; fiber optics; multi-channel transmission distribution systems and their value-added service (including but not limited to transmission of voice, data, facsimile, control signals, audio and video); information services bureau and all other telecommunications systems technologies presently available or that can be made available through technical advances or innovations in the future. Our subsidiaries, including Smart and DMPI, also maintain their own franchises with a different range of services and periods of legal effectiveness for their licenses.

RECENT DEVELOPMENTS

Measures We Have Taken in Light of the COVID-19 Outbreak

In light of the ongoing outbreak of the COVID-19 pandemic, we have conducted an analysis of PLDT's risks, and have implemented the following measures to protect our employees, customers and trade partners.

People

On March 9, 2020, we instituted a travel ban on our employees to high risk countries and executed a partial lockdown with access to our corporate premises limited only to employees. On March 12, 2020, we imposed a ban on all foreign travel.

To minimize exposure of our employees to the COVID-19 disease as well as to prevent its further spreading, we implemented a "work from home" policy, which came into effect on March 11, 2020. Certain of our employees are allowed to work from home until the spread of the virus is brought under control in the Philippines. To ensure minimal disruption to our operations, we have taken steps to ensure that employees working from home are properly equipped with the appropriate digital equipment, including internet connection. For the employees that continue to work on-site, we have taken steps to try and minimize their risk of exposure to the COVID-19 disease.

On May 27, 2020, we began a partial "return to work" process under guidelines that aligned with the minimum workplace requirements for areas under MECQ and general community quarantine as set out in the latest issuances by various Government agencies.

While the Government has clarified that COVID-19 testing is not mandatory or a pre-requisite to resuming operations, we have partnered with Metro Pacific Hospital Holdings, Inc. and accredited clinics to conduct rapid testing on our employees nationwide in phases to help prevent the risk of infection in the workplace. The rapid test assesses whether a person has been exposed to the virus, aiding doctors in evaluating the patient and determining whether additional testing is required. Testing commenced on May 20, 2020 and was done in batches, prioritizing field-based and store-based personnel. Given the lack of public transportation, employees with private vehicles and who test negative will be prioritized for return to work operations. For those without private vehicles or other safe and reliable means of transport, we are evaluating various options, including the possibility of shuttle services to ensure employees are safely transported to and from work.

To ensure that our workplace is safe and ready for re-occupancy, we have implemented a number of policies and procedures and are undertaking various initiatives. For example, employees are required to wear proper personal protective equipment in the workplace at all times and in the proper manner. We will provide protective equipment to each employee depending on his/her work arrangement — whether in the field, in an office, or a retail store. In addition, we implemented physical distancing guidelines and various protocols, including temperature scanning, daily health declarations, observance of one-way traffic on all corridors, general disinfection of common areas every two hours, ultraviolet cleaning and a visitor screening policy. We have also installed markers, signage, sneeze guards and high efficiency particulate air (HEPA) filter appliances, and cleaned our airconditioning ducts.

In preparation for our employees' return to the workplace, e-learning modules focused on health and safety protocols were deployed, with 10,000 employees completing the course to date. A webinar on "Getting Back on Tracking: The Right Mindset for the New Normal" was also rolled out to 3,353 targeted employees. Along with this, company-wide virtual talks with Q&A sessions for "Mental Health Amid COVID-19" and "Mental Wellness in the New Normal" were conducted by health professionals to help employees cope with COVID-19-related anxieties.

To further protect our employees' welfare, PLDT Medical Services readily supplies maintenance medicines and multivitamins through our in-house clinics nationwide, and in partnership with Mercury Drugstores and MedExpress Delivery. Internal channels for 24/7 COVID-19-related assistance are also available for our workforce.

On top of this is a 24/7 InfoMed hotline that is ready to address medical-related concerns and health benefits PLDT personnel may have. Employees can reach out to advisers on questions related to internal guidelines, safety protocols, rapid testing, shuttle services and the like through the COVID-19 Employee Hotline from Mondays to Fridays from 8AM to 5PM. A COVID-19 Online Helpdesk on Workplace by Facebook was also set up for all internal inquiries.

We have identified the types of employees who are most at risk of COVID-19 based on local guidelines issued by various Government agencies. This includes pregnant employees, those with pre-existing conditions or co-morbidities and those aged 60 years or above. Employees who fall within this group and have asked or are asked to report for work in the workplace must first obtain clearance from the PLDT medical services team and strictly comply with all health and safety protocols to ensure their continued well-being.

For health monitoring purposes, a coronavirus online form is required to be completed by employees if they are experiencing symptoms or have been exposed to a COVID-19 patient or suspect. The COVID-19 self-check chatbot, our employees' daily health assessment and security requirement for returning to work, is housed in the company's internal social media platform (Workplace by Facebook). The PLDT medical services team closely monitors both the coronavirus online form and chatbot.

We have issued instructions and guidelines to our trade partners on how to best deal with the COVID-19 outbreak.

Network and IT

As more and more people in the Philippines choose to work from home, we have been experiencing a significant increase in the usage of our internet services. Since the beginning of the COVID-19 outbreak in the Philippines, we have been closely monitoring our network traffic for usage spikes and possible congestion. As at the date of this Offering Circular, we have sufficient capacity to serve the increased needs of all our subscribers. We have added international and domestic internet capacity, upgraded our local content delivery network, and reassigned our 2G frequencies to LTE and temporarily reassigned our 5G frequencies to LTE in order to augment our internet capacity. We have taken steps to enhance security for premises in which our critical network and IT systems are kept. We have also moved essential spare parts and supplies from our remote warehouses to Metro Manila to help us undertake maintenance and repairs more efficiently.

Customer Service

To provide customers with connectivity when they need it the most, we provided zero-rated access to certain Government agencies and emergency hotlines, boosted minimum speeds for our PLDT Home subscribers, increased data allocations for postpaid and prepaid customers, equipped our corporate customers with telecommuting solutions, suspended disconnections for our postpaid customers, free use of selected business corporations for corporate customers and for our OFWs, extended the duration of free calls through our Free Bee app. On May 1, 2020, we implemented a six-month installment payment program for the outstanding monthly bills of our postpaid subscribers. Under this payment program, PLDT Home and Sun consumer postpaid subscribers can settle their unpaid balances as at April 30, 2020 in six equal monthly payments with 0% interest and no penalties.

In cases where our service teams need to enter customers' homes or business premises, we have equipped them with protective gear such as face masks and gloves. Members of our service teams have also been trained in the proper health protocols for before, during, and after site visits, including maintaining proper social distances with customers at all times.

We have taken the following precautionary measures at our stores:

- provided 70% alcohol at all counters for employees and customers;
- provided anti-bacterial wipes and alcohol pads to sanitize work area after each transaction;
- provided anti-bacterial spray to sanitize the air and incoming deliveries;
- provided handheld infrared thermometers for employees to take temperatures of all visitors to our stores, including customers and third-party personnel; and
- provided facial masks for customer-facing employees.

Impact of COVID-19 Outbreak on Our Operations

The imposition of the ECQ in mid-March tempered revenue growth as mobility and normal activity slowed down. Recovery began in the second half of April with the momentum being sustained in May and June such that the number of mobile prepaid top-ups was higher than it was prior to the imposition of the ECQ. PLDT Home was also initially hampered by movement restrictions but has similarly returned to pre-ECQ levels aided by the strong demand for broadband services of customers being forced to work and study from home. While work-from-home arrangements for businesses and their employees boosted demand for corporate fixed broadband and fixed wireless data services, corporate revenue growth in this period was constrained by businesses postponing major projects to the second half of 2020.

During the ECQ, network traffic grew by 25%, with traffic shifting from the commercial business districts to residential areas. This increase led to some initial congestion in our international links but which was quickly resolved to ensure continued quality experience for our subscribers. To further ensure that we could handle the increased volume of data traffic, Smart reallocated its assigned 1,800 MHz frequencies from 2G to 4G/LTE.

The ECQ highlighted a distinct advantage of PLDT's fixed/wireless network architecture as the separate fixed and wireless networks were able to serve their respective networks while maintaining service quality. The disruptions caused by the ECQ will likely postpone a number of planned network activities for 2020. As the lifting of ECQ restrictions is likely to be a gradual process, our network roll-out activities are expected to be drawn out. The network roll-out for the rest of 2020 will prioritize projects that help our customers and the public revive their businesses and social activities. As a result, we expect to defer 20-25% of our 2020 capital expenditures.

Amidst this uncertainty, new opportunities for future growth have arisen. Life under the ECQ has pushed the rapid adoption of online and digital services as people forced to stay at home have turned to web-based collaboration tools, distance learning, online shopping and payment and e-health services, among others. We believe our superior network and digital infrastructure has driven more data usage to both our mobile and fixed networks. PLDT Home is ramping up its installation and repair levels and rolling out fixed wireless in areas with no fixed line or fiber connections. Smart is gearing to capitalize on e-payments and further leverage its online distribution channels and our Enterprise vertical is driving opportunities in e-health, e-learning, telemedicine and other collaboration solutions while seeing renewed demand for data center services.

Expiration of Digitel's Legislative Franchise

Effective February 17, 2019, Digital Telecommunications Phils., Inc. ("**Digitel**") ceased to operate as a public telecommunications entity, pursuant to the expiration of its legislative franchise, Republic Act No. 7678. In order to ensure continued customer service, Digitel has assigned its assets and subscribers to PLDT in January 2019.

Expiration of Philcom's Legislative Franchise

Effective September 15, 2019, PLDT-Philcom Inc. ("**Philcom**") ceased to operate as a telecommunications service provider, pursuant to the expiration of its legislative franchise, Republic Act No. 7783. In order to facilitate continued customer service, arrangements have been made between Philcom and PLDT whereby PLDT would make its services available to the affected Philcom subscribers on a voluntary basis. The NTC interposed no objection to the transfer of Philcom's subscribers to PLDT, subject to certain conditions. Consequently, Philcom and PLDT executed a deed of assignment on August 15, 2019 and on September 13, 2019, all property and equipment of Philcom, accounts receivable, inventories and subscribers were transferred to PLDT for a total consideration of ₱1,760 million and ₱319 million, respectively, upon compliance with the NTC's conditions. PLDT has committed to providing financial support to discharge its liabilities as the need arises.

Expiration of PLDT Subic Telecom, Inc.'s (SubicTel) Franchise

Effective January 23, 2020, SubicTel ceased to operate as a telecommunications service provider, pursuant to the expiration of its franchise issued by the Subic Bay Metropolitan Authority, or SBMA. In order to facilitate continued customer service, arrangements have been made between SubicTel and PLDT where PLDT would make its services available to the affected SubicTel subscribers on voluntary basis. The NTC interposed no objection to the transfer of SubicTel's subscribers to PLDT, subject to certain conditions. Likewise, the SBMA board approved the issuance of Certificate of Registration to PLDT to operate within SBMA. On September 24, 2019, the PLDT Board of Directors approved the acquisition of the assets and subscribers of SubicTel for a total consideration of ₱675 million. PLDT has committed to provide financial support to discharge SubicTel's liabilities as the need arises. This transaction was eliminated in our consolidated financial statements.

Expiration of PLDT-Maratel, Inc.'s ("Maratel") Legislative Franchise

Effective April 27, 2020, Maratel ceased to operate as a telecommunications service provider, following the expiration of its legislative franchise, Republic Act No. 7970. In order to ensure continued customer service, Maratel will assign its assets and subscribers to PLDT who undertakes to offer its services to Maratel subscribers subject to conditions as may be imposed by the NTC. The NTC did not object to the transfer of Maratel subscribers to PLDT, subject to certain conditions. On November 7, 2019, the PLDT Board of Directors approved the acquisition of Maratel's assets and subscribers for a total consideration of ₱442 million. PLDT has committed to provide financial support to discharge Maratel's liabilities as the need arises. This transaction was eliminated in our consolidated financial statements.

Partnership With Orange International Carriers ("Orange")

In May 2020, PLDT announced that it had entered into a partnership with Orange, the wholesale arm of the Orange Group, for international voice aggregation services to deliver better quality service to millions of customers globally. As the preferred aggregator for voice traffic, Orange will handle all global inbound traffic terminating on the PLDT and Smart networks.

Orange's experience and expertise will be available to PLDT for the management of its global partner portfolio. The partnership agreement also includes support from Orange's global sales team in the joint implementation of various voice traffic management solutions. Additionally, in a move to increase voice traffic and security, Orange will guarantee the value of PLDT voice traffic with its industry-leading anti-fraud voice solutions.

Commitment of New Investments in VIH

On April 16, 2020, PLDT entered into agreements with KKR & Co. Inc. ("**KKR**"), Tencent Holdings Ltd. ("**Tencent**"), International Finance Corporation ("**IFC**") and IFC Emerging Asia Fund to commit up to U.S.$120 million of new funding towards the expansion of VIH. This follows KKR's, Tencent's, IFC's and IFC Emerging Asia Fund's initial investment totaling U.S.$215 million made to VIH in 2018. VIH plans to apply some or all of the U.S.$120 million investment in growing its financial technology arm, PayMaya Philippines ("**PayMaya**").

Asia Direct Cable Consortium (the "ADC Consortium") to Build a New Asia Pacific Submarine Cable

The ADC Consortium, to which the PLDT is party, is in the process of constructing a 9,400 kilometer long high-performance submarine cable line connecting six major countries in East Asia and Southeast Asia. Construction began in February 2020 and is expected to be completed in the fourth quarter of 2022. The cable is expected to feature multiple pairs of high capacity optical fibers and is designed to carry more than 140 Tbps of traffic, enabling high capacity transmission of data across the East Asia and Southeast Asia regions.

Amended Articles of Incorporation

On April 8, 2020, the Board of Directors approved the amendment of the second article of the articles of incorporation of PLDT (i) to reflect the current focus of PLDT's business, which is the provision of telecommunications services through trending and constantly evolving technologies and innovative products and services, and (ii) to allow sufficient flexibility for the PLDT business units to design their operations and expand their products and services by constantly transforming PLDT from being the country's leading telecommunications company to a dynamic and customer-centric multi-media organization. The amendment was approved by the stockholders on June 9, 2020 at annual meeting of stockholders of PLDT. This amendment is not yet final and remains subject to the approval of the Philippine SEC.

STRENGTHS AND STRATEGIES

Strengths

We believe our business is characterized by the following competitive strengths:

We are exposed to large and attractive markets with growing demand for connectivity services.

We serve markets in which there is a growing demand for connectivity services driven by strong macroeconomic, demographic and technological trends. The Philippines has experienced significant growth in mobile data demand, as evidenced by a growth of 220% in wireless payload over PLDT's network between 2018 and 2019. This growth was fueled by the large youth population in the Philippines, where the median age was 25.3 as at December 31, 2019, according to Euromonitor, as well as significant internet usage amongst Filipinos, with Hootsuite ranking Filipinos number one in terms of time spent on the internet per day and the most active users of social media globally. Significant upside is expected as we believe only 70% of Smart's mobile subscribers own smartphones and only half of them are regular data users, as at March 31, 2020. These dynamics imply significant future growth potential for mobile data services.

In the home broadband market, only approximately 4 million out of over 22 million Philippine households subscribe to fixed broadband services, according to publicly available reports. This is significantly lower than the average in other Asian countries with similar income levels, indicating significant growth potential. The COVID-19 pandemic and the resulting community quarantine measures have generated substantial demand for connectivity services, and in particular, home broadband services, in light of Government-imposed work from home and home schooling arrangements. We expect this heightened demand for our services to persist given the shift in the perceived importance of reliable connectivity services.

We own and operate superior integrated networks to support future growth.

With our extensive telecommunications networks in the Philippines, we are able to offer a wide array of communications services. Anchored by PLDT's significant spectrum position, our mobile network serves over 95% of the country's cities and municipalities and 96% of the country's population through our 2G network, and 92% of the country's cities and municipalities and 94% of the country's population through our 3G and 4G LTE networks. The vastly improved Smart LTE network was named by Ookla, a leading internet testing and analysis company, as the fastest mobile network in the Philippines for two consecutive years. Open Signal, another international network testing company, also awarded Smart the "Most Widely Available Urban 4G Coverage" and "Most Widely Available Rural 4G Coverage" awards in 2019. Smart was also cited for having the best and widest 4G/LTE Coverage and was awarded the "Best in Test Award for 2019" for the fastest upload and download speeds by Umlaud, a global internet benchmarking company.

As part of our network transformation program, we continuously invest in upgrading our fixed network to an all IP-based next-generation network, building out our transmission and fiber to the home ("**FTTH**") network and increasing our international bandwidth capacity. We were recognized by Ookla as the fastest fixed network in the Philippines in its 2019 quarterly reports.

In the fixed network market, we believe that we own the most extensive transmission and distribution network infrastructure in the Philippines, with approximately 338,500 kilometers of fiber optic cables transporting growing data traffic across all of our businesses, as at March 31, 2020. In 2019, PLDT expanded its FTTH network to over 100 new cities and as at March 31, 2020, its network passes approximately 7.5 million homes. PLDT's network architecture comprises 10 data centers nationwide, the largest rack capacity in the Philippines. These data centers enable the caching of popular content with the resulting reduced latency, which improves customer experience. To further prepare its network for 5G technology, PLDT has continued to invest in its transmission and backhaul network and has conducted 5G pilot tests with various equipment vendors in different settings, including academic settings, lifestyle hubs and smart cities. PLDT's ongoing investments in its integrated networks will enable PLDT to provide faster, more reliable services and a superior experience for our customers, distinguishing us from our competitors.

We have a strong brand portfolio which covers all the relevant business segments in the Philippines.

We believe that we have maintained our position as a market leader in the consumer and enterprise fixed line and broadband markets in the Philippines in terms of both subscribers and revenues. PLDT Home is the leading home broadband service provider in the Philippines, serving 2.3 million subscribers nationwide, as at March 31, 2020. Since the third quarter of 2019, our wireless business has registered revenue market share gains for three consecutive quarters, signaling the strong recovery of our business.

Our success in the fixed line and broadband markets is linked to our strong and diverse portfolio of brands, including PLDT, Smart, TNT and Sun, which are widely recognized brand names in the Philippines. We have built the PLDT brand name for more than 90 years as the leading telecommunications provider in the Philippines. Smart is recognized in the Philippines as an innovative provider of high-quality mobile services. The TNT brand, which is provided using Smart's network, has also gained significant recognition as a price-competitive brand. Meanwhile, Sun has built considerable brand equity as a provider of "unlimited, no frills, value-for-money" services. Having a portfolio of strong and recognizable brands allows us to offer differentiated products and services to various market segments so as to better cater to our customers' budgets and preferences.

Our diversified revenue sources deliver resilience and growth.

We have a diverse portfolio of business lines across our wireless and fixed line business segments, serving a wide spectrum of customer segments, including individuals, households and enterprises. Revenue sources of our wireless business include mobile (mobile data, voice, SMS, and inbound roaming and other mobile services), home broadband, MVNO and other services. The revenues from data services, particularly mobile data services, have increased steadily over the past several years. Our fixed line business derives service revenues from data/broadband, voice (local exchange, international and domestic services) and miscellaneous services. The revenue contributions from our home broadband, corporate data, leased lines and information and communication technology services account for the bulk of the fixed line revenues, as at March 31, 2020.

Our diverse business portfolio provides us with exposure to growth products, resulting in resilient business performance that positions us to better weather any potential challenges to the telecommunications industry, whether driven by technology, competition or other factors.

PLDT provides innovative products and services which address our customers' evolving digital needs.

We believe we are at the forefront of leveraging our world class networks to provide products and services that are tailored to our customers' specific needs and requirements. We recently launched a suite of products under the "Giga Life" brand platform, comprised of Giga videos, Giga games, Giga stories and Giga work, enabling customers to design a mobile plan that fits their passions and priorities.

As part of our enterprise business and corporate data services, PLDT offers business solutions as well as connectivity, including data center services, cyber security services, cloud services, managed IT services and various other IT solutions. PLDT has consistently innovated in this segment, as evidenced by our commercial launch of the Philippines' first carrier-grade cloud infrastructure and our partnerships with global cloud brands.

In addition to our connectivity and related services, we also create and launch platforms, services and solutions for emerging markets in the area of digital financial services through our associated companies, VIH and PayMaya. With our recent investment in Multisys, a software and IT solutions provider, we now have access to core software development capabilities that will enable us to tailor our solutions to customer needs.

Strong and experienced management team and key strategic relationships.

Through the years, we have developed a strong and experienced management team that places particular emphasis on agility and collaboration. Our senior management combines decades of deep expertise in the telecommunications industry with diverse backgrounds in different industries, including banking, utilities, infrastructure and venture capital. We are in the process of refreshing our talent pool with new hires from the OTT space to upgrade our skillsets to match our digital transformation initiatives. Our varied business lines offer ample opportunity for career exposure and growth.

In addition, we have important strategic relationships with First Pacific, NTT DOCOMO and NTT Communications. We believe the technological support, international experience and management expertise made available to us through these strategic relationships will enable us to enhance our market leadership and provide/cross-sell a wider range of products and services. See Note 1 to the unaudited interim consolidated financial statements and the audited consolidated financial statements for more information.

Strategies

The key elements of our business strategy are:

Continue investing in maintaining our network leadership to deliver a superior data experience and further drive revenue growth.

We plan to continue investing in our strong integrated fixed and wireless networks in the Philippines as we believe this is key to our ability to continue providing a differentiated experience and value proposition to our customers, which in turn should drive greater customer traffic and revenue growth opportunities. The primary focus of our network investment initiatives is to improve capacity, latency, coverage and reliability. Based on third party surveys, we are the market leader in these areas. We intend to further enhance our leading position through strategic investments.

We have adopted and will continue to adopt the latest technologies in order to ensure that our networks are being fully optimized. For example, Smart has been implementing carrier aggregation technology to increase the data rate available per user on our mobile network. Smart regularly reviews its spectrum usage to ensure optimal utilization of the mobile network. Meanwhile, for our fixed line network, we are in the process of expanding the reach of our fiber distribution network and replacing old copper cables with fiber, to better ensure good internet quality and speed. We are also fortifying the resiliency of our fiber backbone by making additional investments that instill our fiber distribution network with self-healing capabilities and redundancy. We expect these strategic investments to bolster the superiority of our network above that of our competition.

Focus on our digital transformation to enhance customer experience and create revenue opportunities.

PLDT is undergoing a digital transformation, with the core objective of becoming more customer-centric through the delivery of superior customer service. It aims to simplify the advanced technologies offered through its world class networks, in order to give Filipinos greater ease of use and encourage them to take advantage of such technologies. As part of its digital transformation initiative, PLDT has upgraded its service developments, billing systems and customer interface platforms, all with the goal of improving customers' ease of use. This was exemplified by the introduction in 2019 by Smart of the unstructured supplementary service data menu browser ("**UMB**"), an easy-to-use product discovery platform. Through the UMB platform, Smart's prepaid customers no longer have to memorize passwords or access codes to enjoy Smart's data services, including its wide range of Giga products. The improved customer experience has resulted in higher data usage.

To advance our digital transformation, we have also invested in and made use of data analytics. Using data analytics, we will analyze the large number of data points that we have to better understand our customers and design products and plans that are tailored to their specific preferences.

Capitalize on our strength as an integrated telecommunications service provider to extend our market leading position in mobile data, fixed broadband and corporate services.

We believe we offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to maximize revenue opportunities by cross-selling our products and services, and by developing convergent products that feature the combined benefits of voice and data, broadband, wireless and other products and services, such as our content portfolio which includes videos, streaming services, entertainment, music, shopping channels and games.

We believe that our integrated services differentiate us from our competitors who offer more limited services, and provide us with opportunities to capture incremental market share across our products and services. As we expand our product offerings over time, we expect to offer our customers more integrated and convergent services that will help deepen our relationship with our customers, enhance customer loyalty and extend our market leading positions.

Focus on profitable growth and prudent capital management to maintain a strong financial position.

We are focused on growing profitably and continually seek to complement our revenue growth with more effective cost management and enhanced productivity where possible. This success was manifest in our 2019 performance, where our service revenue grew by 6% and our Adjusted EBITDA grew by 25% from 2018. This enhanced profitability reinforced our strong financial position with a healthy balance sheet, providing significant flexibility for investments in future growth.

Our management strives to achieve an optimal capital structure by maintaining healthy capital ratios and strong credit ratings. We have a well spread out debt maturity profile, with more than 41% of debt maturity after 2025. We also have in place a dividend payout policy of 60% of core telecommunications income to ensure we maintain sufficient reserve funds to invest in the continued growth of our data traffic and in adjacent businesses. We intend to maintain healthy liquidity on our balance sheet, with our cash and short-term investments generally being maintained at a minimum of U.S.$500 million.

BUSINESS OVERVIEW

Our business activities are categorized into three business units: Wireless, Fixed Line and Others. We monitor the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment.

Wireless

Our wireless business focuses on driving growth in our data services while managing our legacy business of voice and SMS. We generate data revenues across all segments of our wireless business, whether through the access of mobile internet using smartphones or mobile broadband using pocket WiFi and other similar devices.

We provide (i) mobile services, (ii) home broadband services, and (iii) MVNO and other services, through our wireless business, with mobile services contributing 98% of our 2019 revenue, and home broadband and MVNO and other services contributing the remaining 2% of our 2019 revenue. Mobile data usage has surged in the past several years while voice and SMS usage has slowed down. Wireless revenues contributed 57% of our consolidated revenues in 2019 as compared to 55% and 58% for the years ended December 31, 2018 and 2017, respectively. Our mobile service revenues were 92%, 90% and 91% of our total wireless revenues for the years ended December 31, 2019, 2018 and 2017, respectively.

Our mobile services, which accounted for 98% of our wireless service revenues for the year ended December 31, 2019, are provided through Smart and DMPI with 73,118,155 total subscribers as at December 31, 2019 as compared to 60,499,017 total subscribers as at December 31, 2018, and 58,293,908 total subscribers as at December 31, 2017, representing an estimated combined market share of 44%, 45% and 49% as at December 31, 2019, 2018 and 2017, respectively, based on corporate public disclosures.

For three consecutive quarters starting from the third quarter of 2019, our wireless business registered revenue market share gains, signaling the strong recovery of our business. Prior to that, our mobile revenue market share had eroded due to the combined impact of aggressive price competition and the consequent loss of subscribers. This was exacerbated by our larger proportion of legacy revenues from SMS and international voice relative to competition, which offset growth in our mobile data revenues. We believe mobile penetration in the Philippines increased to approximately 159% in 2019 from 133% in 2018, based on the number of SIM cards registered, although the existence of subscribers owning multiple SIM cards results in this penetration rate being inflated to a certain extent.

As at March 31, 2020, approximately 96.6% of our mobile subscribers were prepaid service subscribers. The predominance of prepaid service reflects one of the distinguishing characteristics of the Philippine mobile market, allowing us to reduce billing and administrative costs on a per-subscriber basis, as well as to control credit risk.

LTE SIMs and smartphone ownership among our subscribers grew significantly in 2019 and in the three months ended March 31, 2020, resulting in a substantial increase in our mobile data revenues. As a result, our mobile internet revenues, which are part of our mobile data service revenues, increased by ₱15,192 million, or 46%, to ₱48,399 million in 2019 from ₱33,207 million in 2018. Our mobile internet revenues contributed 92% and 87% of our mobile data service revenues in 2019 and 2018, respectively. Mobile data traffic on Smart's network grew from 2,860 Terabytes per day in December 2018 to 5,944 Terabytes per day in December 2019 and to 7,509 Terabytes per day in March 2020. Mobile data traffic on Smart's network hit a record high of 1,612 petabytes in 2019, double the 824 petabytes posted in 2018, and more than four times compared to 2017 levels. Conversely, mobile broadband revenues, which are derived from the use of pocket internet and other similar mobile broadband devices, decreased by ₱1,042 million, or 23%, to ₱3,547 million from ₱4,589 million in 2018.

Smart's wireless networks provide extensive voice and broadband coverage in the Philippines, covering substantially all of major metropolitan areas and most of the other population centers in the Philippines. Our low spectrum band resources (700MHz, 850MHz and 900MHz) are primarily used to provide coverage whilst higher spectrum bands (1800MHz, 2100MHz, 2300MHz and 2600MHz) provide coverage and additional capacity. Our wireless broadband network supports HSPA+ and LTE-Advanced to provide an improved data experience for our customers.

The following table summarizes key measures of our wireless business as at and for the years ended December 31, 2017, 2018 and 2019 and as at and for the three months ended March 31, 2019 and 2020:

	For the year ended December 31,			For the three months ended March 31,	
	2017	**2018**	**2019**	**2019**	**2020**
Systemwide mobile subscriber base	58,293,908	60,499,017	73,118,155	63,948,886	73,075,627
Prepaid	55,776,646	58,178,978	70,721,789	61,585,197	70,590,758
Postpaid	2,517,262	2,320,039	2,396,366	2,363,689	2,484,869
Fixed Wireless Broadband Subscriber base[(1)]	237,354	11,533	6,098	9,989	4,905
Growth rate of mobile subscribers (%)					
Prepaid	(7)%	4%	22%	11%	15%
Postpaid	(10)%	(8)%	3%	(4)%	5%
Growth rate of Fixed Wireless Broadband subscribers	(12)%	(95)%	(47)%	(40)%	(51)%

(1) Home Ultera and WiMAX businesses were transferred to PLDT beginning 2018.

Mobile Services

We offer prepaid and postpaid mobile communications services all over the country under the brand names Smart, TNT and Sun, each of which focuses on the needs of specific market segments. With a continuous and in-depth consumer understanding program, each of our brands commits to provide relevant products that will cater to the communications, entertainment and services requirements of their respective target market segments.

- Prepaid

  Over the years, Smart's prepaid brands have launched several initiatives to encourage subscribers to adopt a digital lifestyle. To stimulate data usage among customers, the prepaid brands marketed free trial campaigns such as "Free YouTube for All" in 2018 and 2019 and "Free Instagram and Facebook For All" in 2019.

  To pivot our suite of prepaid services, we introduced the "Giga Life" umbrella brand platform which offers a selection of specially customized packages that are easily accessible and identifiable, such as Giga Video, Giga Games, Giga Stories and Giga Music. Offers such as Giga Video, Giga Games, Giga Stories and Giga Music are data and content-led products. All Giga offers may be accessed via UMB*123#, which makes the registration process more convenient for subscribers, contributing to continued growth in registration for such offers via this digital channel. In November 2019, the "Giga Mania raffle" was launched to increase customer top-up frequency and drive sales with higher denominations under the Giga packages. These key initiatives contributed to a significant increase in data users and data revenue for Smart prepaid brands.

- Postpaid

  Smart launched its postpaid "Signature" plans in 2019, featuring higher data allocation and prioritized access to Smart's LTE network. Its fixed monthly rate also aims to prevent "bill shock". The simplified product construct for postpaid Signature has resulted in higher ARPUs, lower churn and longer customer lifecycles.

  We consider the following as the key metrics for our growth in 2019: (i) providing customers with the nation's fastest mobile network and 4G mobile network with the widest coverage; (ii) promoting data and content-led products under the Giga brand (iii) promoting e-sports events; (iv) making value-added services easier to access through Smart's UMB platform; and (v) continuous promotion of our LTE services.

  - *Providing Customers with the Nation's Fastest Mobile Network and 4G Mobile Network with the Widest Coverage*

    Smart continued its network transformation program in 2019 by further expanding and improving its LTE network. The improved Smart LTE network was named by Ookla, a leading internet testing and analysis company, as the Philippines' fastest mobile network for the 2nd consecutive year. Meanwhile, Open Signal, another international network testing company, also awarded Smart with the "Most Widely Available Urban 4G Coverage" and "Most Widely Available Rural 4G Coverage" awards.

  - *Promoting Data and Content-led Products under the Giga Brand*

    In 2019, Smart expanded the Giga brand products to new areas such as music, stories and games, and launched new data and content-led products. Products under the Giga brand made a significant contribution to our prepaid revenues and now account for over 40% of prepaid top-ups. In order to promote data usage, products under the Giga brand are offered under all of Smart's brands.

- *Promoting E-Sports Events*

  Smart promoted several e-sports events in 2019 to encourage the usage of mobile data. Smart launched a grass-root e-sports promotion program, the SiklabSaya program, which features the popular online mobile game Mobile Legends Bang to promote data usage. Smart sponsored the gaming competition Mobile Legends Bang Professional League and sponsored teams to participate in the Philippines' first and only franchise-based e-sports league, The Nationals. Last but not least, Smart partnered with TV5 and Cignal to cover e-sports events such as the e-sports competition in the recently held Southeast Asian Games in Manila. This was the first time that e-sports was deemed a competitive event in an international inter-country sporting event recognized by the International Olympic Committee.

- *Making Value-added Services Easier to Access through the UMB Platform*

  Smart promoted its UMB platform to provide customers an easy-to-use and product discovery platform. Smart's prepaid customers no longer needed to memorize passwords or access codes to enjoy Smart's improved data services. Through the UMB platform, customers can access the wide range of Giga products. This resulted in Smart's number of subscribers growing by approximately 23% compared with the year ended December 31, 2018. For 2020, Smart will further improve customers' product discovery experiences with its forthcoming app-based service.

- *Continuous Promotion of Our LTE Services*

  Smart continued to promote the adoption of LTE-capable devices and LTE SIM cards. During the year ended December 31, 2019, Smart launched its "LTE SIM Upgrade" program which allowed Smart subscribers to upgrade their SIM cards to LTE/5G-capable ones without having to change their mobile numbers. As at December 31, 2019, approximately 80% of our wireless subscriber base is LTE ready. With its improved LTE network, Smart has also increased its efforts in promoting products that encourage the use of content and data-led products, such as online video viewing, e-games and social media.

Rates

Smart prepaid call and text cards are sold in denominations of ₱100, ₱300 and ₱500, while TNT prepaid cards are sold in denominations of ₱50, ₱100 and ₱300. We have updated Smart eLoad's over-the-air reloads, which are now available in various denominations ranging from ₱15 to ₱1,000. The stored value of a prepaid card and eLoads remain valid for 365 days regardless of the denomination, pursuant to the MC No. 05-12-2017 issued by the NTC and the Department of Information and Communications Technology (the "DICT").

Our introduction of the "Giga Life" umbrella brand platform signaled a major pivot for our prepaid services. The Giga suite of products, such as Giga Video, Giga Games, Giga Stories and Giga Music, offer a selection of specially customized packages that are easily accessible and identifiable, designed with the help of extensive data analysis.

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, we consider a prepaid mobile subscriber 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 line with our strategy of elevating customer experience and enriching the digital lifestyle of our postpaid subscribers, Smart launched "Smart Signature" in 2019. Smart postpaid "Signature" plans provide higher data allocations, unlimited texts to all networks and unlimited on-net calls in the form of small, medium, large and extra-large plans, ranging from ₱999 to ₱2,999. These fixed monthly plans alleviate concerns of unwanted charges.

"Smart Infinity" is our premium mobile postpaid brand with plans ranging from ₱3,500 to ₱8,000. With "Smart Infinity", customers can enjoy local non-stop surf and uninterrupted local mobile services with the "Smart Infinity Limitless Plan" or experience full flexibility both locally and internationally with the "Infinity Traveler" plans. These plans come with a premium mobile device bundled with exclusive lifestyle perks and privileges accessible through a dedicated concierge.

International web browsing was also made more affordable and convenient with "Roam Surf", which allows subscribers to enjoy web browsing abroad for a fixed rate of ₱550 per day. This service is available to both Smart postpaid and prepaid subscribers and covers over 120 countries across the Americas, Asia, Africa, Europe, and Oceania. Meanwhile, "Smart Roam Chat", a data roaming service that allows Smart subscribers to use 5 popular chat messaging mobile applications, namely Viber, WeChat, Line, Telegram and WhatsApp, while roaming abroad in over 120 countries, is available for a fixed rate of only ₱150 per day. Subscribers can also use "Giga Roam" for ₱999 per day with 1 gigabyte of open access data when roaming abroad in over 105 countries worldwide, by accessing a designated webpage upon landing in their destination country.

In compliance with Memorandum Circular No. 03-06-2019 or the Mobile Number Portability Act (the "**MNP Act**") issued by the NTC, starting on January 2, 2020, the interconnection rate for mobile was reduced from ₱0.50 per minute to ₱0.00 per minute for domestic calls and from ₱0.05 per message to ₱0.00 per message for SMS.

Sales and Distribution

Distributors and Dealers

We sell our mobile services primarily through our regional and key account partners who generally have their own direct sales forces and retail networks. As at March 31, 2020 we had 19 exclusive regional and 107 exclusive provincial distributors, and 111 key account partners, 25 of whom are exclusive to us. A number of our trade partners are likewise major distributors of smartphones and devices that are retailed in their owned telecommunications outlets. Account managers from our sales force manage the distribution network and regularly update these business partners on upcoming marketing strategies, promotional campaigns and new products. Smart eLoad Smart's over-the-air reloads, requires a distribution network that approximates those of fast-moving consumer goods companies. Sun also offers over-the-air reloads through Sun's "Xpress Load". Our distribution network encompasses approximately 1.5 million retailers with Smart and Sun combined. These retailers must be affiliated with one of Smart's and Sun's authorized regional and provincial distributors. With the prepaid reloading distribution network extended to corner store and individual retailer levels and minimum reloading denominations as low as ₱10, Smart's prepaid service has become even more affordable and accessible to subscribers.

Retail Stores

Retail stores are company-owned Smart Stores with 117 branches and Sun Shops with 86 branches as at March 31, 2020 that showcase our Company's products and services to customers nationwide. Our frontlines enable unique digital experiences through daily customer interaction. We offer enticing products and services based on the customer needs. We also cater to customers' after-sales requests and inquiries. Our stores also accept payment for bills, postpaid and prepaid sales.

Satellite branches, with a total of 31 stores nationwide as at March 31, 2020, are partner-owned Smart and Sun branded stores operating as auxiliary touchpoints for converged wired and wireless sales, aftersales and bills payment.

Enterprise Business

Our Enterprise Business Group is responsible for marketing and selling Smart and Sun products and services to corporate clients. Services offered include Smart and Sun postpaid and broadband services with bundled phones, tablets and other routers, Smart Infinity, M2M and IOT solutions and platform solutions such as Messaging Suite and Bizload. Our Enterprise Business Group also partners with software and application vendors in various industry-specific solutions and mobile security.

These services are sold primarily through the PLDT Enterprise team and its two major groups, PLDT Alpha Enterprise ("**Alpha**") and PLDT Smart SME Nation ("**SME**"). Alpha is the relationship arm of the PLDT Group for the top 5,000 corporate clients while SME handles our relationships with small and medium enterprises. New Enterprise Business channels include the micro small and medium enterprises segment, which sells through the brick and mortar stores and online, and the enterprise extension which handles sales to employees of existing corporate clients.

Emerging Channels

The Emerging Channels Group, comprised of telesales, online and postpaid field sales, takes the lead in identifying and growing new and non-traditional channels. The team aims to ensure that we are equipped to maximize opportunities presented by industry trends and new technologies. We enable the customer to avail of a new service or upgrade their existing subscription.

Telesales

We reach out to our subscribers to offer the latest promos and services. Our telesales agents, in partnership with different contact center providers, enable existing subscribers to upgrade and migrate their accounts, as well as recontract their expiring accounts over the phone.

Online

Consumers can also enjoy the convenience of availing our service through the Smart Online Store, an end-to-end portal, where they can transact online to choose phones and apply for new postpaid plans, renew an existing plan, buy prepaid SIM and devices, or subscribe for e-load and various add-on promos. All orders are delivered directly to the customers' addresses. Other online channels include My Smart App and Paywall that allows add-on promo availment via load conversion or bill on top. We expect to be available in all major e-commence platforms, such as Lazada, Shopee and Grabmart, by the end of 2020. Our presence on these e-commerce platforms will further enhance the accessibility of our products to customers.

Postpaid Field Sales

We launched a new channel called "Postpaid Field Sales" ("**PFS**") in 2018. PFS is responsible for outbound postpaid sales targeting the corporate individuals and capable communities. Through the development and growth of this channel, we aim to increase our wireless postpaid customer base. Initially present in 52 territories, complemented by distributor partners, we believe that PFS has been on the road towards significantly growing our mobile postpaid business.

Home Broadband Service (Home Ultera)

Home Ultera is a fixed wireless broadband service being offered under PLDT's Home brand. Home Ultera, powered by TD-LTE technology, offers customized packages and is specifically designed for homes that are unable to access our fixed line home broadband services. While Home Ultera utilizes Smart's wireless network, it is marketed and operated by PLDT Home.

Fixed Line

We believe we are the leading provider of fixed line telecommunications services throughout the Philippines, servicing retail, corporate and SME clients. Our fixed line business group offers (i) data services; (ii) voice services and (iii) miscellaneous services.

We had 2,801,187 fixed line subscribers as at March 31, 2020, an increase of 35,978, or 1%, from 2,765,209 fixed line subscribers as at December 31, 2019, while our fixed line and fixed wireless broadband subscribers increased by 121,303, or 6%, to 2,282,788 as at March 31, 2020 from 2,161,484 as at December 31, 2019. Revenues from our fixed line business were 49%, 52%, 53% and 52% the years ended December 31, 2017, 2018 and 2019 and the three months ended March 31, 2020, respectively. International voice revenues have been declining largely due to a drop in call volumes as a result of the availability of alternative calling options and OTT services. An increase in our data service revenues in recent years has mitigated such decline to a certain extent. Recognizing the growth potential of data services, we have put considerable emphasis on the development of new data-capable and IP-based networks.

Our fixed line network reaches all of the major cities and municipalities in the Philippines, with a concentration in the Metro Manila area. We believe our network offers the country's most extensive connections to our customers with the FTTH and fiber to the building ("**FTTB**") installations. Fiber optic cables are also being deployed aggressively to our wireless base stations for the high bandwidth requirement that surpasses current microwave radio capacities. The domestic fiber optic network ("**DFON**") extends to underground inland and submarine cables. It is a fully resilient network spanning the whole archipelago. Our international network comprises the international gateway's various regional submarine cable systems in which we have economic interests.

We offer postpaid and prepaid fixed line services. Initially intended to be an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services came to form an important part of our overall churn and credit risk exposure management strategy.

The following table summarizes key measures of our fixed line services as at and for the years ended December 31, 2019, 2018 and 2017 and as at and for the three months ended March 31, 2020 and 2019:

	For the year ended December 31,			For the three months ended March 31,	
	2017	**2018**	**2019**	**2019**	**2020**
Number of fixed line subscribers	2,663,210	2,710,972	2,765,209	2,707,077	2,801,187
Postpaid	2,634,157	2,683,037	2,739,367	2,678,699	2,777,215
Prepaid	29,053	27,935	25,842	28,378	23,972
Growth rate of fixed line subscribers[1]	9%	2%	2%	—	3%
Postpaid	9%	2%	2%	—	4%
Prepaid	(8)%	(4)%	(7)%	(4)%	(16)%
Number of fixed line employees	6,832	8,772	10,878	12,440	12,504
Number of local exchange line subscribers per employee	390	309	254	263	256
Number of broadband subscribers	1,713,527	2,025,563	2,161,484	2,016,507	2,282,788
Fixed Line broadband	1,713,527	1,812,037	1,931,333	1,818,530	1,986,783
Fixed Wireless broadband[1]	—	213,526	230,151	197,977	296,005
Growth rate of broadband subscribers	18%	18%	7%	1%	14%
Fixed Line broadband	18%	6%	7%	3%	9%
Fixed Wireless broadband	—	100%	11%	(9)%	55%

(1) Home Ultera and WiMAX businesses were transferred to PLDT beginning 2018.

Data Services

Our data services revenues include charges for broadband, leased lines, Ethernet-based and IP-based services. These services are used for broadband internet and domestic and international private data networking communications.

Recognizing the growth potential of data services, and in light of their importance to our business strategy, we have been putting considerable emphasis on these service segments. Our data services segments registered the highest percentage growth in revenues among our fixed line services from 2017 to 2019.

Home Broadband

We believe that PLDT Home is the nation's leading home broadband service provider, serving 2.0 million subscribers nationwide as at December 31, 2019 from 1.9 million subscribers as at December 31, 2018. As at March 31, 2020, we had 2.3 million subscribers.

We believe that PLDT Home is the Philippines' fastest fixed network with broadband data services including fixed wired (*PLDT Home Fibr*) and fixed wireless (*PLDT Home WiFi*). PLDT Home offers broadband services through the nationwide roll-out of its FTTH fixed line network that provides broadband availability to approximately 7.5 million homes passed, as at March 31, 2020. The number of homes passed refers to the approximate potential number of residences that could avail themselves of broadband connectivity services provided through PLDT facilities.

PLDT's superior FTTH network enables subscribers to enjoy up to 1 Gbps of symmetrical internet speeds or equal upload and download speeds. Ookla, the company behind Speedtest® and the global leader in fixed broadband and mobile network testing applications and data analysis, recognized PLDT as the Philippines' fastest fixed network in its Q3-Q4 2019 reports. Based on 29,505,821 nationwide customer-initiated Speedtests in the second half of 2019, PLDT achieved a speed score of 25.03, with top download speeds of 62.87 Mbps and top upload speeds of 80.07 Mbps.

For the year ended December 31, 2019 and the three months ended March 31, 2020, PLDT expanded its FTTH network to over 100 new cities, municipalities, and provinces including Camiguin, Occidental Mindoro, Oriental Mindoro and Samar. As at March 31, 2020, PLDT Home had over 620 "Fibr-powered PLDT Smart Cities" such as Toledo City, Cebu, General Santos City, Naga City, South and East Metro Manila, Rockwell Center, Norzagaray in Bulacan, Arayat in Pampanga, Surallah in South Cotabato, Bayombong in Nueva Vizcaya, Nabunturan in Compostella Valley and Mati City in Davao Oriental, Bangued in Abra; and Cavite as the first "PLDT Fibr-powered Smart Province".

PLDT Home also started to roll out its biggest free speed upgrades for its Home Fibr subscribers. These special upgrades boosted the Internet speeds of subscribers up to twice the speed of their existing plans and enabled them to enjoy unlimited, uninterrupted video streaming, lag-free gaming, and seamless browsing at home.

To complement the build-out of its fiber network, PLDT Home is also modernizing and upgrading its current copper network and the roll-out of FTTH. We believe we have the country's most extensive transmission and distribution network infrastructure which, as at March 31, 2020, has about 338,500 kilometers of fiber optic cables that transport the growing data traffic of its fixed line and mobile networks.

PLDT Home also addresses the growing demand for affordable home broadband in the Philippines, brought about by the increase in ownership of internet-capable devices and smartphones among households. PLDT Home introduced PLDT Home WiFi Prepaid, an affordable wireless Internet service priced at ₱995. It is powered by Smart's LTE network, the Philippines' fastest mobile data network with the widest coverage in the country.

A plug and play device, PLDT Home WiFi Prepaid, can simultaneously connect up to five WiFi-capable devices, such as a smartphone, tablet, and laptop, to high-speed Internet. Each PLDT Home WiFi Prepaid unit comes with 10GB of data valid up to seven days from the date of SIM activation. Families can also enjoy affordable load packages. In 2019, the PLDT Home WiFi Prepaid line doubled the data allocation of its FamLoad packages. For instance, FamLoad 199 increased its data allocation from 12GB to 24GB, FamLoad 599 from 40GB to 80GB, FamLoad 999 from 65GB to 130GB, and FamLoad 1499 from 100GB to 200GB.

Smart Home

PLDT Home is strongly committed to fulfilling its subscribers' digital home lifestyle needs through plans that bundle high-speed internet with compelling digital services. PLDT Home was first to market such services under the "Smart Home" banner. This digital ecosystem is built on the following pillars: entertainment, peace of mind, and automation.

PLDT Home first offered "Whole Home WiFi", the Philippines' first smart home WiFi technology designed to blanket the entire home with wireless connectivity making homes Smart Home-ready. The Whole Home WiFi system improves WiFi coverage at home and can eliminate signal blockers and dead spots. The Whole Home WiFi Plan for PLDT Home comes with unlimited Fibr connection, "Whole Home" technology and free assisted installation service by our technicians, the "Home Geek Squad". The Home Geek Squad, a group of "technical architects" pioneered by PLDT Home, helps subscribers set up the Whole Home WiFi system at home.

To strengthen its suite of connectivity services, PLDT Home launched an exclusive partnership with Google to bring Google WiFi to the Philippines. Google WiFi is a mesh networking system that aims to eliminate dead zones and provide strong and fast signals for all connected devices at home. PLDT Home has enabled the Philippines to become one of the first countries in Asia to introduce Google WiFi, after Singapore, Hong Kong, and Japan.

The "Peace of Mind" suite of services of PLDT Home features security-enhancing products like the home monitoring system "Fam Cam", launched in partnership with network solutions giant D-Link.

For entertainment, PLDT Home has been providing subscribers with a diverse range of bundled content through its partnerships with global content providers. PLDT introduced "PLDT Home TVolution Lite" powered by Roku®, an all-in-one, plug-and-play device that brings high definition TV channels and video-on-demand services into one. Designed with sleek, thin and light features, this powerful device allows subscribers to conveniently access a wide range of entertainment content from global entertainment partners including Southeast Asia's internet TV service provider iflix, U.S.-based internet TV pioneer Netflix, Philippines' pay TV service provider Cignal Digital TV, YouTube, and over 100 free streaming channels.

The experience that PLDT Home provides for all Filipino e-sports athletes, fans, and enthusiasts is an important part of the Entertainment pillar. PLDT launched the PLDT-Smart Omega, our first ever professional e-sports team that competed at "The Nationals", the Philippines' first franchise-based e-sports league. Continuing its support for world-class sporting events, PLDT Home sponsored major international e-sports competitions and conventions held in the Philippines, such as the e-sports competitions in the Southeast Asian Games and the Esports and Gaming Summit.

PLDT Home also partnered with the National Basketball Association, or NBA, for a multiyear venture that made select offerings of "NBA League Pass", NBA's premium live game subscription service, available to more than 62 million PLDT Home and Smart subscribers in the Philippines. The NBA League Pass includes a "Day Pass" worth ₱50 which provides fans access to live and on-demand NBA games online for 24 hours.

Rates

Monthly charges for our home data services vary depending on the amount of bandwidth, speed, market demand and the competitive landscape.

Corporate Data and ICT

Our leased lines and other data services include:

- Diginet, a domestic private leased line service, specifically supporting Smart's fiber optic and enterprises' leased line network requirements;

- IP-virtual private network ("VPN"), an end-to-end managed IP-based or Layer 3 data networking service that offers secure means to access corporate network resources;

- Metro Ethernet, a high-speed, Layer 2, wide area networking service that enables mission-critical data transfers;

- Shops.Work, a connectivity solution designed for retailers and franchisers, linking company branches to the head office;

- Shops.Work UnPlugged, or SWUP, a wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas; and

- Beyond Fiber, our new all-in-one digital solution, is being rolled out. Beyond Fiber enables businesses of any size with a wide array of curated digital tools and WiFi fit for enterprises, all anchored on business-grade fiber.

Our international leased lines and other data services consist mainly of:

- iGate, our dedicated internet access service, which provides businesses with a high-speed, diverse, reliable and managed connectivity to the global internet;

- Fibernet, which provides cost-effective, managed and resilient international high bandwidth point-to-point private data networking connectivity, through our global points of presence and extensive international alliances, to offshore and outsourcing, banking and finance, and semiconductor industries; and

- international managed data services in partnership with other global service providers, which provide web acceleration, network security, content delivery and other data networking services to multinational companies.

Our ICT services include data center services, cyber security services, cloud services, managed IT services and various other IT solutions.

In July 2016, ePLDT, Inc. ("**ePLDT**") opened VITRO Makati 2, ePLDT's first data center to be certified by the Telecommunications Industry Association as a rated 3 facility, and a facility that has been recognized by the global solutions company, NTT Communications, as a Nexcenter-certified data center. VITRO Makati 2 is the Philippines' biggest data center with 3,600 racks capacity, located in one of Philippines' premiere business districts. In February 2017, ePLDT opened the first data center in Mindanao to address the growing enterprise demand in that region. Four days after the opening of the Mindanao data center, ePLDT opened VITRO Clark, the first TIA-942 Rated 3 Facility certified data center outside of Metro Manila, which is the first purpose-built data center in the North Philippines. VITRO Clark primarily serves back-up requirements of Manila-based enterprises. The following year, ePLDT opened its second VITRO Data Center in Cebu, which uses up-to-date and globally competitive technologies and features. With this latest addition, ePLDT and its consolidated subsidiaries, and associates and joint ventures (the "**ePLDT Group**") has a capacity of more than 9,161 racks in 10 locations covering Metro Manila, Subic, Clark, Cebu and Davao, as at March 31, 2020.

We commercially launched the Philippines' first carrier-grade cloud infrastructure in 2012 and has consistently built partnerships with global cloud brands and invested in expertise for professional services. We offer a full-suite of cloud solutions to clients such as infrastructure-as-a-service, software-as-a-service, unified communications-as-a-service, contact-center-as-a-service, and disaster recovery-as-a-service.

Complementing these capabilities are ePLDT Group's partnerships with Cisco, Google, Microsoft, Salesforce, and SAP among others, through which ePLDT offers professional services beyond infrastructure and license-selling. Among the ePLDT Group's credentials and achievements are Cisco Tier-2 Partner of the Year, Cisco Tier-2 Services Partner of the Year, Cisco Commercial Sales Champion, Cisco Partner Plus Winner's Circle, Dell EMC Tier-2 Partner of the Year, and Top Tier-2 Enterprise Storage Partner. Other awards include Microsoft Productivity Competency Gold Partner, Microsoft Cloud Productivity Competency Gold Partner, Microsoft Collaboration and Content Competency Gold Partner, Microsoft Small and Midmarket Cloud Solutions Competency Gold Partner, Microsoft Cloud Platform Competency Gold Partner, Microsoft Datacenter Competency Gold Partner, Microsoft Country Partner of the Year, Microsoft Cloud Solutions Provider Direct Partner of the Year, Ranked #1 Microsoft Cloud Solutions Provider, Google for Work Partner, Google Cloud Partner, Top value-added reseller for SAP Business 1, SAP All-in-One Gold Partner, SAP Partner of the Year, SAP S4 Partner of the Year and Salesforce Gold Consulting Partner.

Rates

Charges for our corporate data service vary by customer.

Voice Services

Our voice services are delivered through our (i) local exchange service; (ii) international service; and (iii) domestic service.

Local Exchange

Our local exchange service, which consists of our basic voice telephony business, is provided primarily through PLDT. We also provide local exchange services through our subsidiaries, which account for approximately 1% of our consolidated fixed line subscribers.

Rates

Basic monthly charges for our local exchange service vary according to the type of customer (business or residential) and location, with charges for urban customers generally being higher than those for rural/provincial customers.

International Service

We have been pursuing a number of initiatives to sustain our international service business, including: (i) adjusting slightly our inbound termination rates; (ii) identifying and containing unauthorized traffic termination on our network; (iii) partner with OTT service providers (like Skype and Viber); (iv) establishing new voice services (bucket IDD and local number service); and (v) growing international data sales leveraging on PLDT's sub-sea cable ownership and reach.

In addition, PLDT Global Corporation ("**PGC**") is also enhancing the presence of PLDT in other international markets by providing high quality communications infrastructure and innovative platforms to its global network of carriers, corporate customers and distribution partners, enabling them to achieve their desired connectivity, reach and business relevance. With offices in key markets abroad, PGC delivers a full range of digital consumer solutions that serve the evolving needs of Filipinos overseas.

Through PGC, we offer products and services such as international prepaid calling cards, virtual mobile services, SMS transit and other global bandwidth services. These strategies are intended to help us maximize the use of our existing international facilities, and develop alternative sources of revenue.

The table below sets forth the net settlement amounts for international calls handled by PLDT, by country, for the years ended December 31, 2019, 2018 and 2017:

	Net Settlement		
	2019	**2018**	**2017**
	(in million US Dollars)		
Saudi Arabia	12	18	36
Australia	5	2	1
United Arab Emirates	5	12	10
Hong Kong	5	8	6
Canada	4	4	6
Qatar	2	2	1
United States of America	2	2	10
Cyprus	1	1	1
Japan	1	2	2
Others	6	4	11
Total	43	55	84

Rates

Rates for outbound international calls are based on type of service, whether operator-assisted or direct-dialed. Our rates are quoted in U.S. dollars and are billed in Philippine pesos. The Philippine peso amounts are determined at the time of billing. We charge a flat rate of U.S.$0.40 per minute to retail customers for direct-dialed calls, applicable to most destinations at any time on any day of the week.

Domestic Service

Our domestic services are provided primarily through PLDT. This service consists of voice services for calls made by our fixed line customers outside of their local service areas within the Philippines and access charges paid to us by other telecommunications carriers for wireless and fixed line calls carried through our backbone network and/or terminating to our fixed line customers.

Mobile substitution, OTT voice call alternatives and the widespread availability and growing popularity of alternative, more economical to free non-voice means of communications, such as e-mails, SMS, video conferencing applications and social networking sites, have negatively affected our domestic call volumes.

Rates

Rates for domestic calls traditionally were based on type of service, such as whether the call is operator-assisted or direct-dialed. However, PLDT simplified these rates in recent years for calls originating from and terminating to the PLDT fixed line network and for calls terminating to fixed line networks of other local exchange carriers. PLDT also simplified its rates for calls terminating to mobile subscribers.

In addition, PLDT bundles the free PLDT-to-PLDT calls in some promotions and product/service launchings in order to stimulate fixed line usage.

Miscellaneous

Miscellaneous services provide facilities management, rental fees, and other services which are conducted through our wholly owned subsidiary, ePLDT, which, together with its subsidiaries, is a broad-based integrated information and communications technology company.

Others

On April 16, 2020, PLDT, together with KKR, Tencent, IFC and IFC Emerging Asia Fund, entered into an agreement with VIH, to commit up to U.S.$120 million of new funding towards the expansion of VIH. This follows KKR's, Tencent's, IFC's and IFC Emerging Asia Fund's initial investment totaling U.S.$215 million, made to VIH in 2018. VIH plans to apply the additional investment in growing its financial technology arm, PayMaya.

Our investments in digital platforms and other technologies also comprise other businesses.

PayMaya

PayMaya is the only end-to-end digital payment ecosystem enabler in the Philippines with platforms and services that cut across consumers, merchants and government agencies. Aside from providing payment services for the largest e-commerce platforms and food, retail and gas merchants in the Philippines, PayMaya also provides digital payment and disbursement service to national and social services agencies as well as local government units.

The PayMaya mobile application and digital wallet provide fast and convenient methods for a Filipino to own a bank account. As at March 31, 2020, PayMaya has over 40,000 add value touchpoints nationwide and its remittance service, Smart Padala by PayMaya, has a network of over 30,000 partner agents nationwide that serves as last mile digital financial hubs in communities, providing the unbanked and underserved with access to financial services.

INFRASTRUCTURE

Wireless Network Infrastructure

Mobile

Our mobile network supports 2G, 3G and 4G, and will soon support 5G, which we have started rolling out in key areas. We continue to expand our LTE capacity and roll out more physical sites to widen our coverage in order to sustain the growing demand for our services. Smart launched its 4G LTE network in August 2012. As at March 31, 2019, Smart had established approximately 26,000 4G/LTE base stations and 14,000 3G base stations throughout the Philippines. We believe our mobile broadband covers over 90% of our population and is present in over 90% of the country's cities and municipalities, as at March 31, 2020.

Fixed wireless services are also offered to residential and corporate clients using our high capacity mobile network. This complements our fibered fixed network by reaching areas not currently served through wired connections. To support the delivery of this huge amount of traffic, the backhaul of our cell sites are being migrated to fiber. To date, about two-thirds of our cell sites are connected through fiber.

Moreover, in tangent with its ongoing LTE-Advanced roll-out, Smart is deploying 5G-capable equipment. Smart started rolling out 5G and upgrading the core and transport elements of its network, including upgrading the backhaul to support 5G speed. Smart has commenced 5G pilots and has pioneered 5G cities in Makati and Pampanga in 2018, a 5G lifestyle hub with the Araneta Group and a 5G Campus with Ateneo de Manila University in 2019. Smart also showcased the first 5G Stadium at New Clark City during the 30th Southeast Asian Games in December 2019.

To support 5G capabilities, our data core network is being transformed into a virtualized network to instill it with new capabilities, such as automation, network slicing and improved resiliency, while supporting massive data traffic growth. As at March 31, 2020, we have completed transforming our data core network and have added six more sites, bringing the total number of our data core network sites to 12.

Furthermore, we continue to evolve our voice core network through our ongoing transformation activities. This will endow us with additional capabilities, such as "Voice over WiFi", which allows users to make and receive voice calls in WiFi environments, and Voice over LTE, which provides high quality voice calls and faster call setup times.

Fixed Line Network Infrastructure

Domestic

PLDT's fixed line infrastructure is comprised of the latest technologies, delivering voice, broadband and ICT services to home and corporate customers. We deliver voice and high-speed broadband to each home through our all-fiber network, namely FTTH, and through a hybrid copper network, namely the very high-speed digital subscriber line ("**VVDSL**"), both of which are IP-based platforms. At present, FTTH is capable of delivering 2.5 Gbps and up to 10 Gbps, while VVDSL is capable of delivering up to 100 Mbps through its copper network. We have deployed both FTTH and VVDSL in all cities and in the majority of municipalities in the Philippines. This network provides broadband availability to approximately 7.5 million homes passed, as at March 31, 2020.

PLDT provides enterprise and ICT services through its carrier Ethernet network ("**CEN**"). Carrier ethernet service is a global standard for secure, scalable, resilient, cost effective, and high bandwidth point-to-point or multi-point connectivity using the simple and ubiquitous Ethernet technology delivered through PLDT's MEF-certified CEN. PLDT's CEN is based on Metro Ethernet Forum ("**MEF**") 2.0, the latest standardized, carrier-class service and network. This highly reliable and resilient system provides high capacity and high-speed VPN services for all corporate customers. It supports enterprise requirements such as data storage, headquarter to branch connectivity, headquarter to disaster recovery site connectivity, cloud services and backhaul for mobile/LTE services. PLDT also uses the "Software Defined Wide Area Network", to deliver such enterprise services across different service providers and over the internet in a secured manner.

We likewise have an IP backbone network ("**IPBB**"), composed of high-capacity, high-performance core and edge routers, with capacities of up to 100Gbps per port in key exchanges that provide IP connectivity to the different network elements built for PLDT, Smart and other subsidiaries and affiliates. It serves as a common and highly resilient IP transport platform for all of our IP-based services. This year, the IPBB underwent a transformation project called the "Transport Network Transformation Project" ("**TNT Project**"), which significantly increased the network's capacity and upgraded its routing technology to the latest technology, including segment routing and software defined network ("**SDN**") technology.

All our networks are connected nationwide through PLDT's nationwide fiber backbone called the "Domestic Fiber Optic Network" ("**DFON**"). DFON is comprised of transport nodes connected by terrestrial and submarine cable links configured in 11 loops and two appendages extending to Palawan and Iligan. The DFON loops provide self-healing and alternative segment route protection for added resiliency against single and multiple fiber breaks along the different segments. The DFON utilizes dense wavelength division multiplexing technology, which has a 100/200 Gbps capacity per channel, giving it greater flexibility for capacity and expansion. The DFON has a capacity of 19.2 Tbps per fiber pair. The DFON network also connects three of PLDT's international cable landing stations. Following the implementation of the TNT Project, the DFON network gained added resiliency and network reliability as we implemented an automatic fail capability into the DFON network to automatically transfer traffic to other redundancy links in the event the DFON experiences downtime. The DFON is complemented by a terrestrial microwave backbone network to deliver services to remote areas unreachable by the fixed terrestrial transport network.

Both the DFON and IPBB serve as the common high bandwidth fiber optic cable-based backbone for the PLDT Group. DFON is part of the 338,500 total fiber kilometers of the PLDT Group, as at March 31, 2020. These networks are supported by SDN technology, which simplifies and automates network provisioning and operations.

International

PLDT's international network was designed and built to support IP-based international services, including voice, messaging, international enterprise solutions, and the biggest use of international network resources today, the Internet services of the PLDT Group. The international network also supports in part requirements of the international retail business run by PGC in various locations in Asia, Europe and the United States.

For voice services, PLDT operates two IP voice gateways. As at March 31, 2020, PLDT's facilities allow the exchange of traffic with 72 foreign carriers from 39 countries and can reach almost a thousand foreign destinations (including fixed and wireless network destination "breakouts", or specific areas within a country) worldwide.

As at March 31, 2020, the Company has five international internet gateways to fortify PLDT Group's infrastructure for internet and IP-based services, as well as connections of our fixed and wireless networks to content and internet services available from, and businesses connected to, the global internet. All these gateways employ high capacity, high performance routers, and together with ancillary facilities (such as security against network/service attacks), they provide premium and differentiated internet and/or IP services to all types of customers ranging from ordinary broadband to high bandwidth internet requirements of corporate customers, knowledge processing solution providers, internet service providers ("**ISPs**") and even other service providers. As at March 31, 2020, PLDT also operates three offshore/forward gateway routers in Hong Kong, Singapore and the United States to support optimized and direct access to content providers and businesses connected to the internet in Asia as well as the continental U.S which we expect to result in faster internet speed. Offshore gateway routers in Hong Kong and Los Angeles were replaced in the second quarter of 2018 to support 100 Gbps high capacity interface bandwidth and equipped with security module to help prevent cyberattacks originating through such gateways.

To localize international internet content, PLDT employs local transparent caching network, additional content provider partnering and continuous capacity expansion with various popular internet content providers. High demand contents from popular content and content delivery network providers are available locally and are delivered to PLDT customers.

PLDT operates the Philippines' most extensive international submarine cable network. As at March 31, 2020, PLDT maintains and operates three international cable landing stations in La Union and Batangas for international cables coming from the West Philippine Sea, and in Daet in the east for international cables coming from the Pacific Ocean. These international cable stations are connected by an advance terrestrial fiber mesh network (north, south and east Luzon systems) to our three international transmission maintenance centers, including direct cable station to cable station interconnection.

Connecting the country to the rest of the world via PLDT's international cable stations are submarine cable systems in which PLDT had invested in and/or acquired capacities. The table below shows submarine cable systems, in which PLDT has interests, that terminate in the Philippines or connect onward to other submarine cable systems from the Philippines, and the countries or territories they link:

Cable System	**Countries Being Linked**
Asia-Pacific Cable Network 2, or APCN2	Philippines, Hong Kong, Japan, Korea, Malaysia, Singapore, China and Taiwan
Southeast Asia-Middle East-Western Europe No. 3 Cable, or SEA-ME-WE-3	Japan, Korea, China, Taiwan, Hong Kong, Macau, Philippines, Vietnam, Brunei, Malaysia, Singapore, Indonesia, Australia, Thailand, Myanmar, Sri Lanka, India, Pakistan, United Arab Emirates, Oman, Djibouti, Saudi Arabia, Egypt, Cyprus, Turkey, Greece, Italy, Morocco, Portugal, France, UK, Belgium and Germany
Fiber-optic Loop Around the Globe, or FLAG, Cable	Japan, Korea, China, Hong Kong, Malaysia, Thailand, India, United Arab Emirates, Saudi Arabia, Egypt, Italy, Spain and UK
Southern Cross Cable	U.S. Mainland, Hawaii, Fiji, Australia and New Zealand
East Asia Crossing, or EAC Cable	Japan, Hong Kong, Korea, Taiwan, Singapore and the Philippines

Cable System	Countries Being Linked
Pacific Crossing-1, or PC1, Japan-U.S. Cable Network (JUCN), TGN-Pacific, Unity, FASTER	Japan and the U.S.
Asia-America Gateway, or AAG, Cable Network	Malaysia, Singapore, Thailand, Vietnam, Brunei, Hong Kong, Philippines, Guam, Hawaii and the U.S. Mainland
Asia Submarine-cable Express, or ASE	Philippines, Japan, Singapore, Malaysia and Hong Kong
TGN-Intra Asia	Hong Kong and Japan
Asia Africa Europe-1, or AAE-1 Cable	Hong Kong, Vietnam, Cambodia, Thailand, Malaysia, Singapore, Myanmar, India, Pakistan, Oman, UAE, Qatar, Yemen, Djibouti, Saudi Arabia, Egypt, Greece, Italy and France

PLDT continues to work with major Asian carriers and OTT players for the implementation of the new Jupiter cable system to support the expected new fixed and mobile services requirements in 2020. Jupiter is expected to be ready for service by the fourth quarter of 2020. Furthermore, PLDT signed MOUs with strategic partners for the planning of two new regional cable systems.

PLDT's international automatic optical transport switching system continues to provide effective redundancy and continuity of service to Hong Kong, Japan, Singapore and the U.S. Mainland for premium enterprise clients. Additional dedicated submarine cable circuits were provisioned, and capacity of nodes upgraded, to support the growing business requirements.

The ADC Consortium, to which the PLDT is party, is in the process of constructing a 9,400 kilometer long high-performance submarine cable line connecting six major countries in East Asia and Southeast Asia. Construction began in February 2020 and is expected to be completed in the fourth quarter of 2022. The cable is expected to feature multiple pairs of high capacity optical fibers and is designed to carry more than 140 Tbps of traffic, enabling high capacity transmission of data across the East Asia and Southeast Asia regions.

PLDT also supports voice and data services, offered mainly to overseas Filipinos in various parts of the world, through the "Telco-In-A-Box" platform. This platform provides convergent charging, self-care, dealer portal, voucher management, call control, campaign and loyalty capabilities, and facilitates the time to market for new international mainstream products and new digital products.

Interconnection Agreements

Since the issuance of Executive Order, or E.O., No. 59 in 1993, which requires non-discriminatory interconnection of Philippine carriers' networks, we have entered into bilateral interconnection arrangements with other Philippine fixed line and mobile carriers.

As at December 31, 2019, PLDT has direct interconnection agreements with 94 foreign carriers from 44 countries. The average international termination rate for calls to PLDT was U.S.$0.084 per minute in 2019. Also, PLDT carries international calls terminating at Smart and Sun networks where they have no direct interconnections.

Through NTC MC 05-07-2018, the NTC has mandated the reduction of the interconnection access charge for SMS services from ₱0.15 per SMS to ₱0.05 per SMS and the voice service from ₱2.50 per minute to ₱0.50 per minute, effective August 24, 2018.

However, public telecommunications entities ("**PTEs**"), have bilaterally agreed to implement the revised interconnection access charge effective September 1, 2018, to align with the existing billing and settlement systems cut-off date cycle, which is at the end of the month.

COMPETITION

Including us, there are five major local exchange carriers, eight major international gateway facility providers and two major mobile operators in the Philippines. Some new entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support as well as service innovations and marketing strategies.

Mobile Service

Currently, there are only two major mobile operators, namely us and Globe. We believe that, as at December 31, 2019, the mobile penetration rate in the Philippines is approximately 159%, based on the number of SIM cards issued.

Competition in the mobile telecommunications industry has intensified with greater availability of unlimited offers from the telecommunications operators resulting in increased volumes of data usage, calls and texts but declining yields. Globe continues to compete aggressively to gain revenue market share, with particular focus on the regional and local levels. Competition has also increased in the postpaid space with more aggressive promotions involving greater handset subsidies. The principal bases of competition are price, including handset prices in the case of postpaid plans, quality of service, network reliability, geographic coverage and attractiveness of packaged services, including video content.

In recent years, the prevalence of OTT services, such as social media, instant messaging and internet telephone, also known as VoIP services, has greatly affected our legacy revenues namely voice and SMS. We are also facing growing competition from providers offering services using alternative wireless technologies and IP-based networks, including efforts by the Philippine Government to roll-out its free WiFi services to various municipalities in the country.

In November 2018, the Philippine government, through the DICT, declared the NMP Consortium as the third telecom player. The NMP Consortium indicated that they had reached an agreement with Dito (previously called Mislatel) for the use of Dito's telecommunications franchise. On July 8, 2019, Dito was granted its permit to operate after President Rodrigo Duterte awarded them their CPCN. In October 2019, Dito entered into agreements with Sky Cable and LCS Group. Under the agreement with LCS Group, Dito will lease the telecommunications towers that the LCS Group is building across different regions in the Philippines.

Voice

Local Exchange

Although the growth of the fixed line voice market has been impacted by higher demand for mobile services, we believe we have sustained our leading position in the fixed line market on account of PLDT's extensive network in key cities nationwide. In most areas, we face only one or two competitors. Our principal competitor in the local exchange market, Globe, provides local exchange service through both fixed and fixed wireless landline services.

Fixed wireless landline services resemble a mobile phone service but provide the same tariff structure as a fixed line service such as the charging of monthly service fees. Our major competitor, Globe, offers services in limited areas of Metro Manila such as Makati, Las Piñas, the Visayas region and selected areas of Southern Luzon such as Cavite and Batangas.

International

While we believe we have maintained a leadership position in this highly competitive service segment of the industry, our market share in recent years has declined as a result of: (i) competition from other IGF operators; (ii) the popularity of alternative and cheaper modes of communication such as e-mail, instant messaging, social-networking (such as Facebook, Twitter and Instagram), including "free services" over the internet (such as Skype, Viber, Line, Facebook Messenger, GoogleTalk, Zoom and WhatsApp, and similar services); and (iii) the establishment of VPNs for several corporate entities, which have further heightened competition.

With respect to outbound calls from the Philippines, we compete for market share through our local exchange and mobile businesses, which are the origination points of outbound international calls. We also have introduced a number of marketing initiatives to stimulate growth of outbound call volumes, including tariff reductions and volume discounts for large corporate subscribers.

The number of inbound calls into the Philippines has been negatively impacted by the popularity of OTT services due to improved internet access and increased smartphone adoption as a result of intense local competition. We have been pursuing a number of initiatives to mitigate the decline in our inbound telecommunications traffic, including special bilateral arrangements with key partners, marketing and promotions to call Philippines, interconnecting with OTT providers like Skype and Viber in order to directly capture their organic traffic to the Philippines and continuously identifying and limiting unauthorized traffic termination. In addition, we have also established presence, through our wholly owned subsidiary PGC, in key cities overseas to identify and capture Philippine terminating traffic at its source, and develop alternative sources of revenue (e.g., digital consumer solutions, carrier voice, messaging and data services).

Domestic

Our domestic service business has been negatively affected by the growing number of mobile subscribers in the Philippines, and the widespread availability and growing popularity of alternative economical to free non-voice methods of communication, particularly OTT services, e-mail and social media, coupled with the mandate of the Government regulatory body. In addition, various ISPs have launched voice services via the internet to their subscribers nationwide.

Data Services

The market for data services is the fastest growing segment in the Philippine telecommunications industry. This development has been spurred by the significant growth in consumer and retail broadband internet access, enterprise resource planning applications, customer relationship management, knowledge processing solutions, online gaming and other e-services that drive the need for broadband and internet-protocol based solutions both in the Philippines and abroad. Our major competitors in this area are Globe, Converge ICT Solutions, Inc. and Sky Cable. The principal bases of competition in the data services market are coverage, price, content, value for money, bundles or free gifts, customer service and quality of service. PLDT intends to compete in this segment, consistent with its overall strategy to maintain network leadership, broaden its distribution platform and increase its ability to deliver multimedia content.

INTELLECTUAL PROPERTY RIGHTS

We do not own any material intellectual property rights apart from our brand names and logos. We are not dependent on patents, licenses or other intellectual property which are material to our business or results of operations, other than licenses to use the software that accompany most of our equipment purchases and licenses for certain contents used in value-added services of our wireless business.

PROPERTIES

As at March 31, 2020, PLDT owns three office buildings located in Makati City and owns and operates 289 fixed line exchanges nationwide, of which 48 are located in Metro Manila, including Digitel's three exchanges. The remaining 241 exchanges, including Digitel's 32 exchanges, are located in cities and small municipalities outside the Metro Manila. We also own radio transmitting and receiving equipment used for international and domestic communications.

As at March 31, 2020, our principal properties, excluding property under construction, consisted of the following, based on net book values:

- 74% consisted of cable, wire and mobile facilities, including our DFON, subscriber cable facilities, inter-office trunking and toll cable facilities and mobile facilities;

- 11% consisted of central office equipment, including IGFs, pure national toll exchanges and combined local and toll exchanges;

- 6% consisted of information origination and termination equipment, including pay telephones and radio equipment installed for customers use, and cables and wires installed within customers' premises;

- 5% consisted of land and improvements and buildings and improvements, which we acquired to house our telecommunications equipment, personnel, inventory and/or fleet; and

- 4% consisted of other work equipment.

The majority of our connecting lines are above or under public streets and properties owned by others. For example, for many years, we have been using the power pole network of Manila Electric Company ("**Meralco**") in Metro Manila for PLDT's fixed line aerial cables in this area pursuant to short-term lease agreements with Meralco with typically five-year and more recently one-year terms.

We have various lease contracts for periods ranging from one to thirty years covering certain offices, warehouses, cell sites, telecommunications equipment locations and various office equipment.

CORPORATE SOCIAL RESPONSIBILITY

Our corporate social responsibility ("**CSR**") programs are anchored on improving the quality of education in the country, strengthening disaster resilience and preparedness, and promoting sustainability. Our CSR programs aim to strengthen our relationships with grassroots communities and Government agencies. We believe that through our initiatives, we fortify nation-building and provide countless opportunities to Filipinos nationwide.

In 2019, we established the PLDT Sustainability Office and tasked it to develop our business operations and CSR activities in ways that would help create a sustainable future for us and the country. We have rolled out several programs such as carbon offsetting initiatives through reforestation, mangroves conservation, marine protection and peatlands protection. These activities are in partnership with the University of the Philippines Marine Environment and Resources Foundation and the Marine Science Institute of the Philippines. Our objective is to support efforts to rehabilitate 24 marine protected areas in different parts of the country by helping local communities to manage the coastal and marine environment in their areas. We believe that our sustainability program is thus providing a larger framework for our long-running CSR programs in the fields of education, environmental protection, disaster preparedness, livelihood and sports development.

EMPLOYEES AND LABOR RELATIONS

As at March 31, 2020, we had 18,384 employees, with 12,504 and 5,880 employees in our fixed line and wireless businesses, respectively. PLDT had 10,723 employees as at March 31, 2020, of which 40% were rank and file employees, 54% were management/supervisory staff and 6% were executives.

PLDT has three employee unions, representing in the aggregate 9,152, or 50% of the employees of the PLDT Group. PLDT considers its relationship with our rank-and-file employees' union, our supervisors' union and our sales supervisors' union to be good.

LEGAL PROCEEDINGS

We are party to legal proceedings from time to time, including those set out below. See Note 27 to the unaudited interim consolidated financial statements and the audited consolidated financial statements for more information.

DOLE Compliance Order Issued Against PLDT

In a series of orders, including a compliance order issued by the DOLE in 2018, PLDT was ordered to regularize 7,344 workers from 38 of PLDT's third party service contractors. PLDT questioned these regularization orders before the CA. The CA partially ruled in favor of PLDT by holding that the following services can be validly outsourced: (i) janitorial, messengerial, clerical; (ii) IT support and application development; (iii) back office support and BPOs; and (iv) sales, and other professional services. This ruling considerably reduced by at least half, the number of workers of service contractors required to be regularized. PLDT filed a petition for review with the Supreme Court because the CA ordered the regularization of individuals performing installation, repair, and maintenance functions on the basis that they are usually necessary and desirable to the usual course of PLDT's business. The petition remains pending with the Supreme Court.

Petition against the PCC

In July 2016, PLDT filed before the CA a petition for certiorari and prohibition (with urgent application for a temporary restraining order and/or writ of preliminary injunction) 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 San Miguel Corporation ("**SMC**"), and performing any act which challenges or assails the "deemed approved" status of the said transactions. In August 2016, the CA issued a writ of preliminary injunction enjoining the PCC to cease and desist from conducting further proceedings for the pre-acquisition review and/or investigation of the SMC Transactions. In April 2017, the PCC filed before the Supreme Court a petition to annul the writ of preliminary injunction issued by the CA. The petition remains pending with the Supreme Court.

Attys. Baquiran and Tecson vs. NTC, et al.

In October 2018, a petition for mandamus was filed against the NTC, the PCC, Liberty Telecoms Holdings, Inc. (also known as Tori Spectrum Telecom, Inc.), Bell Telecommunication, Inc., Globe, PLDT and Smart. This involves the 700 MHz frequency, among others, that was originally assigned to Liberty and which eventually became subject of a co-use agreement between Globe, PLDT and Smart. The petition remains pending with the Supreme Court.

LICENSES AND REGULATIONS

Licenses

The table below shows the expiry dates of franchises for each company indicated:

Company	Expiry Date of Franchises
PLDT	November 28, 2028
Clarktel	June 30, 2024
Smart	May 19, 2042
SBI	November 11, 2022
DMPI	April 1, 2028
CURE[(1)]	May 26, 2026

Note:

(1) In the case of CURE, PLDT has agreed to divest the CURE spectrum as a part of the NTC decision with respect to PLDT's acquisition of a controlling interest in Digitel.

A franchise holder is required to obtain operating authority from the NTC to provide specific telecommunications services authorized under its franchise. These approvals may take the form of a CPCN, or, while an application for a CPCN is pending, a provisional authority to operate. Provisional authorities are typically granted for a period of 18 months. The Philippine Revised Administrative Code of 1987 and the Ease of Doing Business and Efficient Government Service Delivery Act of 2018 provide that if the grantee of a license or permit, such as a CPCN or provisional authority, has made timely and sufficient application for the extension thereof, the existing CPCN or provisional authority will not expire until the application is finally decided upon by the administrative agency concerned.

The following table sets forth the frequency bands of our LTE, broadband wireless access, code-division multiple access, GSM, 3G, HSPA and 5G networks held and used by our wireless service subsidiaries:

Assignees	Service/Technology	Bands (in MHz)	Bandwidth Assignment
Smart	3G-WCDMA	850	10 MHz x 2
	GSM 900	900	7.5 MHz x 2
	GSM 1800	1800	20 MHz x 2
	3G-WCDMA	2100	15 MHz x 2
DMPI	CDMA 2000	1900	2 channels of 1.25 MHz of bandwidth
	3G-WCDMA	2100	10 MHz x 2
	TD-LTE	2500	15 MHz
	TD-LTE	3400	30 MHz
	GSM 1800	1800	17.5 MHz x 2
SBI	TD-LTE	2500	20 MHz
	TD-LTE	3400	30 MHz
PDSI	TD-LTE	2300	30 MHz

On May 27, 2016, the NTC approved the frequency co-use arrangement between Smart and Globe of various frequencies under LTE 700, GSM/3G 900, GSM/LTE 1800, BWA/LTE 2300, and LTE 2500 assigned to Bell Telecommunications Philippines, Inc.

As a condition of our acquisition of a controlling interest in Digitel, we have agreed with the NTC that we will divest the congressional franchise, spectrum and related permits held by CURE following the migration of CURE's *Red Mobile* subscriber base to Smart.

REGULATION OF OUR BUSINESS

Operators of IGFs and mobile telephone operators, pursuant to E.O. No. 109, are required to install a minimum number of local exchange lines. Of these new lines, operators are required to install at least one rural exchange line for every ten urban exchange lines installed. Smart and PCEV were required to install 700,000 and 400,000 rural lines, respectively, and each received a certificate of compliance from the NTC in 1999.

PLDT, ClarkTel, Smart, DMPI and SBI are required to pay various permit, regulatory and supervision fees to the NTC. PLDT was previously engaged in disputes with the NTC over certain assessed fees.

The Philippine Congress has passed laws and the Philippine Government and certain Government agencies have issued a number of directives that regulate the manner in which we conduct our business, including:

- Republic Act No. 9775, or the Anti-Child Pornography Act of 2009, and its implementing rules and regulations, provide, among others, that ISPs shall: (a) notify the Philippine National Police or the National Bureau of Investigation within seven days from obtaining facts and circumstances that any form of child pornography is being committed using its server or facility and preserve such evidence for purposes of investigation and prosecution by relevant authorities; and (b) install available technology, programs or software to ensure that access to or transmittal of any form of child pornography will be blocked or filtered. PLDT and Smart, together with other ISPs, are currently in discussion with the Department of Justice, NTC and other stakeholders on how to implement the conflicting provision in the law which requires mandatory filtering of child pornography by the ISPs while also prohibiting the ISPs from monitoring any of its users or content.

- On July 23, 2009, the NTC issued Memorandum Circular No. 5-07-2009 which amended the mode of billing from per minute to per pulse such that the maximum unit of billing shall be 6 seconds per pulse. The NTC ruled that SMART violated the Memo Circular by not implementing pulse billing as its default billing scheme. On appeal, the CA partially ruled in favor of SMART but ruled that the NTC has the power to regulate rates under all circumstances. This has been questioned by SMART on the ground that the NTC's residual power to regulate rates may be exercised only when ruinous competition results, when monopoly, cartel, or combination in restraint of free competition exists, or when rates are distorted or unable to function freely and the public is adversely affected. The case is currently pending in the Supreme Court, following a partial appeal by SMART.

- On July 15, 2011, the NTC issued Memorandum Order No. 07-07-2011 requiring broadband service providers to specify the minimum broadband/internet connection speed and service reliability and service rates in their offers to customers in their advertisements, flyers, brochures, service agreements and service level agreements. The memorandum order prescribed a formula for computing service reliability and set the minimum service reliability at 80%. On August 13, 2015, the NTC issued Memorandum Circular No. 07-08-2015, which set out the rules on the measurement of fixed broadband/internet access service, including the guidelines for testing of broadband/internet speed. The memorandum circular also set the minimum broadband speed to 256 kbps and provides additional guidelines on information that are required to be disclosed to customers of broadband providers or ISPs. On December 13, 2016, the NTC issued Memorandum Order No. 10-12-2016, which set out the rules on the measurement of mobile broadband/internet access service, including the guidelines for testing of mobile broadband/internet speed.

- On October 27, 2017, the NTC issued Memorandum Order No. 10-10-2017, which relates to the migration of all existing seven-digit telephone numbers to eight-digit telephone numbers for local telephone service within the "02" local exchange area. Under the memorandum order, PTEs were required to conduct a media campaign three months prior to the start of migration and, for a period of three months after the migration, to advise their customers through recorded announcements on the use of the new exchange codes and PTE identifiers. On October 6, 2019, the migration was fully implemented.

- On December 20, 2017, NTC, DICT and Department of Trade and Industry ("**DTI**"), issued the Joint Memorandum Circular No. 05-12-2017, extending the validity of all prepaid load to one year from the date of the latest top-up. Prepaid loads purchased for promos and bucket of services with a specific period of use duly approved by the DTI and/or NTC are excluded from the mandatory one-year validity period.

- On May 25, 2018, President Rodrigo Duterte issued Executive Order No. 56, which institutionalized the Emergency 911 Hotline as the nationwide emergency answering point and replaced Patrol 117. The executive order provides, among others, that all calls made to the Emergency 911 Hotline shall be free of any charges. PLDT and Smart have complied with the executive order and, accordingly, PLDT and Smart subscribers can now call the Emergency 911 Hotline for free.

- On August 15, 2018, the National Electrification Administration, or NEA, through Memorandum No. 2018-055, set the standard pole rental rate of electric cooperatives at ₱420 per cable position per pole per annum. The memorandum also prescribed a standard joint pole agreement, whereby any change or addition thereto are required to be fair to both parties and should eventually benefit the member-consumer-owners of the relevant electric cooperative.

- On December 14, 2018, the DICT issued Memorandum Order No. 04, series of 2018, which directed (a) PTEs and/or wireless service providers who offer customers mobile phones and devices, free of charge or at a subsidized cost, in exchange for an agreed fixed lock-in period to provide their customers convenient sites, facilities and processes to unlock the mobile phones and devices of customers who wish to change between compatible wireless service providers, provided that such customers have completed the applicable lock-in periods and have no outstanding obligations under their subscription agreement and (b) the NTC to issue rules and regulations to implement the provisions of the order. Pursuant to such authority, on May 31, 2019, the NTC issued Memorandum Circular No 01-05-2019, which set out the rules and regulations for the unlocking of mobile phones and devices of users after the applicable lock-in period and provided that (i) in the case of a postpaid customer, such customer has complied with the terms and conditions of the subscription agreement and (ii) in the case of a prepaid customer, such customer has complied with usage requirements or the agreed terms and conditions.

- On May 24, 2019, the DICT issued the rules on the accelerated roll-out of common towers to ensure more access to cost-efficient information and communications technology infrastructure and enable the building or converting of at least 2,500 common towers in (a) identified DICT-owned properties; (b) other Government agencies' properties; and (c) hard-to-access areas identified by telecommunication operators. The rules provide, among others, that: (i) MNOs which voluntarily offer to share its existing towers shall be permitted to build passive infrastructure in Government properties under such terms as may be permitted by law and, for such purpose, each existing tower to be voluntarily shared by an MNO shall entitle such MNO to select an available Government property where it would place a common tower built by them or by its selected independent tower company ("**ITC**"), which must not be a related party of an MNO; (ii) an ITC shall be required to lease its telecommunications towers, including its associate maintenance services, to all access seekers for a specified lease term to be mutually agreed between the ITC and the telecommunications operator; and (iii) telecommunications towers built after the issuance of the rules shall be subject to the following terms: (1) no new telecommunication tower shall be built or constructed within a proximity radius of 150 meters from an existing/planned telecommunication common tower in an urban area, except in high-density areas like Makati, Ortigas and Bonifacio Global City, or 1,000 meters of an existing/planner telecommunication common tower in a rural area, (2) when presently existing towers built by MNOs and those built by the ITC can no longer accommodate additional equipment and there is demand for additional capacity, (3) new technologies, such as 5G, require telecommunications structures to be within a proximity radius of less than 150 meters or 1,000 meters of each other, and (4) the proximity rule shall not be applied to special telecommunication structures such as street lamps, electric poles, small cell sites, cell sites on wheels and camouflaged towers.

On May 29, 2020, the DICT issued Department Circular No. 008, which provides for the policy guidelines on the co-location and sharing of passive telecommunication tower infrastructure ("**PTTIs**") for macro cell sites. The establishment of the policy is intended to, among others, ensure universal access to quality, affordable, reliable and secure ICT services; promote the development and widespread use of emerging ICT; foster and accelerate the convergence of ICT facilities; establish a domestic internet exchange system to facilitate strategic access for the Government and the general public; allow the shared use of passive ICT infrastructure as a component of the Philippine Government's Free Public Internet Access Program ("**FPIAP**") in order to provide free internet access in public places throughout the country; and establish, operate and maintain ICT infrastructures in unserved and underserved areas. The department circular expressly declares that no ITC or MNO shall, directly or indirectly, engage in any predatory or anti-competitive act, practice or transaction in relation to the construction, management, operation or maintenance of PTTIs. Further, the department circular provides, among others, that: (a) except for MNOs with legislative franchises and CPCNs, no entity shall own, construct, manage or operate PTTIs in the Philippines unless otherwise granted an ITC Certificate of Registration; (b) all PTTIs built, improved, renovated, retrofitted, upgraded or updated after the effectivity of the department circular shall provide ample access slots for all MNOs and the DICT to co-locate, mount or install their respective antennas, transmitters, receivers, radio frequency modules, radio-communication systems, and other similar active ICT equipment, units and implements, for the rendition of their respective telecommunications and ICT services; (c) all private sector agreements for co-locating in shared PTTIs shall comply with the requirements under the department circular and all private sector MNOs shall be offered the same or reasonably equivalent terms, conditions, fees and charges for co-locating or sharing in the same PTTI; (d) charges and fees imposed by the PTTI owners or operators shall be periodically monitored by DICT; (e) all installations made after the effectivity of the department circular, of private sector antennas, transmitted, receivers, radio frequency modules, radio-communications systems and other ICT equipment, units and implements for macro cell sites, as well as all improvements, renovations, upgrades or updates thereof, shall be co-located in shared PTTIs, except as may be allowed by the DICT upon clear showing of meritorious grounds which are not contrary to departmental policies; (f) all telecommunications electronic equipment shall be covered by the appropriate type-approval or other permit documents as may be required by the NTC, and duly registered with the DICT, prior to being mounted or installed on PTTIs; (g) in order to meet the existing and future demands for connectivity and quality of service in the Philippines, co-location of PTTIs in the same or nearby sites, locations or areas may be permitted by the DICT if in line with the directives of the department circular; (h) the establishment and maintenance by the DITC of a registry of all PTTIs owned, constructed, managed or operated by MNOs and ITCs; and (i) all PTTI owners or operators shall utilize and confirm to a uniform financial reporting system in accordance with PFRS, the Philippine Accounting Standards, and other applicable accounting laws, and rules and regulations. Shared PTTIs have also been declared as critical components for establishing connectivity, resilience and reliability in the implementation of the FPIAP across the Philippines and, accordingly, in utilizing shared PTTIs, the DICT may (i) partner with NTC-registered private sector service providers for the delivery of internet connectivity for a reasonable fee, which connectivity, as a value-added service, may be acquired and utilized by the latter directly from satellites and other emerging technologies, (ii) undertake the creation, establishment, installation, maintenance and operation of infrastructure, equipment, systems, platforms, applications and such other FPIAP requirements necessary to effectively provide free internet access in public places throughout the country. Further, whenever deemed necessary and desirable in the public interest, the DICT may participate in the use of shared PTTIs for the effective implementation of its mandate. Accordingly, each shared PTTI shall, in addition to the slots for the MNOs, have an access slot with ample capacity and availability upon which the DICT may install its antennas, transmitters, receivers, radio frequency modules, radio-communications systems and other similar active ICT equipment, units and implements for the ICT backbone and other communications network of the Government.

- On July 17, 2019, the Civil Service Commission, or CSC, Anti-Red Tap Authority ("**ARTA**"), and DTI issued Joint Memorandum Circular No. 2019-001, series of 2019, or the implementing rules and regulations of Republic Act No. 11032, otherwise known as the "Ease of Doing Business and Efficient Government Service Delivery Act of 2018". Pursuant to the law, the memorandum circular directed all agencies which provide Government service to undertake compliance cost analysis, conduct time and motion studies, undergo evaluation and improvement of all their Government services, and reengineer the same, if deemed necessary, to reduce bureaucratic red tape and processing time, and to promote efficiency and simplicity of process. While the issuance of the implementing rules and regulations is a positive development for PLDT's business, the implementing rules and regulations have yet to be fully implemented. Local government units ("**LGUs**") still require outdated, redundant, and unnecessary licenses, clearances, permits, and continue to impose tower fees and other regulatory fees without legal basis. Outdated, redundant, and unnecessary permits issued by LGUs continue to negatively impact PLDT and Smart's rollout of telecommunications infrastructure. While ARTA is mandated under Republic Act No. 11032 to review and recommend the repeal of outdated, redundant and unnecessary licenses, clearances, permits, certifications or authorizations being required by national government agencies and LGUs within three months from the effectivity of the implementing rules and regulations, this has yet to be fully realized in practice.

- On July 29, 2019, the Department of Interior and Local Government, issued Memorandum Circular No. 2019-121, enjoining local officials to exercise their powers to reclaim and clear public roads which are being used for private purposes. As a consequence, many PLDT poles, including cables and cabinets, were required to be removed or relocated and are currently being removed or relocated.

- On March 10, 2020, the House of Representatives approved House Bill No. 78, entitled "An Act Providing for the Definition of Public Utility, Further Amending for the Purpose Commonwealth Act No. 146", otherwise known as the "Public Service Act", as amended. If enacted into law, the Public Service Act would remove telephone and wire or wireless telegraph system from definition of public utility, thus, taking telephone and wire or wireless telegraph systems from the nationality restrictions provided in the Philippine Constitution. However, House Bill No. 78 retained the requirement for entities operating a public service in the Philippines to obtain some form of authority. The amendment clarified that such entity must possess a valid and subsisting franchise, certificate, or any other appropriate form of authorization for the operation of a public service. This replaces the requirement to obtain a certificate of public convenience or certificate of public convenience and necessity from the Public Service Commission.

In order to diversify the ownership base of public utilities, Republic Act No. 7925, otherwise known as the "Public Telecommunications Policy of the Philippines", requires a telecommunications entity with regulated types of services to make a *bona fide* public offering through the stock exchange of its shares representing at least 30% of its aggregate common shares within five years from: (a) the date the law became effective; or (b) the entity's commencement of commercial operations, whichever date is later. PLDT and PCEV have complied with this requirement. On May 19, 2017, Republic Act No. 10926 took effect which extended the legislative franchise of Smart. The law contains a provision which exempts Smart from the requirement of listing of shares if a grantee is wholly owned by a publicly listed company with at least 30% of whose authorized capital stock is publicly-owned.

If DMPI is found to be in violation of the public offering requirement under Republic Act No. 7925 and DMPI's legislative franchise, Republic Act No. 9180, this could result in the revocation of the franchise of DMPI and possible filing of a *quo warranto* case against DMPI by the Office of the Solicitor General of the Philippines. DMPI takes the position that the public offering requirement under Republic Act No. 7925 and Republic Act No. 9180 is merely directory and the policy underlying the requirement of telecommunications entities to conduct a public offering should be deemed to have been achieved when in 2011, PLDT acquired its parent company DTPI, which in turn owns 100% equity interest in DMPI in 2011, since PLDT continues to be a publicly listed company. This can further be asserted with the inclusion of the aforementioned provision in Republic Act No. 10926 or the extension of the Smart franchise, applying the equality of treatment provision in Republic Act No. 7925. However, there can be no assurance that for DMPI, the Philippine Congress will agree with such position.

See "*Risk Factors — Risks Relating to Us — Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes, and laws relating to anti-competitive practices and monopoly*" for further discussion.

REGULATORY TARIFFS

Interconnect access charges are paid by one carrier to another for calls originating from a carrier's network and terminating to another carrier's network. Commencing in January 2009, the access charge for domestic calls from one fixed line to another fixed line in another network is ₱3.00 per minute while the access charge for calls from a fixed line to a cellular mobile telephone system ("**CMTS**") is ₱4.00 per minute.

Interconnect transit charges on the other hand is paid for the service provided by PLDT in connecting calls from one carrier to another or other carriers most of which have no direct interconnection agreement between and/or with each other. As an inter-exchange carrier, PLDT is providing transit service among CMTS and local exchange carrier operators including Philippine Association of Private Telecommunications Companies, Inc. ("**PAPTELCO**") and non-PAPTELCO members. From January 2009 to August 2018, PLDT's transit fee was ₱0.50 per minute for short haul (intra-island), ₱1.25 per minute for long-haul (inter-island) and ₱1.14 per minute for CMTS calls. However, pursuant to NTC Memorandum Circular No. 05-07-2018, effective on September 1, 2018, PLDT's transit fee for all calls is uniformly set at ₱0.50 per minute.

PLDT has continually and actively negotiated with other legitimate Philippine fixed and CMTS carriers for interconnection based on the guidelines issued by the NTC or any authorized Government agency. These carriers include the major fixed and mobile players in the industry with nationwide operations, as well as PAPTELCO and non-PAPTELCO members which usually operate in locally in selected towns in the countryside. As at December 31, 2019, PAPTELCO has 33 member companies, of which 30 are active, operating 73 main telephone exchanges in the countryside.

On October 24, 2011, the NTC issued Memorandum Circular No. 02-10-2011, entitled Interconnection Charge for SMS, mandating that interconnection charge for SMS between two separate networks shall not be higher than ₱1.50 per SMS. The memorandum circular likewise required (a) parties to the interconnection to (i) provide interconnection links or circuits required to carry their respective SMS traffic and interconnection links and facilities with sufficient capacity in a timely manner and (ii) ensure that termination equipment is sufficient to connect the interconnection links or circuits to their respective networks; and (b) SMS network providers to ensure that facilities are sufficient to guarantee that 99% of short messages or texts sent are received by the relevant addressee within 30 seconds from the time the texts are sent. Further, it directed PTEs to amend their existing interconnection agreement to comply with the memorandum circular within 10 days from the effectivity thereof. The NTC required the implementation of the new interconnection charge for SMS not later than 20 days from the effectivity of the memorandum circular. The implementation of this memorandum circular has resulted in an administrative case that the NTC filed against the CMTS providers, including Smart and DMPI. NTC is of the position that the CMTS operators should have reduced retail rates and having failed to do so, should refund subscribers for the difference. The CA ruled in favor of Smart and other CMTS providers. The case is pending before the Supreme Court based on appeals filed by the NTC and Bayan Muna, a political party in the Philippines.

On November 24, 2016, the NTC issued Memorandum Circular No. 09-11-2016, entitled Interconnection Charge for Voice Services, mandating that interconnection charge for voice calls between two separate networks shall not be higher than ₱2.50 per minute. The memorandum circular likewise required (a) parties to the interconnection to (i) provide interconnection links or circuits required to carry their respective voice traffic and interconnection links and facilities with sufficient capacity in a timely manner and (ii) ensure that termination equipment is sufficient to connect the interconnection links or circuits to their respective networks; and (b) cellular mobile telephone network providers and fixed and fixed wireless telephone network providers to guarantee that the interconnection links and facilities are sufficient to guarantee a grade of service of P01. Further, it directed relevant parties to amend their existing interconnection agreements to comply with this memorandum circular within 10 days from the effectivity thereof. NTC directed the implementation of the reduced interconnection charges for voice calls not later than January 1, 2017, to give sufficient time for the necessary adjustment in the operators' respective billing systems.

On July 19, 2018, the NTC issued Memorandum Circular No. 05-07-2018, entitled Interconnection Charge for Short Messaging Services and Voice Service, mandating that interconnection access charge for voice service and SMS shall be ₱0.50 per minute and ₱0.05 per SMS, respectively. The memorandum circular likewise required (a) network providers to comply with the prescribed quality of service or service performance standards; (b) parties to the interconnection to provide the required interconnection links or circuits and facilities with sufficient capacity required to carry their respective voice and SMS traffic in a timely manner; and (c) PTEs to amend their respective interconnection agreements to comply with the memorandum circular, within 10 days from effectivity thereof. The NTC required the implementation of the new interconnection charge not later than 20 days from the effectivity of the memorandum circular. Consequently, the NTC issued a Memorandum dated August 6, 2018 directing all PTEs to amend their interconnection agreements by August 14, 2018 and impose the new interconnection charges not later than August 24, 2018. The PTEs have agreed to implement the new interconnection access charge for SMS services and voice service effective September 1, 2018 to align with the PTEs existing billing and settlement systems cut-off date cycle.

On February 8, 2019, the MNP Act was enacted into law. Among other things, the MNP Act provides that qualified customer has the right to retain his mobile number when he moves from one mobile service provider to another, or changes the type of subscription from postpaid to prepaid or vice versa. For such purpose, PTEs are required to, among others, (a) provide nationwide MNP (that is, the ability of a postpaid or prepaid subscriber, who has no existing financial obligation to the donor provider, to retain an existing mobile number despite having moved from one mobile service provider to another, or to change the type of subscription from postpaid to prepaid or vice versa) free of charge; (b) set-up mechanisms for the implementation of MNP, including direct or indirect connection with facilities, systems or equipment of other PTEs and (c) unlock upon demand and completely free of charge the mobile telephone handset of a subscriber who has requested and has complied with all the requirements for MNP. The MNP Act also contains provisions regulating certain tariffs that mobile service providers charge. One pertinent provision of the MNP Act states that no interconnection fee or charge shall be imposed by any mobile service provider for domestic calls and SMS made by a subscriber. This provision does not cover interconnection fees charged by fixed-line operators. As at January 2, 2020, no interconnect fees are charged for mobile domestic calls and SMS.

On June 11, 2019, the NTC issued Memorandum Circular No. 03-06-2019, or the implementing rules and regulations of the MNP Act. The memorandum circular provides, among others, for the designation by mobile service providers of one MNP service provider that will provide mobile number porting services for mobile service providers. The mobile service providers shall equally share in the capital expenditures for the software, hardware and other facilities required by the MNP service provider, while operating and maintenance costs of the MNP service provider shall be agreed upon by the mobile service providers and the MNP service provider. No fees and charges shall be collected from applicants of MNP and from subscribers availing of the MNP service.

In 2019, Smart, Globe and Dito established a joint venture company, Telecommunications Connectivity Inc. ("**TCI**"), to provide number porting services in compliance with the MNP requirement of the MNP Act. TCI's function is to enable a customer to retain his mobile number when he moves from one mobile service provider to another, or changes the type of subscription from postpaid to prepaid or vice versa. The MNP Act and its implementing rules and regulations, once fully implemented, will materially affect Smart's business operations. Preparations to implement MNP are ongoing. In accordance with the MNP Act, Smart is required, among other things, to (i) make technical configurations in its systems; and (ii) update its business rules to ensure compliance with the requirements of the MNP Act relating to cyber security, data privacy and customer experience.

ENVIRONMENTAL MATTERS

In addition to our commitment to ensure compliance with relevant environmental laws and regulations, we have put in efforts to conduct our business in ways that promote environmental protection.

Resource management

We closely monitor and measure our energy conservation and resource consumption efficiency, which are among our performance key result areas, and seek to make improvement in the long-term. Our Network Operations' Energy Environment Safety and Health ("**EESH**"), and Property and Facilities Management ("**PFM**"), teams monitor the consumption of electricity, water, and fuel in our facilities and operations. Several energy conservation initiatives, such as replacing fluorescent lamps with LED lights, the use of more energy-efficient air-conditioning units and elevators, and the replacement of dysfunctional chillers were completed in 2019. Such initiatives helped us save almost 2M kWH of electricity in 2019.

Environmental impact management

Our PFM and EESH teams regularly monitor the status and performance of our facilities, equipment, and generator sets. They are also tasked to implement improvements to processes and mechanisms that would reduce and mitigate impacts on the environment. We work with contractor partners in many areas, including monitoring waste air emission of generator sets, monitoring waste water quality, and the collection, hauling, treatment, and reporting of hazardous wastes. Our used lead-acid batteries are donated to the Balik Baterya Program of the Philippine Business for Social Progress for proper recycling and recovery of reusable components. The proceeds from this program help fund education initiatives, such as school-building projects.

Environmental compliance

We reaffirm our commitment in ensuring compliance with environmental regulations as part and parcel of our business operations. We have designated specially-trained Pollution Control Officers to check our performance, ensure our compliance with the relevant Philippine environmental laws, and report our progress on a quarterly basis to the Department of Environment and Natural Resources Regional Offices. Our Vendor Management team also mandates our suppliers to strictly adhere with applicable national and local environmental regulations. The Company has not been subjected to any significant fine or regulatory action involving non-compliance with environmental regulations of the Philippines.

MANAGEMENT

The overall management and supervision of PLDT is undertaken by its Board. The executive officers and management team cooperate with the Board by preparing appropriate information and documents concerning the Company's business operations, financial condition and results of operations for its review.

BOARD OF DIRECTORS

Currently, the Board consists of thirteen members. The table below sets forth the members of the Board as at the date of this Offering Circular.

Name	Position
Manuel V. Pangilinan	Director
Manuel L. Argel, Jr.	Director
Helen Y. Dee	Director
Ray C. Espinosa	Director
James L. Go	Director
Shigeki Hayashi	Director
Junichi Igarashi	Director
Bernido H. Liu[(1)]	Director
Artemio V. Panganiban[(1)]	Director
Albert F. del Rosario	Director
Pedro E. Roxas[(1)]	Director
Marife B. Zamora	Director
Ma. Lourdes C. Rausa-Chan	Director

Note:

(1) Independent Director.

MANAGEMENT/EXECUTIVE OFFICERS

The following table sets forth the members of the Company's senior leadership team and other executive officers as at the date of this Offering Circular:

Name	Position
Manuel V. Pangilinan	Chairman of the Board
	President and CEO
Alfredo S. Panlilio	Chief Revenue Officer
Anabelle L. Chua	Senior Vice President
	Chief Financial Officer
	Chief Risk Management Officer
Gina Marina P. Ordoñez	Senior Vice President
	Chief People Officer
Victorico P. Vargas	Business Transformation Office Head
Marilyn A. Victorio-Aquino	Senior Vice President
	Chief Legal Counsel
Ma. Lourdes C. Rausa-Chan	Corporate Secretary
	Chief Governance Officer
June Cheryl A. Cabal-Revilla	Senior Vice President
	Chief Sustainability Officer
	Financial Reporting and Controllership Head
Alejandro O. Caeg	Senior Vice President
	Consumer Sales Head
Juan Victor I. Hernandez	Senior Vice President
	Enterprise Business Head
Menardo G. Jimenez, Jr.	Senior Vice President
	Consumer Business – Home Head
Leo I. Posadas	First Vice President Treasurer

Certain information with respect to our senior leadership and other executive officers is set out below:

Mr. Manuel V. Pangilinan, 73 years old, has been a director of PLDT since November 24, 1998. He was appointed as Chairman of the Board of PLDT after serving as its President and CEO from November 1998 to February 2004. Since January 1, 2016, he holds the position of President and CEO of PLDT. He served as President and CEO of Smart from January 1, 2006 until August 7, 2019. He is the Chairman of the Governance and Nomination, Executive Compensation and Technology Strategy Committees of the Board of PLDT. He also serves as Chairman of MPIC, Meralco, PXP Energy Corporation and Philex Mining Corporation, and Vice Chairman of Roxas Holdings, Inc., all of which are PSE-listed companies, and of several subsidiaries or affiliates of PLDT or MPIC, including, among others, Smart, DMPI, Digitel, PLDT Communications & Energy Ventures, Inc. ("**PCEV**"), ePLDT, Inc. ("**ePLDT**"), Beacon Electric Assets Holdings Inc., Manila North Tollways Corporation, Maynilad Water Services Corporation, Landco Pacific Corporation, Metro Pacific Hospital Holdings, Inc., Medical Doctors Incorporated (Makati Medical Center), Colinas Verdes Corporation (Cardinal Santos Medical Center), Davao Doctors Incorporated, Riverside Medical Center Incorporated, Our Lady of Lourdes Hospital and Asian Hospital Incorporated. He is also the Chairman of MediaQuest Holdings Inc. ("**MediaQuest**"), TV5 Network, Inc. ("**TV5**") and PLDT-Smart Foundation.

Mr. Pangilinan founded First Pacific, a Hong Kong Stock Exchange-listed company, in 1981 and serves as its Executive Chairman, Managing Director and Chief Executive Officer. Within the First Pacific Group, he also holds the position of President Commissioner of P.T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia.

Outside the First Pacific Group, Mr. Pangilinan is the Chairman of the Board of Trustees of San Beda College and Amateur Boxing Association of the Philippines, a governing body of amateur boxers in the country, and the Chairman Emeritus of the Samahang Basketbol ng Pilipinas. He is also the Chairman of Philippine Business for Social Progress, the largest private sector social action organization made up of the country's largest corporations. He is a Co-Chairman of the Philippine Disaster Resilience Foundation, Inc., a non-stock, non-profit foundation established to formulate and implement a reconstruction strategy to rehabilitate and rebuild areas devastated by floods and other calamities, and of the US-Philippine Business Society, a non-profit society which seeks to broaden the relationship between the United States and the Philippines in the areas of trade, investment, education, foreign and security policies and culture.

Mr. Pangilinan graduated cum laude from the Ateneo de Manila University, with a Bachelor of Arts Degree in Economics. He received his Master's Degree in Business Administration from Wharton School of Finance & Commerce at the University of Pennsylvania, where he was a Procter & Gamble Fellow. He was conferred a Doctor of Humanities Degree (Honoris Causa) by the San Beda College (2002), Xavier University (2007), Holy Angel University (2009) and Far Eastern University (2010).

Retired Judge Manuel L. Argel, Jr., 70 years old, has been a director of PLDT since January 28, 2020. He is a member of the Social Security Commission ("**SSC**"), the Governing Board of the Social Security System ("**SSS**") and shares the responsibility for the governance of the SSS in terms of providing policy directions, monitoring, and overseeing management actions. He is a member of the Risk Management and Investment and Audit Committees of the SSC. He also performs quasi-judicial functions through decisions rendered on cases involving SSS coverage, benefits, contributions and penalties. Retired Judge Argel, Jr. started his law career as an associate of private full-service law firms until he formed his own law firm in 1981. While in private practice, he was accredited in 1995 as a Voluntary Labor Arbitrator of the National Conciliation and Mediation Board. He also served as President of the Integrated Bar of the Philippines (Ilocos Chapter) from 1993 to 1995, Provincial Secretary of the National Citizens' Movement for Free Elections, Chairman of the Ilocos Sur Local Amnesty Board, and member of the People's Assistance Development Action Center, Inc. His stint in the government started when he was elected as a member of the Sangguniang Bayan of Vigan City in 1980. In 2008, he received the Legislator's award given by the City Government of Vigan in recognition of his accomplishments and contributions as former legislator of Vigan City. In 1995, he was appointed as Regional Trial Court (RTC) Judge of Laoag City, and served as Executive Judge from 2005 to 2007 and Presidential Assistant for Region 1 in the Philippine Judges Association. He retired from the Judiciary in 2015. His record of public service as a judge was marked by a very high degree of competence, integrity, dedication and independence. He obtained his Bachelor of Arts in Philosophy and Bachelor of Laws Degrees from San Beda College.

Ms. Helen Y. Dee, 76 years old, has been a director of PLDT since June 18, 1986. She is the Chairperson or a director of EEI Corporation, House of Investments, Petro Energy Resources Corporation and Rizal Commercial Banking Corporation, all of which are PSE-listed companies. She is the Chairperson, Vice Chairperson or a director of several companies engaged in banking, insurance and real property businesses. Ms. Dee received her Master's Degree in Business Administration from De La Salle University.

Atty. Ray C. Espinosa, 64 years old, has been a director of PLDT since November 24, 1998, and is a member of the Technology Strategy Committee of the Board of PLDT. He is Senior Advisor to the President and CEO of PLDT since January 28, 2019. He was PLDT's Chief Corporate Services Officer from December 2016 until January 28, 2019, and previously served as President and CEO of ePLDT Inc. and its subsidiaries from July 2000 until April 2010 and as President and CEO of TV5 Network Inc. and Cignal TV Inc. from December 2009 until May 2013. In June 2013, he joined First Pacific Company Limited as Associate Director. Atty. Espinosa is also the President and CEO of Meralco. He is a director of Roxas Holdings Inc., an independent director of Lepanto Consolidated Mining Company and chairman of its Audit Committee, and an independent director of Maybank Philippines Inc. and chairman of its Risk Management Committee. He is the chairman of the Philstar Group of Companies and Business World Publication Corporation. He is a trustee of the PLDT-Smart Foundation Inc. and the Beneficial Trust Fund of PLDT.

He has a Master of Laws degree from the University of Michigan School of Law and a Bachelor of Laws degree from the Ateneo de Manila University School of Law, and is a member of the Integrated Bar of the Philippines. He was a partner at SyCip Salazar Hernandez & Gatmaitan from 1982 to 2000, a foreign associate at Covington and Burling (Washington, D.C.) from 1987 to 1988, and a law lecturer at the Ateneo de Manila University School of Law from 1983 to 1985 and 1989.

Mr. James L. Go, 80 years old, has been a director of PLDT since November 3, 2011, and is a member of the Technology Strategy and Risk Committees and Advisor of the Audit Committee of the Board of PLDT. He is the Chairman of JG Summit Holdings, Inc. and Cebu Air, Inc., the Chairman and Chief Executive Officer of Oriental Petroleum and Minerals Corporation, the Chairman Emeritus of Universal Robina Corporation and Robinsons Land Corporation, the Vice Chairman of Robinsons Retail Holdings, Inc., and a director of Meralco, which are PSE-listed companies. He is also the Chairman Emeritus of JG Summit Petrochemical Corporation and JG Summit Olefins Corporation, and a director of United Industrial Corporation Limited, Marina Center Holdings Private Limited and Hotel Marina City Private Limited. He is also the President and a trustee of the Gokongwei Brothers Foundation. He was the Vice Chairman and President and Chief Executive Officer of Digitel until October 26, 2011. Mr. Go received his Bachelor of Science Degree and Master of Science Degree in Chemical Engineering from Massachusetts Institute of Technology, USA.

Mr. Shigeki Hayashi, 52 years old, has been a director of PLDT since August 10, 2017. He is the Senior Vice President, Corporate Planning, NTT Worldwide Telecommunications Corporation since NTT Group's global reorganization in 2019. He handles corporate strategy and planning of the global business previously operated by NTT Communications. His previous positions in NTT Communications were Vice President, Global Business (2016 to 2019), Director-Planning, Global Business (2012 to 2016), Senior Manager-Overseas Business Management, Global Business (2007 to 2012) and Senior Manager-Tax Accounting Division, Accounts and Finance Department (1999 to 2004). He was the Deputy General Manager-Corporate Management Department of NTT Europe Ltd. from 2004 to 2007. Mr. Hayashi obtained his Bachelor of Economics Degree from Osaka University.

Mr. Junichi Igarashi, 56 years old, has been a director of PLDT since August 9, 2018. He is a member of the Governance & Nomination, Executive Compensation, Technology Strategy and Risk Committees, and an Advisor of the Audit Committee of the Board of PLDT. From 2016 to 2018, he served as a Director of NTT DOCOMO, Smart Life Business Division in Tokyo, Japan. He developed and sold a language translation & travel mobile application (Jspeak: Japanese – 10 languages) for inbound travelers to Japan. From 2006-2016, he represented NTT DOCOMO as a GSMA PSMC (Product & Service Management Committee) member and exchanged strategic views about mobile industry with top 25 largest MNOs. On top of that, from 2013 to 2016, he was assigned in London, UK as General Manager for DOCOMO Europe, Inc. (a subsidiary of NTT DOCOMO) and worked with GSMA executives in GSMA London HQ. From 2006 to 2013, he served as a Director of NTT DOCOMO, Global Business Division in Japan. He conducted the PoC of WiMax Service in Canada (with Primus Communications, Inc.) and in Singapore (with InterTouch, Inc.). Prior to that, he served as a Director of Business Development and Head of Japanese Corporate Sales Division from 2003 to 2006 in StarHub, Singapore. Mr. Igarashi received his Master Degree in Mechanical Engineering from Tokyo University and his Master of Business Administration from the University of Michigan Ann Arbor, USA.

Mr. Bernido H. Liu, 57 years old, has been an independent director of PLDT since September 28, 2015 and is an independent member of the Audit, Governance and Nomination, Executive Compensation and Risk Committees of the Board of PLDT. He is the Chairman and Chief Executive Officer of GOLDEN ABC, Inc. ("**GABC**"), a fashion retail company which creates and sells its own clothing, personal care and accessory lines marketed and retailed under a dynamic portfolio of well-differentiated proprietary brands. He is the Group Chairman of LH Paragon Incorporated, a business holdings company which has under its management GABC and other companies in various industries, namely, Matimco Incorporated, Oakridge Realty Development Corporation, Basic Graphics Incorporated, Essentia Medical Group Incorporated, Red Logo Lifestyle Inc., and Greentree Food Solutions, Inc. He is a director of GABC International Pte Limited (SG), GABC Singapore Retail Pte. Ltd. (SG) and Mga Likha ni Inay Inc., a trustee of Children's Hour Philippines and the Philippine Retailers Association and a member of the Visayas Advisory Council of Habitat for Humanity Philippines. Mr. Liu graduated with a Bachelor of Science Degree in Architecture from the University of San Carlos, Cebu, and completed the Executive Education Owner/President Management Program of the Harvard Business School.

Retired Chief Justice Artemio V. Panganiban, 83 years old, has been an independent director of PLDT since April 23, 2013 and is serving as Chairman of the Risk Committee and independent member of the Audit, Governance and Nomination, and Executive Compensation Committees of the Board of PLDT. He was appointed as the Lead Independent Director effective March 21, 2019. He served as an independent member of the Advisory Board and an independent non-voting member of the Governance and Nomination Committee of the Board of PLDT from June 9, 2009 to May 6, 2013. Currently, he is also an independent director of Meralco, Petron Corporation, First Philippine Holdings Corporation, Metro Pacific Investments Corporation, Robinsons Land Corporation, GMA Network, GMA Holdings, and Asian Terminals, Inc., and a regular director of Jollibee Foods Corporation, all of which are PSE-listed companies. He is also an independent director of Metro Pacific Tollways Corporation, Asian Hospital, Inc. and TeaM Energy Corporation, a senior adviser of Metropolitan Bank and Trust Company, a member of the Advisory Council of the Bank of the Philippine Islands and an adviser of Double Dragon Properties, Corp. He is the Chairman of Pan Philippine Resources Corp. and Arpan Investment and Management Inc., Chairman of the Board of Trustees of the Foundation for Liberty and Prosperity, and of the Board of Advisers of Metrobank Foundation, Inc., a trustee of Claudio Teehankee Foundation, President of the Manila Metropolitan Cathedral-Basilica Foundation, a member of the Advisory Board of World Bank (Philippines), Chairman-Emeritus of the Philippine Dispute Resolution Center, Inc., Chairman of the Philippine National Committee of the Asean Law Association (Philippine Chapter), a member of the Permanent Court of Arbitration in The Hague, Netherlands, and a column writer of the Philippine Daily Inquirer.

Hon. Panganiban served the Supreme Court of the Philippines for more than 11 years, first as Associate Justice (October 10, 1995 to December 20, 2005) and later, as Chief Justice (December 21, 2005 to December 6, 2006) during which he sat concurrently as Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy. Hon. Panganiban graduated cum laude from Far Eastern University with a Bachelor of Laws Degree in 1960, and was conferred a Doctor of Laws Degree (Honoris Causa) by the University of Iloilo (1997), Far Eastern University (2002), University of Cebu (2006), Angeles University (2006) and Bulacan State University (2006). He was co-founder and past president of the National Union of Students of the Philippines.

Ambassador Albert F. del Rosario, 80 years old, has been a director of PLDT since July 11, 2016 and is a member of the Technology Strategy Committee of the Board of PLDT. He was the former Secretary of Foreign Affairs of the Philippines from February 2011 to March 2016 and also served as Philippine Ambassador to the United States of America from October 2001 to August 2006. Prior to entering public service, he was on the board of directors of various firms. His business career for over four decades has spanned the insurance, banking, real estate, shipping, telecommunications, advertising, consumer products, retail, pharmaceutical and food industries.

Ambassador del Rosario is the Chairman of Philippine Stratbase Consultancy, Inc., Gotuaco del Rosario Insurance Brokers, Inc., Stratbase ADR Institute, Inc., Citizens for Promoting Human Rights, Inc. and a director of Metro Pacific Investments Corporation and Rockwell Land Corporation (both PSE-listed companies), Indra Philippines, Inc., Metro Pacific Tollways Corporation, Two Rivers Pacific Holdings Corporation, Metro Pacific Resources, Inc., Metro Pacific Holdings, Inc., Metro Pacific Asset Holdings, Inc., Philippine Telecommunications Investment Corporation, Enterprise Investments Holdings, Inc. and Asia Insurance (Phil.) Corp. He is also a trustee of the Carlos P. Romulo Foundation for Peace & Development and Philippine Cancer Society, Inc. and a member of the Asia Society Global Council and the Advisory Board of CSIS Southeast Asia Program and Metrobank Foundation, Inc. Ambassador del Rosario graduated from New York University with a Bachelor of Science Degree in Economics.

Mr. Pedro E. Roxas, 63 years old, has been a director of PLDT since March 1, 2001 and qualified as an independent director since 2002. He is the Chairman of the Audit Committee and serves as an independent member of the Risk, Governance and Nomination and Executive Compensation Committees of the Board of PLDT. He is the Chairman of Roxas Holdings, Inc. and Roxas and Company, Inc., and an independent director of Meralco and CEMEX Holdings Phil. Inc., which are PSE-listed companies. He is also an independent director of BDO Private Bank and Mapfre Insular Insurance Corporation. He is the Chairman, President or a director of companies or associations in the fields of agri-business, sugar manufacturing and real estate development including Brightnote Assets Corporation, Club Punta Fuego, Inc., and Philippine Sugar Millers Association, and a member of the Board of Trustees of Fundacion Santiago (where he is also the President). Mr. Roxas received his Bachelor of Science Degree in Business Administration from the University of Notre Dame, Indiana, U.S.A.

Ms. Marife B. Zamora, 66 years old, has been a director of PLDT since November 14, 2016. She is the Chairman of the Board of Willis Towers Watson Insurance Brokers, Inc., and a member of the Board of Trustees of the Asian Institute of Management and ABS-CBN Foundation Inc. She is President of the UP Sigma Delta Phi Alumnae Association. She co-founded the Filipina CEO Circle, an organization of Filipina CEOs who rose through the ranks to lead large corporations in the private sector. She was Chairman of Convergys Philippines until December 2018, Managing Director for Asia Pacific, Europe, Middle East, Africa for Convergys Corporation, and served as the first Country Manager of Convergys Philippines, setting up its first contact center in 2003 and leading its growth as the country's largest private employer. Prior to this, Ms. Zamora served as Managing Director of Headstrong Phils. She was with IBM Philippines where she held a number of sales, marketing and management positions during her 18-year tenure with the company. She is the 3rd woman President and the 68th President of the Management Association of the Philippines. Ms. Zamora received her Bachelor of Arts Degree (major in Mathematics & History) from the College of the Holy Spirit and studied in the University of the Philippines and the Wharton School of the University of Pennsylvania.

Ms. Ma. Lourdes C. Rausa-Chan, 66 years old, has been a director of PLDT since March 29, 2011 and is a non-voting member of the Governance and Nomination Committee of the Board of PLDT. She has been serving as Corporate Secretary and Chief Governance Officer since November 1998 and March 2008, respectively, and was the Head of Corporate Affairs and Legal Services until November 30, 2018. She is a director and the Corporate Secretary of ePLDT, PCEV, PLDT Global Investments Holdings, Inc., ACeS Philippines Cellular Satellite Corporation and Mabuhay Investments Corporation, and also serves as Corporate Secretary of several other subsidiaries of PLDT, and of PLDT-Smart Foundation Inc. and Philippine Disaster Resilience Foundation, Inc. Prior to joining PLDT, she was the Group Vice President for Legal Affairs of Metro Pacific Corporation and the Corporate Secretary of some of its subsidiaries. Ms. Rausa-Chan received her Bachelor of Arts Degree in Political Science and Bachelor of Laws Degree from the University of the Philippines.

Mr. Alfredo S. Panlilio, 56 years old, has been the PLDT Group Chief Revenue Officer since July 1, 2019 and the President and CEO of Smart since August 8, 2019. He has over 30 years of experience in the field of telecommunications and information systems. He is also the President and CEO of Digitel and Digitel Mobile; Chairman, President and CEO of Asia Netcom Philippines Corporation, Digitel Crossing, Inc., and Mabuhay Investments Corporation; Chairman and President of Telesat, Inc. and Smart Broadband, Inc.; President of Airborne Access Corporation, I-Contacts Corporation and Primeworld Digital Systems, Inc.; and the Chairman of ePLDT, Inc., ePDS, Inc., IP Converge Data Services, Inc., IPC Rack It Data Center, Inc., Bonifacio Communications Corporation, PLDT Clark Telecom, Inc., PLDT Malaysia Sdn. Bhd. (currently being wound up), PLDT Subic Telecom, Inc., Smart-NTT Multi-Media, Inc., ABM Global Solutions, Inc., Curo Tecknika, Inc., PLDT-Maratel, Inc., and PLDT-Philcom, Inc.

He also serves as director and CEO of MVP Rewards and Loyalty Solutions, Inc., director of ACeS Philippines Cellular Satellite Corporation, Asean Telecom Holdings Sdn. Bhd., PLDT Global Corporation, Chikka Holdings Limited, Connectivity Unlimited Resources Enterprises, Inc., Talas Data Intelligence, Inc. Wifun, Inc., and Vega Group of Companies, independent director of CEMEX Holdings Philippines, Inc. and trustee of Asian Carrier Conference, Inc., Kapampangan Development Foundation, and Philpop Musicfest Foundation, Inc. He is the President of Samahang Basketbol ng Pilipinas, Inc., MVP Sports

Foundation, Inc., the Treasurer of National Golf Association of the Philippines and Manila Golf Country Club, Inc. and Philippine Basketball Association Governor for the Meralco Bolts; and a member of the Management Association of the Philippines.

Prior to joining PLDT and Smart, Mr. Panlilio was Meralco's Senior Vice President and Head of Customer Retail Services and Corporate Communications from September 2010 to June 2019. He served as Chairman of Radius Telecoms, Inc., e-Meralco Ventures Inc., Paragon Vertical Corporation, Powersource First Bulacan Solar, Inc. and Pure Meridian Hydropower Corporation. He was also a Vice Chairman of Aclara Meters Philippines, Inc.; and director of CIS Bayad Center Inc., Corporate Information Solutions, Inc., Customer Frontline Solutions, Inc., Meralco Energy, Inc., MRAIL Inc., MIESCOR, Comstech Integration Alliance, Inc. and MSpectrum, Inc. He was a trustee of One Meralco Foundation, Inc. and Meralco Power Academy, and Associate Board Member of Semiconductor and Electronics Industries in the Philippines, Inc.

Mr. Panlilio holds a Bachelor of Science Degree in Business Administration (Computer Information Systems) from California State University-San Francisco State University and obtained his Master in Business Administration at J. L. Kellogg School of Management of Northwestern University/the Hong Kong University of Science and Technology.

Ms. Anabelle L. Chua, 59 years old, Chief Financial Officer and Chief Risk Management Officer of the PLDT Group, previously served as the Chief Financial Officer of Smart from 2006 and Chief Financial Officer of DMPI from 2013 until May 2015. She holds directorships in several subsidiaries of PLDT, Smart, Digitel, as well as in Voyager Innovations and PayMaya Philippines. She is a member of the Board of Directors and Audit Committee of the Philippine Stock Exchange and Securities Clearing Corporation of the Philippines. She is also a member of the Board of Directors of Meralco, where she chairs the Finance Committee and is a member of the Audit, Risk and Nomination and Governance Committees. Further, Ms. Chua is a director of the Philippine Telecommunications Investment Corporation and a member of the Board of Trustees of the PLDT-Smart Foundation and PLDT Beneficial Trust Fund ("**PLDT-BTF**"), and a director of the companies owned by PLDT-BTF. Ms. Chua has over 30 years of experience in the areas of corporate finance, treasury, financial control and credit risk management and was a Vice President at Citibank, N.A. where she worked for 10 years prior to joining PLDT in 1998. She graduated magna cum laude from the University of the Philippines with a Bachelor of Science Degree in Business Administration and Accountancy.

Ms. Gina Marina P. Ordoñez, 58 years old, is the Chief People Officer for PLDT. Ms. Ordoñez joined the PLDT Group in 2016 under the Business Transformation Office (BTO) and later assumed the Smart People Group Head role before moving back to BTO in 2017 to head Process and Quality Management. Under the Metro Pacific Group of Companies, she was appointed Vice President for Service Operations and Quality Management at Makati Medical Center. Prior thereto and served as Head of Customer Experience for Consumer Banking in Citibank where she held various leadership positions for 16 years and was certified Six Sigma Black Belt professional. Ms. Ordoñez was educated at Maryknoll College with a Bachelor of Science Degree in Environmental Planning.

Mr. Victorico P. Vargas, 68 years old, Business Transformation Office Head, is an Associate Director of First Pacific since January 2016, overseeing First Pacific Group businesses operating in the Philippines and its region, with particular focus on leading the Business Transformation of PLDT. Prior thereto, Mr. Vargas was the President and Chief Executive Officer of Maynilad Water Services, Inc. since August 2010. He joined PLDT in 2000 as its Human Resources Group Head and through his stay at PLDT got involved in managing the PLDT Business Transformation Office, Asset Protection and Management Group, and the PLDT International Carrier Business. He has worked in senior roles at Union Carbide, Pepsi Cola, Colgate Palmolive and Citibank, NA (both in Manila and in Southeast Asia). He is a director of Meralco, Smart, PLDT Subic Telecom, Inc. and PLDT Clark Telecom, Inc., President and Member of the Board of Trustees of the First Pacific Leadership Academy, Trustee of the MVP Sports Foundation, PLDT-Smart Foundation, Inc. and Ideaspace Foundation and President of the PhilPop Music Fest Foundation. Mr. Vargas was educated at Ateneo de Manila University and University of Santo Tomas with a Bachelor of Science Degree in Psychology.

Atty. Marilyn A. Victorio-Aquino, 64 years old, Chief Legal Counsel, joined First Pacific in 2012 as Assistant Director. She holds various positions in Philippine subsidiaries and affiliates of First Pacific and Metro Pacific Investments Corporation (an affiliate of First Pacific), including President of First Coconut Manufacturing Inc., and director of Philex Mining Corporation, PXP Energy Corporation and Lepanto Consolidated Mining Company, which are PSE-listed companies, Philex Gold Philippines, Inc., Silangan Mindanao Mining Company, Inc. and Maynilad Water Services, Inc. She is also an Associate Director of First Pacific. Prior to joining First Pacific, Atty. Victorio-Aquino retired as a Senior Partner at SyCip Salazar Hernandez and Gatmaitan Law Offices ("**SyCipLaw**"). She joined SyCipLaw in 1980 and was admitted as Partner in 1989. Her practice areas were mining and natural resources, investments, mergers and acquisitions, construction and infrastructure, and project finance and securities, where she acted as legal counsel and represented local and foreign clients in respect of some of the largest projects and transactions in the Philippines. Atty. Victorio-Aquino graduated cum laude (class salutatorian) from the University of the Philippines with a Bachelor of Laws Degree in 1980, placed second in the Philippine Bar Examinations and was admitted to the Philippine Bar in 1981. She obtained her Bachelor of Arts Degree from the University of Santo Tomas. She is a member of the International Pacific Bar Association, Women Lawyers Circle, Federacion International de Abogadas, Philippine Bar Association and Integrated Bar of the Philippines.

Ms. June Cheryl A. Cabal-Revilla, 46, years old, Group Controller, is concurrently the Chief Sustainability Officer of the PLDT Group and the Chief Financial Officer of Smart, PLDT-Smart Foundation, Philippine Disaster Resilience Foundation and a number of subsidiaries and affiliates of PLDT, Smart and ePLDT. She is also the Founding Chairman of Gabay Guro, President of The Outstanding Young Men Foundation, and an appointed member of the Financial Reporting Standards Council of the Philippines. Prior to joining PLDT in June 2000 as a Certified Public Accountant and an Executive Trainee in the Finance Group, she was a Senior Associate in the Business Audit and Advisory Group of SGV & Co. She received her Bachelor of Science Degree in Accountancy from De La Salle University and Master's Degree in Business Management Major in Finance from Asian Institute of Management ("**AIM**") where she is an outstanding alumni and a Triple A awardee by the Federation of AIM Alumni Associations, Inc. She finished her Executive Program in the Stanford Graduate School of Business.

Mr. Alejandro O. Caeg, 59 years old, is the Head of Consumer Sales and a member of the Smart Management Committee. Currently he is also a director of PLDT Global Corporation and was its CEO from 2010 to 2017. He is a director of MVP Rewards & Loyalty Solutions since 2019, and a director of Inspiro Philippines since 2018. He previously served as Head of Wireless Consumer Sales and Distribution of Smart from 2016 to 2017, Head of International & Carrier Business from 2009 until 2016, and as PLDT's representative to the ITW Global Leaders Forum as well as to the Pacific Telecommunications Council. He was Smart's representative to the Conexus Mobile Alliance (one of Asia's largest cellular roaming alliances), where he was also designated as its Deputy Chairman until 2012 and eventually as Conexus Chairman until 2014. Prior to joining PLDT in 2009, he was appointed by PT Smart Telecom Tbk (Indonesia) as its Chief Commercial Strategy Officer from July to December 2008 and as Chief Commercial Officer from 2006 to 2008. Since joining Smart in 1993, he has held various sales, marketing and customer experience-related positions, including that of Group Head of Sales and Distribution (2003-2005), Group Head of Customer Care and National Wireless Centers (1998-2001) and Marketing Head of International Gateway Facilities and Local Exchange Carrier (1997-1998). He also served as CEO of Telecommunications Distributors Specialist, Inc. in 2002 and as Chief Operations Adviser of I-Contacts Corporation (Smart's Call Center subsidiary) from 2001 to 2002. Mr. Caeg graduated with a Bachelor's Degree in AB Applied Economics and obtained MBA credits from De La Salle University Manila.

Mr. Juan Victor I. Hernandez, 46 years old, Head of Enterprise Business Group of PLDT and Smart, the segment that serves the small, medium, large and top tier enterprises of the Philippines, concurrently serves as President and CEO of ePLDT, as well as certain of its subsidiaries namely, AGS Inc., ePDS, Inc., and Curoteknika, Inc. He is also the President of Bonifacio Cable Corporation, director of PGC and heads its Enterprise businesses, with presence in the United States, United Kingdom, Hong Kong, Singapore and Australia. Mr. Hernandez is a trustee of IT and Business Processing Association of the Philippines, Chairman of the Board of Asian Carriers Conference Inc., director of ACASIA Communications Sdn Bhd, and Board Adviser of the Semiconductor and Electronics Industries in the Philippines Foundation, Inc. He obtained his Bachelor's Degree in Agricultural Economics from the University of the Philippines and his Master's Degree in Business Management from the Asian Institute of Management.

Mr. Menardo G. Jimenez, Jr., 56 years old, Head of Consumer Home Business, joined PLDT in December 2001 and served in various capacities as Corporate Communications and Public Affairs Head, Retail Business Head, Human Resources Group Head and Fixed Line Business Transformation Office Head. He holds directorships in several subsidiaries of PLDT. Prior to joining PLDT, he had a stint at GMA Network, Inc., where he served as head of a creative services and network promotions. Mr. Jimenez received his AB Economics Degree from the University of the Philippines.

Mr. Leo I. Posadas, 53 years old, Treasurer of the PLDT Group and concurrent Treasury Head of PLDT and Smart, handles the treasury management and treasury operations of several companies under the PLDT Group. He is a director and Treasurer of PLDT Global Investments Holdings, a director and Vice President for Treasury of Mabuhay Investments Corporation, and the Treasurer of the Vega Telecom group. He is also the Treasurer of Smart, ePLDT, Digitel, Digitel Mobile and several other subsidiaries of PLDT and Smart. Prior to joining PLDT in September 2000, he served as Treasury Manager of Total Petroleum Philippines, and as Manager for Foreign Exchange Management of San Miguel Corporation. Mr. Posadas received his Bachelor of Arts Degree in Economics and Bachelor of Science Degree in Commerce Major in Management of Financial Institutions from De La Salle University.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company engages in transactions with its shareholders, subsidiaries, affiliates, directors, officers and close family members. These transactions principally consist of advisory, management, technical and marketing services. These transactions are made on an arm's length basis.

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. PLDT and Smart also lease pole spaces from Meralco to accommodate their cable network facilities.

Agreements Between PLDT and Meralco Industrial Engineering Services Corporation ("MIESCOR")

Pursuant to service agreements that expired on December 31, 2018, MIESCOR, a subsidiary of Meralco previously assumed responsibility for the implementation and completion of any assigned projects required for the provisioning and restoration of lines and the recovery of existing plants. MIESCOR was also responsible for installing subscriber main stations and repairing and providing maintenance on outside and inside network facilities in the areas awarded to them. Certain outstanding obligations, comprised of accrued expenses and other current liabilities, remain on these agreements following their expiration.

Share Purchase Agreements with MPIC

PCEV entered into two share purchase agreements with MPIC on May 30, 2016 and June 13, 2017 to sell its equity interest in Beacon Electric Asset Holdings, Inc. to MPIC for a total consideration of ₱26,200 million and ₱21,800 million, respectively. Upon closing, MPIC settled a portion of the consideration, while the remaining balance is to be paid in annual installments until June 2021.

Term Loan Facility Agreements with NTT Finance Corporation

PLDT signed a U.S.$25 million term loan facility agreement with NTT Finance Corporation on March 22, 2016 and another U.S.$25 million term loan facility with NTT Finance Corporation on January 31, 2017 to finance its capital expenditure requirements for network expansion and service improvement and to refinance its existing indebtedness.

Agreements with NTT Communications and its Affiliates

NTT World Engineering Marine Corporation provides offshore submarine cable repair and other allied services to maintain PLDT's domestic fiber optic network submerged plant.

NTT Communications provides technical, marketing and other consulting services to PLDT's various businesses. PLDT and NTT Communications have also agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses.

Pursuant to an agreement with NTT Worldwide Telecommunications Corporation, PLDT markets and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. Under a trade name and trademark agreement with NTT Communications, PLDT has the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for marketing, promotional and sales activities for the Arcstar services within the Philippines.

Advisory Services Agreement Between NTT DOCOMO and PLDT

NTT DOCOMO provides the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart.

Transactions with JG Summit Holdings, Inc. and its Subsidiaries

PLDT and certain of its subsidiaries have leased office space from Universal Robina Corporation and Robinsons Land Corporation.

Transactions with Malayan Insurance Co., Inc.

PLDT and certain of its subsidiaries have insurance policies with Malayan Insurance Co., Inc., covering directors, officers, liability to employees and material damages for buildings, building improvements, equipment and motor vehicles.

Transactions with Gotuaco del Rosario and Associates ("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 brokers' fees are settled between Gotuaco and the insurance companies.

Agreement Between Smart and First Pacific Investment Management Limited ("FPIML")

FPIML, a subsidiary of the First Pacific Group, provides advisory and related services to Smart in connection with its business of providing mobile communication services, high-speed internet connectivity and access to digital services and content.

Agreement of PLDT and Smart with TV5

PLDT and Smart have advertising placement agreements with TV5, a subsidiary of MediaQuest, 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.

Agreement of PLDT, Smart and DMPI and with Cignal Cable Corporation

Cignal Cable Corporation has authorized PLDT, Smart and DMPI to act as its ISP with the authority to resell and distribute the *iflix* service to their respective subscribers on a monthly and annual basis.

Telecommunications Services Provided by PLDT and Certain of its Subsidiaries

PLDT and certain of its subsidiaries provide telephone, data communication and other services to various related parties.

No other material related party transactions, without proper disclosure, was undertaken by the Company in the last three financial years.

PLDT employees are required to promptly disclose any business and family-related transactions with the Company to ensure that potential conflicts of interest are determined and brought to the attention of management.

Outstanding balances payable to related parties totaled ₱4,885 million and ₱4,414 million as at December 31, 2019 and March 31, 2020, respectively. Meanwhile, accounts payable to related parties totaled ₱602 million and ₱612 million as at December 31, 2019 and March 31, 2020, respectively.

See Note 25 to the Company's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2020 and audited consolidated financial statements as at and for the year ended December 31, 2019 included in this Offering Circular for further information.

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this Offering Circular and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The information provided below does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Noteholder, or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implication arising from the acquisition, sale or other dealings in respect of the Notes. The statements do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in notes or commodities) may be subject to special rules.

Prospective investors of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their purchase, ownership and disposition of the Notes, including the effect of any state or local taxes, under the tax laws applicable in the Philippines and each country of which they are residents.

PHILIPPINE TAXATION

The following is a general description of certain Philippine tax aspects of the Notes. It is based on Republic Act No. 8424, otherwise known as the "National Internal Revenue Code of 1997", as amended (the "**Philippine Tax Code**"), the regulations promulgated thereunder and in force as at the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis.

As used in this section, the term "non-resident alien" shall mean an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who shall come to the Philippines and stay therein for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien engaged in trade or business in the Philippines"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not engaged in trade or business in the Philippines". A "resident foreign corporation" is a foreign corporation engaged in trade or business in the Philippines and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines.

Documentary Stamp Taxes

A documentary stamp tax is imposed on the original issuance of debt instruments, such as bonds and notes, by Philippine corporations at the rate of 1.50 on each 200, or fractional part thereof, of the issue price of the notes or debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. The documentary stamp tax due on the Notes will be for the account of PLDT.

No documentary stamp tax is generally payable on the subsequent transfer or disposition of Notes, provided that the transfer or disposition does not entail change in maturity date or material terms and conditions of the Notes.

Under Philippine tax laws, an instrument which is subject to documentary stamp tax and which has been signed, issued, accepted or transferred without the documentary stamp tax being paid, is not permitted to be admitted or used in evidence in any court in the Philippines until the requisite stamp or stamps shall have been affixed thereto and cancelled.

Interest on the Notes

The tax treatment of interest generally depends on the type of instrument from which the interest arises and whether the class of taxpayer receiving the interest is a resident or a non-resident for Philippine tax purposes. Interest on debt instruments arising from borrowing from the public (which for this purpose means more than nineteen lenders), currency bank deposits, trust funds and similar instruments is generally subject to a 20% final withholding tax if received by Philippine citizens, resident aliens, non-resident aliens engaged in trade or business in the Philippines, domestic corporations and resident foreign corporations (all of which may generally be considered as "residents" in respect of taxation of Philippine-sourced income).

Interest on debt instruments not covered by the foregoing instruments received by the same categories of residents will form part of their taxable income and will be subject to ordinary income tax rates (at graduated rates from 0% to 35% for individuals and 30% regular corporate income tax or 2% minimum corporate income tax ("**MCIT**"), as the case may be, for domestic and resident foreign corporations), subject to the withholding by PLDT on such interest, as applicable, which shall be creditable against the income tax liability of the resident for the relevant taxable year.

Interest income on the Notes received by non-resident aliens not engaged in trade or business within the Philippines is subject to withholding tax at the rate of 25%, while interest income received by non-resident foreign corporations on foreign loans is subject to a 20% withholding tax. "Foreign loans" are loan contracts, including all debt items, whether in kind or in cash, which are payable in foreign currency or in kind, entered into by a Philippine resident, corporate or otherwise, with a non-resident. Therefore, to the extent that the Noteholder is a non-resident foreign corporation, the Notes will be considered "foreign loans." The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

The foregoing withholding tax rate may be further reduced in accordance with any applicable tax treaty in force between the Philippines and the country of residence of the non-resident Noteholder. Most tax treaties to which the Philippines is a party, generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. In addition, some treaties provide that the withholding tax rate may be reduced to 10% in cases where the interest arises in respect of a public issue of bonds, debentures or similar obligations. However, most tax treaties also provide that the reduced withholding tax rate will not apply if the recipient of the interest, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant Notes is effectively connected with such permanent establishment.

PLDT, as required by the Philippine Tax Code, will withhold and make payment of the applicable withholding tax as described above. However, PLDT shall pay Additional Amounts as may be necessary and subject to certain exceptions, so that the net amounts received by the Noteholders equal the amounts which would otherwise have been receivable by them had no such deduction or withholding been required.

Noteholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income may avail of such exemption or preferential withholding tax rate by submitting the necessary documents. The Philippine tax authorities have prescribed certain procedures for availment of tax treaty relief on interest income of non-resident income earners under BIR Revenue Memorandum Order ("**RMO**") No. 8-2017.

Under the said RMO No. 8-2017, the mandatory tax treaty relief applications ("**TTRA**") shall no longer be filed with the International Tax Affairs Division of the BIR. In lieu of the TTRA, preferential treaty rates for interests shall be applied and used outright by the withholding agents upon submission of a Certificate of Residence for Tax Treaty Relief ("**CORTT**") Form by the non-resident before the interest income is paid or credited. The CORTT Form is made up of two parts. Part I states the information of the income recipient/beneficial owner and the certification from the competent tax authority or authorized tax office of the country of residence. Part II includes the information of the withholding agent/income payor, details of income payment and the affixture of signatures by both the non-resident income recipient/beneficial owner and the income payor.

The withholding agent/income payor shall file the relevant BIR forms and shall pay the withholding taxes due in accordance with the Philippine Tax Code and existing BIR issuances. The withholding agent/income payor shall submit an original copy of the duly accomplished CORTT Form within 30 days after the payment of the withholding tax due to the BIR based on the applicable tax treaty. In the case of staggered payment of interest, the withholding agent shall submit an updated Part II of the CORTT Form within 30 days after payment of withholding taxes due.

For claims of tax exemption, BIR Revenue Memorandum Circular No. 8-2014 mandates the withholding agent to require from individuals and entities claiming tax exemption a copy of a valid, current, and subsisting tax exemption certificate or ruling before payment of the related income. The tax exemption certificate or ruling must explicitly recognize the tax exemption, as well as the corresponding exemption from withholding tax. Failure on the part of the taxpayer to present the said tax exemption certificate of ruling shall subject him to the payment of the appropriate withholding taxes due on the transaction.

If the regular rate is withheld by PLDT, instead of the reduced rate applicable under a treaty, the non-resident Noteholder may file a claim for a refund from the Philippine tax authorities under such treaty. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve filing of a judicial appeal, it may be impractical to pursue such a refund.

Repayment of the Principal on the Notes

Payment of the principal on the Notes to a non-resident Noteholder will not subject such Noteholder to taxation in the Philippines by reason solely of the holding of the Notes or the receipt of principal.

Under the current laws and regulations of the Philippines, all payments of principal on the Notes may be paid pursuant to the terms of the relevant agreements with the Noteholders who are non-residents of the Philippines without being subject to Philippine income, withholding or other taxes and are otherwise free and clear of any other tax, duty, withholding or deduction in the Philippines.

Gross Receipts Tax

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

If the net trading gains realized within the taxable year on the sale or disposition of the Notes by banks and nonbank financial intermediaries performing quasi-banking functions are considered as gross receipts derived from sources within the Philippines, such gains shall be subject to gross receipts tax at the rate of 7%.

Sale or Other Disposition of the Notes

Under Section 32(B)(7)(g) of the Philippine Tax Code, gains realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with a maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) are exempt from income tax.

If the sale or disposition of the Notes does not fall under Section 32(B)(7)(g) of the Philippine Tax Code, gains from such sale or disposition of the Notes within the Philippines will be included in the computation of taxable income and subjected to ordinary income tax rates (at graduated rates from 0% to 35% for resident aliens, citizens and non-resident aliens engaged in trade or business in the Philippines, 25% for non-resident aliens not engaged in trade or business in the Philippines, 30% regular corporate income tax or 2% MCIT, as the case may be, for domestic and resident foreign corporations and 30% for non-resident foreign corporations). Gains derived by a resident citizen and domestic corporation from the sale or disposition of the Notes outside the Philippines will be subject to ordinary income tax, while gains derived by a non-resident citizen, aliens and foreign corporations from the sale of Notes outside the Philippines will not be taxable.

If the Noteholder is a resident of a country with which the Philippines has an income tax treaty, an exemption from tax on gains from the alienation of personal property (including the Notes) may be available under the applicable tax treaty. The procedures for availment of the applicable tax treaty relating to such gains will have to be duly complied with as well.

In the event the Notes are held as capital assets, capital gains recognized can be reduced by any capital loss up to the extent of the capital gain recognized. Further, in case the Noteholder (i) is an individual, (ii) is not a dealer in securities (as defined below), and (iii) has held the Notes for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in said Noteholder’s gross taxable income for Philippine tax purposes.

Estate and Donor’s Taxes

Notes issued by a corporation organized or constituted in accordance with Philippine law are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and donor’s taxes.

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Notes shall be subject to an estate tax which is levied on the net estate of the deceased at a rate of 6%.

A holder of the Noteholder shall be subject to donor’s tax at a rate of 6% based on the total gifts in excess of ₱250,000 made during the calendar year on the transfer of the Notes, whether the donor is a stranger or not.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor. Estate and donor's taxes will not be collected in respect of intangible personal property, such as the Notes:

- if the decedent at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or

- if the laws of the foreign country of which the decedent or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

In case the Notes are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Notes exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes, unless such transfer is considered a transaction which is *bona fide*, made at arm's length and free from any donative intent.

Value-added tax

Gross receipts derived by dealers in securities from the sale of the Notes in the Philippines, equivalent to the gross selling price less the acquisition cost of the Notes sold, shall be subject to value-added tax of 12%.

"**Dealer in securities**" means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

Taxation outside the Philippines

The tax treatment of a non-resident Noteholder by jurisdiction outside the Philippines will vary depending on the tax laws applicable to such Noteholder by reason of domicile or business activities and may vary depending upon such Noteholder's situation. Each Noteholder should consult its own tax advisers as to the particular tax consequences on such holder acquiring, owning and disposing of the Notes, including the applicability and effect of any state, local and national laws.

SINGAPORE TAXATION

The statements below regarding Singapore taxation are general in nature and are based on current tax laws in Singapore and administrative guidelines and circulars issued by the Monetary Authority of Singapore ("MAS") in force as at the date of the Offering Circular and are subject to any changes in such laws, administrative guidelines or circulars, or the interpretation of those laws, guidelines or circulars, occurring after such date, which changes could be made on a retroactive basis. These laws, guidelines and circulars are also subject to various interpretations and the relevant tax authorities or the courts may later disagree with the explanations or conclusions set out below. Neither these statements nor any other statements in the Offering Circular are intended or are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements made herein do not purport to be a comprehensive nor exhaustive description of all the tax considerations that may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or financial institutions in Singapore which have been granted the relevant Financial

Sector Incentive(s)) may be subject to special rules or tax rates. Prospective holders of the Notes are advised to consult their own professional tax advisers as to the Singapore or other tax consequences of the acquisition, ownership of or disposal of the Notes, including, in particular, the effect of any foreign, state or local tax laws to which they are subject. It is emphasized that none of the Issuer, the Managers and the Joint Bookrunners and any other persons involved in the issue and offer of the Notes accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Notes.

Interest and other payments

Subject to the following paragraphs, under Section 12(6) of the Income Tax Act, Chapter 134 of Singapore (the "**ITA**"), the following payments are deemed to be derived from Singapore:

(a) any interest, commission, fee or any other payment in connection with any loan or indebtedness or with any arrangement, management, guarantee, or service relating to any loan or indebtedness which is (i) borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore or any immovable property situated outside Singapore) or (ii) deductible against any income accruing in or derived from Singapore; or

(b) any income derived from loans where the funds provided by such loans are brought into or used in Singapore.

Such payments, where made to a person not known to the paying party to be a resident in Singapore for tax purposes, are generally subject to withholding tax in Singapore. The rate at which tax is to be withheld for such payments (other than those subject to the 15 per cent. final withholding tax described below) to non-resident persons (other than non-resident individuals) is currently 17 per cent. The applicable rate for non-resident individuals is currently 22 per cent. However, if the payment is derived by a person not resident in Singapore otherwise than from any trade, business, profession or vocation carried on or exercised by such person in Singapore and is not effectively connected with any permanent establishment in Singapore of that person, the payment is subject to a final withholding tax of 15 per cent. The rate of 15 per cent. may be reduced by applicable tax treaties.

However, certain Singapore-sourced investment income derived by individuals from financial instruments is exempt from tax, including:

(a) interest from debt securities derived on or after January 1, 2004;

(b) discount income (not including discount income arising from secondary trading) from debt securities derived on or after February 17, 2006; and

(c) prepayment fee, redemption premium and break cost from debt securities derived on or after February 15, 2007,

except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession in Singapore.

In addition, as the issue of each of the 2031 Notes and the 2050 Notes is jointly lead-managed by Credit Suisse (Singapore) Limited and UBS AG Singapore Branch, each of which is a Financial Sector Incentive (Capital Market) Company or Financial Sector Incentive (Standard Tier) Company (as defined in the ITA) at such time, and each of the 2031 Notes and the 2050 Notes are issued as debt securities before December 31, 2023, each of the 2031 Notes and the 2050 Notes would be qualifying debt securities ("**QDS**") for the purposes of the ITA, to which the following treatment shall apply:

(a) subject to certain prescribed conditions having been fulfilled (including the furnishing by the Issuer, or such other person as the MAS may direct, to the MAS of a return on debt securities in respect of each of the 2031 Notes and the 2050 Notes in the prescribed format within such period as the MAS may specify and such other particulars in connection with the Notes as the MAS may require and the inclusion by the Issuer in all offering documents relating to the Notes of a statement to the effect that where interest, discount income, prepayment fee, redemption premium or break cost from such Notes is derived by a person who is not resident in Singapore and who carries on any operation in Singapore through a permanent establishment in Singapore, the tax exemption for qualifying debt securities shall not apply if the non-resident person acquires the 2031 Notes and the 2050 Notes (as the case may be) using the funds and profits of such person's operations through the Singapore permanent establishment), interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost (collectively, the "**Qualifying Income**") from the 2031 Notes and the 2050 Notes paid by the Issuer and derived by a holder who is not resident in Singapore and who (aa) does not have any permanent establishment in Singapore or (bb) carries on any operation in Singapore through a permanent establishment in Singapore but the funds used by that person to acquire the 2031 Notes and the 2050 Notes (as the case may be) are not obtained from such person's operation through a permanent establishment in Singapore, are exempt from Singapore tax;

(b) subject to certain conditions having been fulfilled (including the furnishing by the Issuer, or such other person as the MAS may direct, to the MAS of a return on debt securities in respect of each of the 2031 Notes and the 2050 Notes in the prescribed format within such period as the MAS may specify and such other particulars in connection with such Notes as the MAS may require, Qualifying Income from the 2031 Notes and the 2050 Notes paid by the Issuer and derived by any company or a body of persons (as defined in the ITA) in Singapore is subject to income tax at a concessionary rate of 10 per cent. (except for holders of the relevant Financial Sector Incentive(s) who may be taxed at different rates); and

(c) subject to:

    (i) the Issuer including in all offering documents relating to the Notes a statement to the effect that any person whose interest, discount income, prepayment fee, redemption premium or break cost derived from the 2031 Notes or the 2050 Notes is not exempt from tax shall include such income in a return of income made under the ITA; and

    (ii) the furnishing by the Issuer, or such other person as the MAS may direct, to the MAS of a return on debt securities in respect of each of the 2031 Notes and the 2050 Notes in the prescribed format within such period as the MAS may specify and such other particulars in connection with such Notes as the MAS may require,

    payments of Qualifying Income from the 2031 Notes and the 2050 Notes are not subject to withholding of tax (if any) by the Issuer.

Notwithstanding the foregoing:

(a) if during the primary launch of the 2031 Notes and the 2050 Notes, the 2031 Notes and the 2050 Notes (as the case may be) are issued to fewer than four persons, and 50 per cent. or more of the issue of such 2031 Notes or the 2050 Notes (as the case may be) is beneficially held or funded, directly or indirectly, by related parties of the Issuer, the 2031 Notes or the 2050 Notes (as the case may be) would not qualify as QDS; and

(b) even though the 2031 Notes and the 2050 Notes are QDS, if, at any time during the tenor of the Notes, 50 per cent. or more of the 2031 Notes or the 2050 Notes (as the case may be) which are outstanding at any time during the life of their issue is beneficially held or funded, directly or indirectly, by any related party(ies) of the Issuer, Qualifying Income derived from such 2031 Notes or the 2050 Notes (as the case may be) held by:-

    (i) any related party of the Issuer; or

    (ii) any other person where the funds used by such person to acquire such the 2031 Notes or the 2050 Notes (as the case may be) are obtained, directly or indirectly, from any related party of the Issuer,

    shall not be eligible for the tax exemption or concessionary rate of tax as described above.

Foreign-sourced income received or deemed to be received in Singapore from outside Singapore is subject to income tax in Singapore, subject to certain exemptions.

All foreign-sourced income received or deemed received in Singapore by Singapore tax-resident individuals is exempt from Singapore income tax, provided such foreign-sourced income is not received through a partnership in Singapore. Further, all foreign-sourced income received in Singapore by any individual who is not resident in Singapore is exempt from Singapore income tax.

The term "**related party**", in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

The terms "**prepayment fee**", "**redemption premium**" and "**break cost**" are defined in the ITA as follows:

- "prepayment fee", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities;

- "redemption premium", in relation to debt securities and qualifying debt securities, means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity; and

- "break cost", in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption.

References to "prepayment fee", "redemption premium" and "break cost" in this Singapore tax disclosure have the same meaning as defined in the ITA.

Where interest, discount income, prepayment fee, redemption premium or break cost (i.e. the Qualifying Income) is derived from the 2031 Notes or the 2050 Notes by any person who is not resident in Singapore and who carries on any operations in Singapore through a permanent establishment in Singapore, the tax exemption available for QDS under the ITA (as mentioned above) shall not apply if such person acquires the 2031 Notes or the 2050 Notes (as the case may be) using the funds and profits of such person's operations through a permanent establishment in Singapore. Any person whose interest, discount income, prepayment fee, redemption premium or break cost (i.e. the Qualifying Income) derived from the 2031 Notes and the 2050 Notes is not exempt from tax is required to include such income in a return of income made under the ITA.

Capital gains

Any gains considered to be in the nature of capital made from the sale of the Notes will not be taxable in Singapore. However, any gains derived by any person from the sale of the Notes which are gains from any trade, business, profession or vocation carried on by that person, if accruing in or derived from Singapore, may be taxable as such gains are considered revenue in nature.

Holders of the Notes who apply or are required to apply Singapore Financial Reporting Standard ("**FRS**") 39, FRS 109 or Singapore Financial Reporting Standard (International) 9 ("**SFRS(I) 9**") (as the case may be) may, for Singapore income tax purposes be required to recognize gains or losses (not being gains or losses in the nature of capital) on the Notes, irrespective of disposal, in accordance with FRS 39, FRS 109 or SFRS(I) 9 (as the case may be). Please see the section below on "Adoption of FRS 39, FRS 109 and SFRS(I) 9 for Singapore income tax purposes".

Adoption of FRS 39, FRS 109 and SFRS(I) 9 for Singapore income tax purposes

Section 34A of the ITA provides for the tax treatment for financial instruments in accordance with FRS 39 (subject to certain exceptions and "opt-out" provisions) to taxpayers who are required to comply with FRS 39 for financial reporting purposes. The Inland Revenue Authority of Singapore has also issued a circular entitled "Income Tax Implications Arising from the Adoption of FRS 39 — Financial Instruments: Recognition and Measurement".

FRS 109 or SFRS(I) 9 (as the case may be) is mandatorily effective for annual periods beginning on or after January 1, 2018, replacing FRS 39. Section 34AA of the ITA requires taxpayers who comply or who are required to comply with FRS 109 or SFRS(I) 9 for financial reporting purposes to calculate their profit, loss or expense for Singapore income tax purposes in respect of financial instruments in accordance with FRS 109 or SFRS(I) 9 (as the case may be), subject to certain exceptions. The Inland Revenue Authority of Singapore has also issued a circular entitled "Income Tax: Income Tax Treatment Arising from Adoption of FRS 109 — Financial Instruments".

Holders of the Notes who may be subject to the tax treatment under Section 34A or 34AA of the ITA should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding or disposal of the Notes.

Estate duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after February 15, 2008.

FOREIGN EXCHANGE AND FOREIGN INVESTMENT REGULATIONS

FOREIGN EXCHANGE REGULATIONS

Philippine foreign exchange rules and regulations of the BSP have been liberalized since 1992. Under present regulations, as a general rule, foreign exchange may be freely sold and purchased outside the Philippine banking system. If foreign currency obligations of Philippine borrowers (or guarantors) are to be serviced with foreign exchange purchased from the Philippine banking system, the borrower (or guarantor) must notify the BSP within one month of signing the loan agreement and must registered with the BSP within a month for the drawdown date (for short-term loans) or six months from the utilization of proceeds (for medium-and long-term loans). BSP's rules generally limit access to the purchase of foreign currency sourced from the Philippine banking system to fund payment obligations offshore to only those private sector foreign currency loans that had been previously approved by or registered with, the BSP, as required under the Manual on Foreign Exchange Transactions ("**MORFTXT**"). However, certain private sector loans do not require prior BSP approval or subsequent registration before their payment may be serviced using foreign exchange purchased from within the Philippine banking system, such as foreign currency loans of resident borrowers from banks operating in the Philippines that are not publicly-guaranteed and are reported by the creditor bank to the BSP.

Outside of Philippine banks, there are other sources of foreign currency. These include non-Philippine banks and individuals and other non-bank entities licensed to engage in the business of buying and selling foreign currency. The amount of foreign currencies such entities may sell is subject to thresholds as may be prescribed by the BSP. Further, these other sources of foreign currency outside the Philippine banking system may be subject to greater exchange rate volatility and liquidity constraints. In addition to the foregoing, foreign currency receipts, acquisitions or earnings received by Philippine companies from non-trade sources and/or exports may be used freely for any purpose. Such proceeds may be freely traded within and freely remitted outside the Philippines, without being subject to these foreign exchange restrictions imposed by the BSP.

REGISTRATION OF FOREIGN LOANS AND FOREIGN INVESTMENTS

Registration with the BSP for the issuance of offshore borrowings is not required for the legal validity and enforceability of such obligations. The registration process takes time and involves costs for the applicant. Further, current BSP regulations provide that outstanding foreign loans may be refinanced by private sector foreign loans, provided that the obligations to be refinanced are duly registered (for those requiring registration) with, or reported (for those requiring mere reporting) to, the BSP, pursuant to Sections 24.1 to 24.3 of the MORFTXT. The benefit of registration with the BSP is that it would, assuming the BSP determines the applicant to be eligible for such registration under certain criteria, allow a borrower or guarantor to access the Philippine banking system to obtain foreign currency, such as U.S. dollars to service such debt obligations. Otherwise, the payment currency must be obtained from other sources as described above. See "*Risk Factors — Risks Relating to the Notes — The Issuer has not registered the Notes with the BSP.*"

CLEARANCE AND SETTLEMENT OF THE NOTES

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream, Luxembourg (together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer nor any Manager takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Custodial and depositary links have been established with Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and transfers of the Notes associated with secondary market trading.

THE CLEARING SYSTEMS

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organizations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry of changes in the accounts of their participants. Euroclear and Clearstream, Luxembourg provide their respective participants with, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Registration and Form

Book-entry interests in the Notes held through Euroclear and Clearstream, Luxembourg will be evidenced by the Global Certificate, registered in the name of nominee of the common depositary of Euroclear and Clearstream, Luxembourg. The Global Certificate will be held by a common depositary for Euroclear and Clearstream, Luxembourg. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Notes in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg, as the case may be, and every other intermediate holders in the chain to the beneficial owner of book-entry interests in the Notes, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interest in the Notes. The Registrar will be responsible for maintaining a record of the aggregate holdings of Notes registered in the name of a common nominee for Euroclear and Clearstream, Luxembourg and/or if individual Certificates are issued in the limited circumstances described under "The Global Certificate – Registration of Title", holders of Notes represented by those individual Certificates. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Issuer for holders of interests in the Notes holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer will not impose any fees in respect to the Notes; however, holders of book-entry interest in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream, Luxembourg.

CLEARANCE AND SETTLEMENT PROCEDURES

Initial Settlement

Upon their original issue, the Notes will be in global form represented by the Global Certificate. Interests in the Notes will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the Notes through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the Notes will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Closing Date against payment (for value the Closing Date).

Secondary Market Trading

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional participants.

GENERAL

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Notes among participants of Euroclear and Clearstream, Luxembourg, none of Euroclear and Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

Neither of the Issuer nor any of its agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

SUBSCRIPTION AND SALE

The Issuer has entered into a subscription agreement with the Managers dated June 16, 2020 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer agreed to sell to the Managers, and the Managers agreed to severally but not jointly subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the Notes.

The Subscription Agreement provides that the Issuer will indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement provides that the obligations of the Managers are subject to certain conditions precedent, and entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Managers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. The Managers and certain affiliates may have performed, and may in the future perform, certain investment banking and advisory services for the Issuer or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer or its affiliates in the ordinary course of their business.

The Managers or certain affiliates may purchase the Notes and be allocated the Notes for asset management or proprietary purposes but not with a view to distribution. The Issuer or the Managers expect to pay commissions to certain third parties (including, without limitation, commission or rebate to private banks).

The Managers or their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes or other securities of the Issuer or the Issuer's subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). A portion of the Notes may be allocated to the Managers or their respective affiliates for the purpose of facilitating market making activities.

OFFERING AND SELLING RESTRICTIONS

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Manager or its affiliate on behalf of the Issuer in such jurisdiction.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented and warranted that it has not offered or sold, and has agreed that it will not offer or sell, any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it nor its affiliates or any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Each Manager has represented that it has not entered and has agreed that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Notes, except with its affiliates or with the prior written consent of the Issuer.

Terms used in this paragraph have the meanings given to them by Regulation S.

United Kingdom

Each Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Manager has represented, warranted and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(a) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(b) where no consideration is or will be given for the transfer;

(c) where the transfer is by operation of law;

(d) as specified in Section 276(7) of the SFA; or

(e) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term or provision as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Singapore SFA Product Classification: In connection with Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Philippines

THE NOTES BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE SRC. ANY FUTURE OFFER OR SALE OF THE NOTES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

The offer or sale of the Notes in the Philippines to persons who are "qualified buyers" pursuant to Section 10.1(l) of the SRC, the 2015 Implementing Rules and Regulations of the SRC (the "**SRC Rules**"), and other issuances of the Philippines SEC is exempt from registration. Each of the Managers has represented, warranted and agreed that it has not and will not sell or offer for sale or distribution any Notes in the Philippines except to "qualified buyers" pursuant to Section 10.1(1) of the SRC, the SRC Rules and other issuances of the Philippine SEC.

The Issuer has not obtained any confirmation of exemption from the Philippine SEC in respect of any offer or sale of the Notes within the Philippines. Unless such confirmation of exemption in respect of any offer or sale of the Notes is issued by the Philippine SEC, any person claiming exemption under Section 10.1 of the SRC has the burden of proof, if challenged, of showing that it is entitled to the exemption. The Philippine SEC may challenge such exemption anytime.

No securities sold under exempt transactions shall be offered for sale or sold to the public without prior registration. Notwithstanding that a particular class of securities issued under the SRC is exempt from registration, the conduct by any person in the purchase, sale, distribution, settlement and other post-trade activities involving such securities, shall comply with the provisions of the SRC and its implementing rules. The sale or offer for sale of a security in an exempt transaction shall not be exempt from civil liability and related liabilities and other applicable provisions of the SRC on fraud, among others.

General

No action has been or will be taken in any jurisdiction by the Issuer, or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

LEGAL MATTERS

Certain matters as to Philippine law will be passed upon for the Issuer by Picazo Buyco Tan Fider & Santos. Certain legal matters as to English law will be passed upon for the Issuer by Latham & Watkins LLP. Certain legal matters as to Philippine law will be passed upon for the Managers by SyCip Salazar Hernandez & Gatmaitan. Certain legal matters as to English law will be passed upon for the Managers by Milbank LLP.

INDEPENDENT AUDITORS

SGV & Co., a member firm of Ernst & Young Global Limited, independent auditors, audited the consolidated financial statements as at December 31, 2019, 2018, and 2017 and for each of the years then ended, in accordance with Philippine Standards on Auditing, and reviewed the unaudited interim consolidated financial statements as at March 31, 2020 and for the three months ended March 31, 2020 and 2019, in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor*, set forth in their respective reports, which are included herein. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing. Consequently, it does not enable them to obtain assurance that they would become aware of all significant matters that might be identified in an audit. Accordingly, they do not express an audit opinion on the unaudited interim consolidated financial statements.

GLOSSARY OF SELECTED TERMS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set forth below.

Alpha	PLDT Alpha Enterprise
BSP	Bangko Sentral ng Pilipinas
BTFHI	BTF Holdings, Inc.
Constitution	1987 Philippine Constitution
CA	Court of Appeals
CEN	Carrier ethernet network
CPCN	Certificate of Public Convenience and Necessity
Data Privacy Act	Republic Act No. 10173
DFON	Domestic fiber optic network
DICT	Department of Information and Communications Technology
Digitel	Digital Telecommunications Phils., Inc.
Dito	Dito Telecommunity Corporation
DMPI	Digitel Mobile Philippines Inc.
DOLE	Department of Labor and Employment of the Philippines
ePLDT	ePLDT, Inc.
ePLDT Group	ePLDT and its consolidated subsidiaries, and associates and joint ventures
FATCA	U.S. Foreign Account Tax Compliance Act
First Pacific	First Pacific Company Limited
FPIML	First Pacific Investment Management Limited
FTTB	Fiber to the building
FTTH	Fiber to the home network
GB	Gigabyte
Gbps	Billions of bits per second
Globe	Globe Telecom, Inc.
Gotuaco	Gotuaco del Rosario and Associates
Huawei	Huawei Technologies Co. Ltd.
IATF	Inter-Agency Task Force of Emerging Infectious Disease
ICT	Information and communication technology
IFC	International Finance Corporation
IoT	Internet of Things
IPBB	IP backbone network
JG Summit Group	JG Summit Holdings, Inc. and its affiliates
KKR	KKR & Co. Inc.
LCS Group	LCS Holdings, Inc.
Maratel	PLDT-Maratel, Inc.
Mbps	Megabytes per second
MIESCOR	Meralco Industrial Engineering Services Corporation

Mislatel	Mindanao Islamic Telephone Company
MNO	Mobile network operator
MNP	Mobile number portability
MNP Act	Memorandum Circular No. 03-06-2019 or the Mobile Number Portability Act
MNP Consortium	A consortium consisting of Udenna Corporation, Chelsea Logistics Corporation and Infrastructure Holdings Corp. and China Telecommunications Corporation
Multisys	Multisys Technologies Corporation
MVNO	Mobile virtual network operations
NPC	National Privacy Commission
NTC	National Telecommunications Commission
NTT Communications	NTT Communications Corporation
NTT DOCOMO	NTT DOCOMO, Inc.
Orange	Orange International Carriers
OTT	Over-the-top services
PCC	Philippine Competition Commission
PGC	PLDT Global Corporation
Philippine Competition Act	Republic Act No. 10667
PLDT	PLDT Inc.
PLDT-BTF	PLDT Beneficial Trust Fund
Philcom	PLDT-Philcom Inc.
PFS	Postpaid Field Sales, a channel for postpaid sales targeting corporate individuals and capable communities
PSE	Philippine Stock Exchange
PTEs	Public telecommunications entities
SDN	Software defined network
Sky Cable	Sky Cable Corporation
Smart	Smart Communications, Inc.
SMC Transactions	PLDT's investments in Vega Telecom Inc., Bow Arken Holdings Company and Brightshare Holdings, Inc.
SME	PLDT Smart SME Nation
SMS	Short messaging service
SubicTel	PLDT Subic Telecom, Inc.
Tbps	Terabytes per second
Tencent	Tencent Holdings Ltd.
TNT Project	PLDT's Transport Network Transformation Project
UMB platform	Smart's unstructured supplementary service data menu browser menu browser platform
VIH	Voyager Innovations Holdings, Pte. Ltd.
VPN	Virtual private network
VVDSL	Very high-speed digital subscriber line
5G	Fifth-generation wireless

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

REPORT ON REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Stockholders and the Board of Directors
PLDT Inc.

Introduction

We have reviewed the accompanying interim consolidated financial statements of PLDT Inc. and its subsidiaries, which comprise the interim consolidated statement of financial position as at March 31, 2020 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2020 and 2019, and other explanatory information. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not prepared, in all material respects, in accordance with PAS 34, *Interim Financial Reporting* .

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. 8125270, January 7, 2020, Makati City

June 14, 2020

PLDT INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in million pesos)

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Noncurrent Assets		
Property and equipment (Notes 9 and 22)	**242,512**	232,134
Right-of-use assets (Note 10)	**16,065**	15,890
Investments in associates and joint ventures (Note 11)	**53,325**	53,863
Financial assets at fair value through profit or loss (Note 12)	**2,926**	3,369
Investment properties (Notes 6 and 14)	**778**	778
Goodwill and intangible assets (Note 15)	**67,649**	67,825
Deferred income tax assets – net (Note 7)	**22,333**	23,623
Derivative financial assets – net of current portion (Note 28)	**1**	1
Prepayments – net of current portion (Notes 19 and 25)	**50,737**	48,933
Financial assets at fair value through other comprehensive income – net of current portion (Notes 6, 11 and 25)	**161**	162
Contract assets – net of current portion (Note 5)	**755**	750
Other financial assets – net of current portion (Note 28)	**2,053**	1,986
Other non-financial assets – net of current portion	**143**	136
Total Noncurrent Assets	**459,438**	449,450
Current Assets		
Cash and cash equivalents (Note 16)	**30,944**	24,369
Short-term investments (Note 28)	**2,949**	314
Trade and other receivables (Note 17)	**24,434**	22,436
Inventories and supplies (Note 18)	**2,868**	3,412
Current portion of contract assets (Notes 5 nd 29)	**1,931**	1,997
Current portion of derivative financial assets (Note 28)	**28**	41
Current portion of debt instruments at amortized cost (Note 13)	**—**	150
Current portion of prepayments (Note 19)	**11,518**	11,298
Current portion of financial assets at fair value through other comprehensive income (Notes 6, 11 and 25)	**2,793**	2,757
Current portion of other financial assets (Notes 20 and 28)	**8,088**	8,086
Current portion of other non-financial assets	**361**	717
Total Current Assets	**85,914**	75,577
TOTAL ASSETS	**545,352**	525,027
EQUITY AND LIABILITIES		
Equity		
Non-voting serial preferred stock (Note 20)	**360**	**360**
Voting preferred stock (Note 20)	**150**	**150**
Common stock (Note 20)	**1,093**	**1,093**
Treasury stock (Note 20)	**(6,505)**	**(6,505)**
Treasury shares under employee benefit trust (Note 26)	**(23)**	**(394)**
Capital in excess of par value (Note 20)	**130,312**	**130,312**
Other equity reserves (Note 26)	**24**	**276**
Retained earnings (Note 20)	**15,534**	**18,063**
Other comprehensive loss (Note 6)	**(32,224)**	**(31,368)**
Total Equity Attributable to Equity Holders of PLDT (Note 28)	**108,721**	**111,987**
Noncontrolling interests (Note 6)	**4,308**	**4,303**
TOTAL EQUITY	**113,029**	**116,290**

See accompanying Notes to Interim Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (*continued*)
(in million pesos)

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 21 and 28)	**166,075**	172,834
Lease liabilities – net of current portion (Note 10)	**12,676**	13,100
Deferred income tax liabilities (Note 7)	**2,513**	2,583
Derivative financial liabilities – net of current portion (Note 28)	**14**	25
Customers' deposits (Note 28)	**2,206**	2,205
Pension and other employee benefits (Note 26)	**9,504**	8,985
Deferred credits and other noncurrent liabilities (Note 22)	**3,767**	4,557
Total Noncurrent Liabilities	**196,755**	204,289
Current Liabilities		
Accounts payable (Note 23)	**80,545**	77,845
Accrued expenses and other current liabilities (Notes 24 and 27)	**100,717**	100,815
Current portion of interest-bearing financial liabilities (Notes 21 and 28)	**39,263**	19,722
Current portion of lease liabilities (Note 10)	**3,657**	3,215
Dividends payable (Note 20)	**10,007**	1,584
Current portion of derivative financial liabilities (Note 28)	**81**	88
Income tax payable	**1,298**	1,179
Total Current Liabilities	**235,568**	204,448
TOTAL LIABILITIES	**432,323**	408,737
TOTAL EQUITY AND LIABILITIES	**545,352**	525,027

See accompanying Notes to Interim Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED INCOME STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(in million pesos, except earnings per common share amounts which are in pesos)

	2020	2019
	(Unaudited)	
REVENUES		
Service revenues (Note 5)	**41,797**	**38,792**
Non-service revenues (Note 5)	**1,849**	**1,826**
	43,646	**40,618**
EXPENSES		
Selling, general and administrative expenses (Note 5)	**17,851**	**15,891**
Depreciation and amortization (Notes 9 and 10)	**10,286**	**9,346**
Cost of sales and services (Note 5)	**3,029**	**2,884**
Asset impairment (Note 5)	**1,060**	**1,357**
Interconnection costs	**302**	**835**
	32,528	**30,313**
	11,118	**10,305**
OTHER EXPENSES – NET (Note 5)	**(2,787)**	**(1,292)**
INCOME BEFORE INCOME TAX	**8,331**	**9,013**
PROVISION FOR INCOME TAX (Note 7)	**2,356**	**2,290**
NET INCOME	**5,975**	**6,723**
ATTRIBUTABLE TO:		
Equity holders of PLDT (Note 8)	**5,912**	**6,708**
Noncontrolling interests	**63**	**15**
	5,975	**6,723**
Earnings Per Share Attributable to Common Equity Holders of PLDT (Note 8)		
Basic	**27.30**	30.98
Diluted	**27.30**	30.98

See accompanying Notes to Interim Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended March 31, 2020 and 2019
(in million pesos)

	2020	2019
	(Unaudited)	
NET INCOME	**5,975**	6,723
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)		
Fair value changes of financial assets at fair value through other comprehensive income (Note 25)	**2**	33
Net transactions on cash flow hedges:	**(15)**	(76)
Net fair value losses on cash flow hedges (Note 28)	**(23)**	(103)
Income tax related to fair value adjustments charged directly to equity (Note 7)	**8**	27
Foreign currency translation differences of subsidiaries	**(330)**	43
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(343)**	–
Share in the other comprehensive loss of associates and joint ventures accounted for using the equity method (Note 11)	**(5)**	(6)
Actuarial losses on defined benefit obligations:	**(508)**	(550)
Remeasurement in actuarial losses on defined benefit obligations (Note 26)	**(725)**	(786)
Income tax related to remeasurement adjustments (Note 7)	**217**	236
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	**(513)**	(556)
Total Other Comprehensive Loss – Net of Tax	**(856)**	(556)
TOTAL COMPREHENSIVE INCOME	**5,119**	6,167
ATTRIBUTABLE TO:		
Equity holders of PLDT	**5,056**	6,152
Noncontrolling interests	**63**	15
	5,119	6,167

See accompanying Notes to Interim Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Three Months Ended March 31, 2020 and 2019
(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Treasury Shares under Employee Benefit Trust	Capital in Excess of Par Value	Other Equity Reserves	Retained Earnings	Other Comprehensive (Loss)	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
Balances as at January 1, 2020	**510**	**1,093**	**(6,505)**	**(394)**	**130,312**	**276**	**18,063**	**(31,368)**	**111,987**	**4,303**	**116,290**
Treasury shares under employee benefit trust (Note 26)	–	–	–	**371**	–	–	–	–	**371**	–	**371**
Other equity reserves (Note 26)	–	–	–	–	–	**(252)**	–	–	**(252)**	–	**(252)**
Cash dividends (Note 20)	–	–	–	–	–	–	**(8,441)**	–	**(8,441)**	–	**(8,441)**
Total comprehensive income (loss):	–	–	–	–	–	–	**5,912**	**(856)**	**5,056**	**63**	**5,119**
Net income (Note 8)	–	–	–	–	–	–	**5,912**	–	**5,912**	**63**	**5,975**
Other comprehensive loss (Note 6)	–	–	–	–	–	–	–	**(856)**	**(856)**	–	**(856)**
Distribution charges on perpetual notes (Note 20)	–	–	–	–	–	–	–	–	–	**(58)**	**(58)**
Balances as at March 31, 2020 (Unaudited)	**510**	**1,093**	**(6,505)**	**(23)**	**130,312**	**24**	**15,534**	**(32,224)**	**108,721**	**4,308**	**113,029**
Balances as at January 1, 2019 (as previously stated)	510	1,093	(6,505)	(854)	130,526	697	12,081	(25,190)	112,358	4,308	116,666
Effect of adoption of PFRS 16	–	–	–	–	–	–	(1,253)	–	(1,253)	–	(1,253)
Balances as at January 1, 2019 (as restated)	510	1,093	(6,505)	(854)	130,526	697	10,828	(25,190)	111,105	4,308	115,413
Treasury shares under employee benefit trust (Note 26)	–	–	–	460	–	–	–	–	460	–	460
Other equity reserves (Note 26)	–	–	–	–	–	(504)	–	–	(504)	–	(504)
Cash dividends (Note 20)	–	–	–	–	–	–	(7,793)	–	(7,793)	–	(7,793)
Total comprehensive income (loss):	–	–	–	–	–	–	6,708	(556)	6,152	15	6,167
Net income (Note 8)	–	–	–	–	–	–	6,708	–	6,708	15	6,723
Other comprehensive loss (Note 6)	–	–	–	–	–	–	–	(556)	(556)	–	(556)
Distribution charges on perpetual notes (Note 20)	–	–	–	–	–	–	(59)	–	(59)	–	(59)
Balances as at March 31, 2019 (Unaudited)	**510**	**1,093**	**(6,505)**	**(394)**	**130,526**	**193**	**9,684**	**(25,746)**	**109,361**	**4,323**	**113,684**

See accompanying Notes to Interim Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2020 and 2019
(in million pesos)

	2020	2019
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**8,331**	9,013
Adjustments for:		
Depreciation and amortization (Notes 9 and 10)	**10,286**	9,346
Interest on loans and other related items – net (Note 5)	**2,016**	1,740
Asset impairment (Note 5)	**1,060**	1,357
Equity share in net losses of associates and joint ventures (Notes 5 and 11)	**532**	370
Pension benefit costs (Notes 5 and 26)	**479**	355
Accretion on lease liabilities (Notes 5, 10 and 29)	**230**	222
Incentive plan (Notes 5 and 26)	**210**	90
Amortization of intangible assets (Notes 5 and 15)	**176**	196
Losses on disposal of property and equipment (Note 9)	**48**	14
Accretion on financial liabilities (Notes 5 and 21)	**31**	31
Foreign exchange losses – net (Notes 5 and 9)	**24**	18
Losses on derivative financial instruments – net (Notes 5 and 28)	**12**	3
Interest income (Note 5)	**(358)**	(552)
Impairment of investments (Note 11)	**—**	34
Others	**376**	(377)
Operating income before changes in assets and liabilities	**23,453**	21,860
Decrease (increase) in:		
Prepayments	**(2,129)**	(4,653)
Other financial and non-financial assets	**429**	159
Trade and other receivables	**(2,776)**	774
Inventories and supplies	**596**	149
Contract assets	**(6)**	246
Increase (decrease) in:		
Customers' deposits	**—**	2
Pension and other employee benefits	**(1,392)**	(2,570)
Other noncurrent liabilities	**(473)**	(29)
Accounts payable	**(564)**	2,430
Accrued expenses and other current liabilities	**154**	(1,337)
Net cash flows generated from operations	**17,292**	17,031
Income taxes paid	**(372)**	(554)
Net cash flows from operating activities	**16,920**	16,477

See accompanying Notes to Interim Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS *(continued)*
For the Three Months Ended March 31, 2020 and 2019
(in million pesos)

	2020	2019
	(Unaudited)	
CASH FLOWS USED IN INVESTING ACTIVITIES		
Interest received	**380**	577
Proceeds from:		
Maturity of short-term investments	**303**	1,167
Redemption of investment in debt securities	**150**	—
Disposal of property and equipment (Note 9)	**33**	37
Payments for:		
Interest capitalized to property and equipment (Notes 5 and 9)	**(391)**	(358)
Purchase of short-term investments	**(2,943)**	(105)
Purchase of property and equipment (Note 9)	**(16,683)**	(18,580)
Acquisition of investments in subsidiaries – net of cash acquired	**—**	(69)
Disposal of financial assets at fair value through profit or loss (Note 12)	**—**	(82)
Increase in other financial and non-financial assets	**(88)**	(61)
Net cash flows used in investing activities	**(19,239)**	(17,474)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from:		
Availments of long-term debt (Notes 21 and 29)	**12,000**	4,000
Availments of short-term debt (Notes 21 and 29)	**4,000**	—
Derivative financial instruments (Notes 28 and 29)	**—**	25
Payments for:		
Cash dividends (Notes 20 and 29)	**(18)**	(15)
Derivative financial instruments (Notes 28 and 29)	**(41)**	—
Distribution charges on perpetual notes (Note 20)	**(59)**	(59)
Debt issuance costs (Notes 21 and 29)	**(124)**	—
Obligations under lease liabilities (Notes 10 and 29)	**(1,788)**	(1,313)
Interest – net of capitalized portion (Notes 5, 21 and 29)	**(1,955)**	(1,703)
Long-term debt (Notes 21 and 29)	**(3,119)**	(6,320)
Net cash flows from (used in) financing activities	**8,896**	(5,385)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(2)**	14
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,575**	(6,368)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD (Note 16)	**24,369**	51,654
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (Note 16)	**30,944**	45,286

See accompanying Notes to Interim 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 March 31, 2020. 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 March 31, 2020. 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 March 31, 2020, the JG Summit Group beneficially owned approximately 11% 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 7%, respectively, as at March 31, 2020. See *Note 20 – Equity – Preferred Stock – Voting Preferred Stock* and *Note 27 – 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 18.6 million ADSs outstanding as at March 31, 2020.

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

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

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines. Information on our structure is provided in *Note 2 – Summary of Significant Accounting Policies – Basis of Consolidation*. Information on other related party relationships of the PLDT Group is provided in *Note 25 – Related Party Transactions*.

Our interim consolidated financial statements as at March 31, 2020 and December 31, 2019, and for the three-months ended March 31, 2020 and 2019 were approved and authorized for issuance by the Board of Directors on May 7, 2020.

Articles of Incorporation

On April 8, 2020, the Board of Directors approved the amendment of the Second Article of the Articles of Incorporation of PLDT, or the Amendment, (a) to reflect the current focus of PLDT's business, which is the provision of telecommunications services through trending and constantly evolving technologies and innovative products and services; and (b) to allow sufficient flexibility for the PLDT business units to design their operations and expand their products and services by constantly transforming PLDT from being the country's leading telecommunications company to a dynamic and customer-centric multi-media organization.

The Amendment was submitted for approval by the Stockholders in the June 9, 2020 Annual Meeting of Stockholders of PLDT.

2. Summary of Significant Accounting Policies

Basis of Preparation

Our interim consolidated financial statements have been prepared in accordance with Philippine Accounting Standard, or PAS 34, *Interim Financial Reporting,* as issued by the Philippine Financial Reporting Standards Council, or FRSC.

Our interim consolidated financial statements have been prepared under the historical cost basis, except for financial instruments at fair value through profit or loss, or FVPL, financial instruments at fair value through other comprehensive income, or FVOCI, and investment properties that are measured at fair values.

Our interim consolidated financial statements include adjustments consisting only of normal recurring adjustments, necessary to present fairly the results of operations for the interim periods. The results of operations for the three months ended March 31, 2020 are not necessarily indicative of the results of operations that may be expected for the full year.

Our interim 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.

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

Basis of Consolidation

Our interim consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group") as at March 31, 2020 and December 31, 2019:

			March 31, 2020 (Unaudited)		December 31, 2019 (Audited)	
			Percentage of Ownership			
Name of Subsidiary	**Place of Incorporation**	**Principal Business Activity**	**Direct**	**Indirect**	Direct	Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	**100.0**	**—**	100.0	—
Smart Broadband, Inc., or SBI, and Subsidiary	Philippines	Internet broadband distribution services	**—**	**100.0**	—	100.0
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services	**—**	**100.0**	—	100.0
I-Contacts Corporation	Philippines	Operations support servicing business	**—**	**100.0**	—	100.0
Smart Money Holdings Corporation, or SMHC[(a)]	Cayman Islands	Investment company	**—**	**100.0**	—	100.0
Far East Capital Limited, or FECL[(b)]	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[(b)]	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.[(b)]	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.[(b)]	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	**—**	**100.0**	—	100.0
netGames, Inc.[(b)]	Philippines	Gaming support services	**—**	**57.5**	—	57.5
MVP Rewards Loyalty Solutions, Inc., or MRSI	Philippines	Full-services customer rewards and loyalty programs	**—**	**100.0**	—	100.0

Name of Subsidiary	Place of Incorporation	Principal Business Activity	March 31, 2020 (Unaudited) Direct	Indirect	December 31, 2019 (Audited) Direct	Indirect
			Percentage of Ownership			
Digitel:	Philippines	Telecommunications services	**99.6**	**—**	99.6	—
Digitel Information Technology Services, Inc.[b]	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	—
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[b]	Philippines	Investment company	**67.0**	**—**	67.0	—
PLDT Global Investments Corporation, or PGIC	British Virgin Islands	Investment company	**—**	**100.0**	—	100.0
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment company	**—**	**99.9**	—	99.9

[a] *In 2019, SMHC was dissolved.*
[b] *Ceased commercial operations.*

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 interim 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 PLDT and to the noncontrolling interests, even if this results in the noncontrolling 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 Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

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%. On November 7, 2019, ePLDT acquired the 5% minority interest in ePDS for a consideration of Php20 million, thereby increasing its equity interest in ePDS from 95% to 100%. This transaction was eliminated in our interim consolidated financial statements.

Expiration of Digitel's Legislative Franchise

On February 17, 1994, the Philippine Congress granted a legislative franchise to Digitel under R.A. No. 7678 to install, operate and maintain telecommunications systems throughout the Philippines for public domestic and international telecommunications, and for other purposes. R.A. No. 7678 expired on February 17, 2019 and was not renewed due to the migration of all of its subscribers to PLDT in January 2018. Our management is currently assessing the business direction of Digitel moving forward. PLDT has committed to provide financial support to discharge its liabilities as the need arises.

Decrease in PCEV's Authorized Capital Stock and Par Value of Common Stock

On May 10, 2019 and June 25, 2019, PCEV's Board of Directors and stockholders, respectively, approved the following resolutions and amendments to the articles of incorporation of PCEV: (a) decrease in the par value of common stock; and (b) decrease in the authorized capital stock as follows:

	Prior to Amendments			After Amendments		
	Authorized Capital (Php)	Number of Shares	Par Value (Php)	Authorized Capital (Php)	Number of Shares	Par Value (Php)
	(in millions)			(in millions)		
Common Stock	12,060	1	21,000	**4,996**	**1**	**8,700**
Class I Preferred Stock	67	33	2	**67**	**33**	**2**
Class II Preferred Stock	50	50	1	**50**	**50**	**1**
Total Authorized Capital Stock	**12,177**	**84**		**5,113**	**84**	

The decrease in PCEV's authorized capital was approved by the Philippine SEC on December 19, 2019. Consequently, the partial return of capital representing their proportionate share in the decrease in par value amounting to Php6,825 million and Php4 million were paid to Smart and PCEV's minority shareholders, respectively. This transaction was eliminated in our interim consolidated financial statements.

Expiration of Philcom's Legislative Franchise

Effective September 15, 2019, Philcom ceased to operate as a telecommunications service provider, pursuant to the expiration of its legislative franchise, R.A. 7783. In order to facilitate continued customer service, arrangements have been made between Philcom and PLDT where PLDT would make its services available to the affected Philcom subscribers on voluntary basis. The NTC interposed no objection to the transfer of Philcom's subscribers to PLDT, subject to certain conditions. Consequently, Philcom and PLDT executed a Deed of Assignment on August 15, 2019 and September 13, 2019 wherein all property and equipment of Philcom, accounts receivable, inventories and subscribers were transferred to PLDT for a total consideration of Php1,760 million and Php319 million, respectively, after complying with the conditions imposed by NTC. PLDT has committed to provide financial support to discharge its liabilities as the need arises. This transaction was eliminated in our interim consolidated financial statements.

Expiration of SubicTel's Franchise

Effective January 23, 2020, SubicTel ceased to operate as a telecommunications service provider, pursuant to the expiration of its franchise issued by the Subic Bay Metropolitan Authority, or SBMA. In order to facilitate continued customer service, arrangements have been made between SubicTel and PLDT where PLDT would make its services available to the affected SubicTel subscribers on voluntary basis. The NTC interposed no objection to the transfer of SubicTel's subscribers to PLDT, subject to certain conditions. Likewise, the SBMA Board approved the issuance of Certificate of Registration to PLDT to operate within SBMA. On September 24, 2019, the PLDT Board of Directors approved the acquisition of the assets and subscribers of SubicTel for a total consideration of Php675 million. PLDT has committed to provide financial support to discharge its liabilities as the need arises. This transaction was eliminated in our interim consolidated financial statements.

Expiration of Maratel's Legislative Franchise

Effective April 2020, Maratel ceased to operate as a telecommunications service provider, following the expiration of its legislative franchise, R.A. 7970. In order to ensure continued customer service, Maratel will assign its assets and subscribers, or the "Maratel Subscribers", to PLDT who undertakes to offer its services to Maratel Subscribers on voluntary basis. The NTC interposed no objection to the transfer of Maratel's subscribers to PLDT, subject to certain conditions. On November 7, 2019, the PLDT Board of Directors approved the acquisition of the assets and Maratel Subscribers for a total consideration of Php442 million. PLDT has committed to provide financial support to discharge its liabilities as the need arises. This transaction was eliminated in our interim consolidated financial statements.

Corona Virus, or Covid-19, Outbreak

In view of the Covid-19 outbreak, Presidential Proclamation No. 929 was issued on March16, 2020, declaring a State of Calamity throughout the Philippines for a period of six months from March 17, 2020 (at midnight) and imposed an enhanced community quarantine, or ECQ, throughout the island of Luzon until April 12, 2020. On March 25, 2020, Republic Act No. 11469, otherwise known as the "Bayanihan to Heal As One Act", was signed into law declaring a state of national emergency over the entire country, and the President of the Philippines is authorized to exercise certain powers necessary to address the Covid-19 pandemic. On April 7, 2020, the Office of the President of the Philippines released a memorandum extending the ECQ over the entire Luzon island until April 30, 2020. On April 29, 2020, Executive Order No. 112 was issued, imposing an ECQ in high risk geographic areas of the Philippines and a General Community Quarantine in the rest of the country from May 1 to 15, 2020. These measures have caused disruption to businesses and economic activities, and their impacts on businesses continue to evolve.

In the first quarter of 2020, total expenses related to our Covid-19 measures amounted Php140 million. Considering the evolving nature of the outbreak, we cannot determine at this time the future impact to our financial position, performance and cash flows. We will continue to monitor the situation.

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 and amended standards starting January 1, 2020. The adoption of these new and amended standards did not have significant impact on our financial position or performance.

- Amendments to Philippine Financial Reporting Standards, or PFRS 3, *Business Combination, Definition of 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.

- Amendments to Philippine Accounting Standards, or 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.

- Amendments to PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

The amendments provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

The amendments are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognized in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments. An entity applies the amendments retrospectively for annual reporting periods beginning on or after January 1, 2020 with early application permitted.

Summary of Significant Accounting Policies

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

Business Combinations and Goodwill

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

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

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

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

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

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

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

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

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

Investments in Associates

An associate is an entity in which we have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but has no control nor joint control over those policies. The existence of significant influence is presumed to exist when we hold 20% or more, but less than 50% of the voting power of another entity. Significant influence is also exemplified when we have one or more of the following: (a) a representation on the board of directors or the equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions with the investee; (d) interchange of managerial personnel with the investee; or (e) provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The cost of the investments includes directly attributable transaction costs. The details of our investments in associates are disclosed in *Note 11 – Investments in Associates and Joint Ventures – Investments in Associates*.

Under the equity method, an investment in an associate is carried at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized nor individually tested for impairment. Our interim consolidated income statements reflect our share in the financial performance of our associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our interim 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 interim 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 interim consolidated income statements.

Upon loss of significant influence over the associate, we measure and recognize any retained investment at its fair value. Any difference between the carrying amounts of our investment in the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in our interim 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 interim consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies of the joint venture in line with our policies. The details of our investments in joint ventures are disclosed in *Note 11 – Investments in Associates and Joint Ventures – Investments in Joint Ventures*.

Adjustments are made in our interim 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 interim consolidated statements of financial position based on current or noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;

- Held primarily for the purpose of trading;

- Expected to be realized within twelve months after the reporting period; or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;

- It is held primarily for the purpose of trading;

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

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

All other liabilities are classified as noncurrent.

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

Foreign Currency Transactions and Translations

Our interim 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 interim consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising from transactions of non-monetary items measured at fair value is treated in line with the recognition of this gain or loss on the change in fair value of the items (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

The functional currency of SMHC, FECL Group, PLDT Global and certain of its subsidiaries, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC is the U.S. Dollar; the functional currency of iCommerce Investments Pte. Ltd., or iCommerce, Chikka Pte. Ltd., or CPL, and ABM Global Solutions Pte. Ltd., or AGSPL, is the Singaporean Dollar; and the functional currency of PT Advance Business Microsystems Global Solutions, or AGS Indonesia, is the Indonesian Rupiah. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine Peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. Upon disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries is recognized in our interim consolidated income statement.

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

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

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

Financial Instruments

Financial Instruments – Initial recognition and subsequent measurement

Classification of financial assets

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

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

Contractual cash flows characteristics

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

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

Business model

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

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

Financial assets at amortized cost

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

Our financial assets at amortized cost include debt instruments at amortized cost, cash and cash equivalents, short-term investments, trade and other receivables, and portions of other financial assets as at March 31, 2020 and December 31, 2019. See *Note 13 – Debt Instruments at Amortized Cost, Note 16 – Cash and Cash Equivalents, Note 17 – Trade and Other Receivables* and *Note 28 – 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 March 31, 2020 and December 31, 2019. See *Note 25 – Related Party Transactions* and *Note 28 – 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 interim consolidated income statements as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in our interim 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 March 31, 2020 and December 31, 2019. See *Note 12 – Financial Assets at FVPL* and *Note 28 – Financial Assets and Liabilities.*

Classification of financial liabilities

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

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

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

- If a host contract contains one or more embedded derivatives; or
- If a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

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

Our financial liabilities at FVPL include forward foreign exchange contracts, long-term principal only-currency swaps, interest rate swaps and liability from redemption of preferred stock as at March 31, 2020 and December 31, 2019. See *Note 28 – Financial Assets and Liabilities.*

Our other financial liabilities include interest-bearing financial liabilities, lease liabilities, customers' deposits, dividends payable, certain accounts payable and certain accrued expenses and other current liabilities and certain deferred credits and other noncurrent liabilities, (except for statutory payables) as at March 31, 2020 and December 31, 2019. See *Note 21 – Interest-bearing Financial Liabilities* and *Note 28 – Financial Assets and Liabilities.*

Reclassifications of financial instruments

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

We do not reclassify our financial assets when:

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

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

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

Impairment of Financial Assets

We recognize ECL for 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 – not credit impaired

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

Stage 2: Lifetime ECL – not credit-impaired

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

Stage 3: Lifetime ECL – credit-impaired

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

Loss allowances

Loss allowances are recognized based on 12-month ECL for debt instruments 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 instruments to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

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

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

Write-off policy

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

- The asset is in past due for over 90 days, or is already an item-in-litigation with any of the following:

  a. No properties of the counterparty could be attached

  b. The whereabouts of the client cannot be located

  c. It would be more expensive for the Group to follow-up and collect the amount, hence we have ceased enforcement activity, and

  d. Collections can no longer be made due to insolvency or bankruptcy of the counterparty;

- Expanded credit arrangement is no longer possible;
- Filing of legal case is not possible; and
- The account has been classified as 'Loss'.

Simplified approach

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

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or where applicable as part of a financial asset or part of a group of similar financial assets) is primarily derecognized when: (1) the right to receive cash flows from the asset has expired; or (2) we have transferred the right to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
(a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

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

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

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

Financial liabilities

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

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

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 interim consolidated income statement.

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 28 – 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 interim consolidated income statements.

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

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

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

Fair value hedges

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

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

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

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in our interim consolidated income statements.

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 interim consolidated income statements. See *Note 28 – Financial Assets and Liabilities* for more details.

Amounts taken to other comprehensive income are transferred to our interim consolidated income statement when the hedged transaction affects our interim 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 interim 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 28 – 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 interim consolidated income statement 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 10 – Leases* and *Note 22 – 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 interim 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 interim 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 interim consolidated income statements.

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

The estimated useful lives used in amortizing our intangible assets are disclosed in *Note 15 – Goodwill and Intangible Assets*.

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

Internally generated intangibles are not capitalized, and the related expenditures are charged against operations in the period in which the expenditures are incurred.

Inventories and Supplies

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

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

Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that an asset may be impaired. If any indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use, or VIU. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses are recognized in our interim consolidated income statements.

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

The following assets have specific characteristics for impairment testing:

Property and equipment, ROU assets, and intangible assets with definite useful lives

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

Investments in associates and joint ventures

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our interim consolidated income statements. See *Note 11 – Investments in Associates and Joint Ventures* for further disclosures relating to impairment of non-financial assets.

Goodwill

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU, or group of CGUs, is less than the carrying amount of the CGU, or group of CGUs, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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

Intangible asset with indefinite useful life

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

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

Investment in Debt Securities

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

Cash and Cash Equivalents

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

Short-term Investments

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

Fair Value Measurement

We measure financial instruments such as derivatives, financial assets at FVPL, financial assets at FVOCI and non-financial assets such as investment properties, at fair value at each reporting date. The fair values of financial instruments measured at amortized cost are disclosed in *Note 28 – Financial Assets and Liabilities*. The fair values of investment properties are disclosed in *Note 14 – Investment Properties*.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (i) in the principal market for the asset or liability; or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in our interim 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 interim consolidated financial statements on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

We, in conjunction with our external valuers, also compare the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations. For the purpose of fair value disclosures, we have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue

Revenue from contracts with customers

Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration which we expect to be entitled to in exchange for those goods or services. PFRS 15 prescribes a five-step model to be followed in the recognition of revenue, wherein we take into consideration the performance obligations which we need to perform in the agreements we have entered into with our customers. Revenue is measured by allocating the transaction price, which includes variable considerations, to each performance obligation on a relative stand-alone selling price basis, taking into account contractually defined terms of payment and excluding value-added tax, or VAT, or overseas communication tax, or OCT, where applicable. Transaction prices are adjusted for the effects of a significant financing 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 March 31, 2020, 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 Php22,642 million, of which we expect to recognize approximately 54% in April to December 2020 and 46% in 2021 and onwards. As at December 31, 2019, excluding the performance obligations for contracts with original expected duration of less than one year, the aggregate amount of the transaction price allocated to remaining performance obligations was Php22,684 million, of which we expect to recognize approximately 68% in 2020 and 32% in 2021 and onwards.

When determining our performance obligations, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. We are a principal and record revenue on a gross basis if we control the promised goods or services before transferring them or rendering those to the customer. However, if our role is only to arrange for another entity to provide the goods or services, then we are an agent and will need to record revenue at the net amount that we retain for our agency services.

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

Our revenues are principally derived from providing the following telecommunications services: cellular voice and data services in the wireless business; and local exchange, international and national long distance, data and other network, and information and communications services in the fixed line business.

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

i. Single Performance Obligation (POB) Contracts

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

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

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

   Interconnection fees and charges arising from the actual usage of airtime value or subscriptions are recorded as incurred.

Revenue from international and national long-distance calls carried via our network is generally based on rates which vary with distance and type of service (direct dial or operator-assisted, paid or collect, etc.). Revenue from both wireless and fixed line long distance calls is recognized as the service is provided. In general, non-refundable upfront fees, such as activation fees, that do not relate to the transfer of a promised good or service, are deferred and recognized as revenue throughout the estimated average length of the customer relationship, and the related incremental costs incurred are similarly deferred and recognized as expense over the same period, if such costs generate or enhance resources of the entity and are expected to be recovered.

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

ii. Bundled Contracts

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

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

Significant Financing Component

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

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

Customer Loyalty Program

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

iii. International and Domestic Long Distance Contracts

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

Variable consideration

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

iv. Others

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

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

Contract balances

Contract assets

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

Trade receivables

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

Contract liabilities and unearned revenues

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

Incremental costs to obtain contracts

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

Interest income

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

Dividend income

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

Expenses

Expenses are recognized as incurred.

Provisions

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

Retirement Benefits

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

Defined benefit pension plans

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

Retirement costs consist of the following:

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

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

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

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

The net defined benefit asset or obligation comprises the present value of the defined benefit obligation (using a discount rate based on government bonds, as explained in *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating pension benefit costs and other employee benefits*), net of the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by a long-term employee benefit fund or qualifying insurance policies and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, the published bid price and in the case of unquoted securities, the discounted cash flow using the income approach. The value of any defined benefit asset recognized is restricted to the asset ceiling which is the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. See *Note 26 – Pension and Other 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 interim consolidated income statement.

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 26 – Pension and Other Employee Benefits – Defined Contribution Plans* for more details.

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 interim consolidated income statement.

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 26 – Pension and Other Employee Benefits – Other Long-term Employee Benefits* for more details.

Other Long-term Employee Benefits

Transformation Incentive Plan, or TIP

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 was implemented for the 2019 TIP Grant. The revised set-up includes a fixed number of shares that will be granted ("equity award") and the estimated fair value of the difference between the number of shares granted in the original equity grant and the equity award will be paid in cash ("cash award"). The fair value of the cash award is determined at each reporting date using the estimated fair value of the corresponding shares. Please see *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating pension benefit cost and other employee benefits*.

Leases

We assess at contract inception whether the contract is, or contains, a lease. That is, if the contract conveys right to control the use of an identified asset for a period of time in exchange for a consideration.

As a Lessee. We apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. We recognize lease liabilities to make lease payments and ROU assets representing the right to use assets to the underlying assets.

- ROU assets

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

- Lease liabilities

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

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

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

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

As a Lessor. Leases in which we do not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease term and is included in revenue in our interim consolidated income statements due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the bases as rental income.

Income Taxes

Current income tax

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

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

Deferred income tax

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

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

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward benefits of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized, except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred income tax relating to items recognized in "Other comprehensive income" account is included in our interim consolidated statements of comprehensive income and not in our interim consolidated income statements.

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

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

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

Contingencies

Contingent liabilities are not recognized in our interim consolidated financial statements. They are disclosed in the notes to our interim consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in our interim consolidated financial statements but are disclosed in the notes to our interim 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 interim consolidated financial statements. Post period-end events that are not adjusting events are disclosed in the notes to our interim 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 and interim consolidated statements of financial position.

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 interim consolidated income statements on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value in our consolidated statement of changes in equity and interim consolidated statements of financial position.

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

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

Other comprehensive income comprises of income and expense, including reclassification adjustments that are not recognized in our interim consolidated income statement 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 interim 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, 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 will have no significant impact on our interim consolidated financial statements.

Deferred effectivity

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

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

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

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

The preparation of our interim 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. Selected critical judgments and estimates applied in the preparation of the interim consolidated financial statements as discussed below:

Judgments

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

Revenue Recognition

Identifying performance obligations

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

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

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

Principal versus agent consideration

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

- We are primarily responsible for fulfilling the promise to provide the specified equipment;
- We bear inventory risk on our inventory before it has been transferred to the customer;
- We have discretion in establishing the prices for the other party's goods or services and, therefore, the benefit that we can receive from those goods or services is not limited. It is incumbent upon us to establish the price of our services to be offered to our subscribers; and
- 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 provided over the contract period of two years, revenue is recognized monthly as we provide the service because control is transferred over time. For the device which is provided at the inception of the contract, revenue is recognized at the time of delivery because control is transferred at a point in time.

Identifying methods for measuring progress of revenue recognized over time

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

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

Significant financing component

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

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

Estimation of stand-alone selling price

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

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

Financial Instruments

Evaluation of business models in managing financial instruments

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

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

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

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

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

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

PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, we 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 us, 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 us 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, we assess 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. We consider reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

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

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

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

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

Determination of functional currency

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

The presentation currency of the PLDT Group is the Philippine Peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine Peso, except for (a) SMHC, FECL Group, PLDT Global and certain of its subsidiaries, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC, which uses the U.S. Dollar; (b) iCommerce, CPL and AGSPL, which uses the Singaporean Dollar; and (c) AGS Indonesia, which uses the Indonesian Rupiah.

Determining the lease term of contracts with renewal and terminal options – Company as a Lessee

Upon adoption of PFRS 16, we applied a single recognition and measurement approach for all leases, except for short-term leases and leases of 'low-value' assets. See Section *Leases* for the accounting policy.

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

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

We included the renewal period as part of the lease term for leases such as poles and leased circuits due to the significance of these assets to our operations. These leases have a non-cancellable period (i.e., one to 30 years) and there will be a significant negative effect on our provision of services if a replacement is not readily available. Furthermore, the periods covered by termination options are included as part of these lease term only when they are reasonably certain not to be exercised.

See *Note 10 – Leases* for information on potential future payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Total depreciation of ROU assets amounted to Php1,176 million for the three months ended March 31, 2020. Total lease liabilities amounted to Php16,333 million and Php16,315 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 5 – Income and Expenses – Selling, General and Administrative Expenses, Note 10 – Leases* and *Note 28 – Financial Assets and Liabilities.*

Accounting for investment in Multisys Technologies Corporation, or Multisys

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

Based on our judgment, at the PLDT Group level, PGIH's investment in Multisys gives PGIH a joint control in Multisys and thus is accounted for as investment in joint venture using the equity method of accounting in accordance with PAS 28*, Investments in Associates and Joint Ventures.* See *Note 11 – Investment in Associates and Joint Ventures – Investment in Joint Ventures – Investment of PGIH in Multisys*.

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 subscription of the new investors in VIH, PCEV's ownership interest was diluted to 48.74% as such and retained only two out of the five Board of Director seats in the investee. Consequently, as at November 28, 2018, PLDT lost its control on VIH and accounted for its remaining interest as investment in an associate. See *Note 11 – Investments in Associates and Joint Ventures – Investments in Associates – Investment of PCEV in VIH.*

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

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

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

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

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

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

PCEV entered into Share Purchase Agreement with MPIC on May 30, 2016 and June 13, 2017, to sell its equity interest in Beacon for a total consideration of Php26,200 million and Php21,800 million, respectively. Upon closing of these sale transactions, MPIC settled portion of the considerations and the balances are being paid in annual installments until June 2021. MPIC agreed that for as long as: (a) PCEV owns at least 20% of the outstanding capital stock of Beacon; or (b) the purchase price has not been fully paid by MPIC, PCEV shall retain the right to vote 50% of the outstanding capital stock of Beacon. The unpaid balance from MPIC is measured at fair value using discounted cash flow valuation method, with interest income to be accreted over the term of the receivable.

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

Material partly-owned subsidiaries

Our interim 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*. We determined material partly-owned subsidiaries as those with balance of NCI greater than 5% of the total equity as at March 31, 2020 and December 31, 2019.

Material associates and joint ventures

Our interim consolidated financial statements include additional information about associates and joint ventures that are material to us. See *Note 11 – Investments in Associates and Joint Ventures*. We 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 March 31, 2020 and December 31, 2019.

Determining Taxable Profit, Tax Bases, Unused Tax Losses, Unused Tax Credits and Tax Rates

Upon adoption of the Philippine Interpretation to IFRIC 23, we assess whether we have any uncertain tax position and applies significant judgment in identifying uncertainties over our income tax treatments. We determined based on our assessment that it is probable that our income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities.

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 interim consolidated financial statements within the next financial year are discussed below. We based our estimates and assumptions on parameters available when our interim 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.

Leases – Estimating the incremental borrowing rate, or IBR

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

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

Our lease liabilities amounted to Php16,333 million and Php16,315 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 10 – Leases.*

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. In determining the fair value of PLDT's retained interest in VIH, we take 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. We carefully assess the accounting implications of the stipulation in the shareholders' agreements and consider whether such a transaction has been made at arm's length. See *Note 11 – Investments in Associates and Joint Ventures – Investments in Associates – Investment of PCEV in VIH.*

Impairment of non-financial assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill and intangible assets with indefinite useful life, at a minimum, such assets are subject to an impairment test annually and whenever there is an indication that such assets may be impaired. This requires an estimation of the VIU of the CGUs to which these assets are allocated. The VIU calculation requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. See *Note 15 – Goodwill and Intangible Assets – Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Life* for the key assumptions used to determine the VIU of the relevant CGUs.

Determining the recoverable amount of property and equipment, ROU assets, investments in associates and joint ventures, goodwill and 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 of future market conditions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future impairment charges under PFRS.

There were no asset impairment recognized on noncurrent assets for the three months ended March 31, 2020 and 2019. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment,* and *Note 9 – Property and Equipment.*

The carrying values of our property and equipment, ROU assets, investments in associates and joint ventures, investment properties, goodwill and intangible assets, and prepayments are separately disclosed in *Note 9 – Property and Equipment, Note 10 – Leases, Note 11 – Investments in Associates and Joint Ventures, Note 14 – Investment Properties, Note 15 – Goodwill and Intangible Assets* and *Note 19 – Prepayments,* respectively.

Estimating useful lives of property and equipment

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

In 2019, 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 Php365 million and Php270 million for the three months ended March 31, 2020 and 2019, respectively. We expect additional depreciation arising from the acceleration of estimated useful lives of the technology equipment in 2019 amounting to nil, Php1,397 million and Php46 million in 2020, 2021 and each of the years 2022 and 2023, respectively.

In 2019, we increased the estimated useful life of certain information origination and termination equipment and central office equipment due to technology advancement allowing longer economic life of the subscriber equipment. As a result, we recognized a decrease in depreciation amounting to Php1,719 million for the year ended December 31, 2019.

The total depreciation and amortization of property and equipment amounted to Php9,110 million and Php8,091 million for the three months ended March 31, 2020 and 2019, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php242,512 million and Php232,134 million as at March 31, 2020 and December 31, 2019, respectively. See *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 interim consolidated income statements.

The total amortization of intangible assets with finite lives amounted to Php176 million and Php196 million for the three months ended March 31, 2020 and 2019, respectively. Total carrying values of intangible assets with finite lives amounted to Php1,765 million and Php1,941 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Selling, General and Administrative Expenses* and *Note 15 – Goodwill and Intangible Assets*.

Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. Based on this, management expects that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php2,329 million and Php3,227 million as at March 31, 2020 and December 31, 2019, respectively. Total consolidated provision from deferred income tax amounted to Php1,750 million and Php1,458 million for the three months ended March 31, 2020 and 2019, respectively. Total consolidated recognized net deferred income tax assets amounted to Php22,333 million and Php23,623 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 4 – Operating Segment Information* and *Note 7 – Income Taxes*.

Estimating allowance for expected credit losses

a. Measurement of ECLs

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

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

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

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

b. Inputs, assumptions and estimation techniques

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

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

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

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

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

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

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

- *Incorporation of forward-looking information*

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

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

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

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

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

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

Total provision for expected credit losses for trade and other receivables amounted to Php907 million and Php901 million for the three months ended March 31, 2020 and 2019, respectively. Trade and other receivables, net of allowance for expected credit losses, amounted to Php24,434 million and Php22,436 million, respectively, as at March 31, 2020 and December 31, 2019, respectively. See *Note 5 – Income and Expenses* and *Note 17 – Trade and Other Receivables.*

Total provision for expected credit losses for contract assets amounted to Php66 million and Php83 million for the three months ended March 31, 2020 and 2019, respectively. Contract assets, net of allowance for expected credit losses, amounted to Php2,686 million and Php2,747 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 5 – Income and Expenses.*

- *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 financial assets at FVOCI, and other financial assets.

Estimating pension benefit costs and other employee benefits

The cost of defined benefit and present value of the pension obligation are determined using the projected unit credit method. An actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. Further, our accrued benefit cost is affected by the fair value of the plan assets. Key assumptions used to estimate fair value of the unlisted equity investments included in the plan assets consist of revenue growth rate, direct costs, capital expenditures, discount rates and terminal growth rates. See *Note 26 – Pension and Other 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 Php479 million and Php355 million for the three months ended March 31, 2020 and 2019, respectively. The prepaid benefit costs amounted to Php352 million and Php342 million as at March 31, 2020 and December 31, 2019, respectively. The accrued benefit costs amounted to Php9,504 million and Php8,985 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 19 – Prepayments* and *Note 26 – Pension and Other 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 ECC, of the Board approved Management's recommended modifications to the Plan, and partial equity and cash settled set-up was implemented for the 2019 TIP Grant. The revised set-up includes a fixed number of shares that will be granted ("equity award") and the estimated fair value of the difference between the number of shares granted in the original equity grant and the equity award will be paid in cash ("cash award"). The fair value of the award is determined at each reporting date using the estimated fair value of the corresponding shares.

As at May 7, 2020, a total of 757 thousand PLDT common shares have been acquired by the Trustee, of which 238 thousand PLDT common shares have been released to the eligible participants on March 12, 2020 and April 7, 2020 for the 2019 annual grant and 302 thousand PLDT common shares have been released on March 28, 2019 for the 2018 annual grant, and 204 thousand shares on April 5, 2018 for the 2017 annual grant, respectively. The cash award for the 2019 annual grant that was paid on March 12, 2020 amounted to Php654 million. The TIP is administered by the ECC of the Board. The expense accrued for the TIP amounted to Php210 million and Php638 million as at March 31, 2020 and December 31, 2019, respectively. The accrued incentive payable, representing the cash settled set-up amounted to Php572 million and Php795 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits* and *Note 26 – Pension and Other 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 Php1,693 million and Php1,767 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 22 – 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 27 – Provisions and Contingencies*.

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

Determination of fair values of financial assets and financial liabilities

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

Other than those whose carrying amounts are reasonable approximations of fair values, total fair values of noncurrent financial assets and noncurrent financial liabilities as at March 31, 2020 amounted to Php1,716 million and Php157,492 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2019 amounted to Php1,657 million and Php173,457 million, respectively. See *Note 28 – 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, Maratel, BCC and PLDT Global and certain subsidiaries, all of which together account for approximately 1% of our consolidated fixed line subscribers; data center, cloud, cyber security services, managed information technology services and resellership through ePLDT, IPCDSI Group, AGS Group, Curo and ePDS; full service customer rewards and loyalty programs provided by MRSI; and distribution of Filipino channels and content through PGNL and its subsidiaries; and

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

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

The Management Committee monitors the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income for the period; earnings before interest, taxes, and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income for the period is measured consistent with net income in our interim 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 – net, 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 interim consolidated financial statements, which is in accordance with PFRS.

The segment revenues, net income, and other segment information of our reportable operating segments for the three months ended March 31, 2020 and 2019, and as at March 31, 2020 and December 31, 2019 are as follows:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
		(in million pesos, except for EBITDA margin)			
March 31, 2020 (Unaudited)					
Revenues					
External customers	**24,925**	**18,721**	**—**	**—**	**43,646**
Service revenues	**23,254**	**18,543**	**—**	**—**	**41,797**
Non-service revenues	**1,671**	**178**	**—**	**—**	**1,849**
Inter-segment transactions	**429**	**3,974**	**—**	**(4,403)**	**—**
Service revenues	**429**	**3,974**	**—**	**(4,403)**	**—**
Non-service revenues	**—**	**—**	**—**	**—**	**—**
Total revenues	**25,354**	**22,695**	**—**	**(4,403)**	**43,646**

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
	(in million pesos, except for EBITDA margin)				
Results					
Depreciation and amortization	7,830	4,212	—	(1,756)	10,286
Asset impairment	422	637	1	—	1,060
Interest income	176	142	40	—	358
Equity share in net earnings (losses) of associates and joint ventures	—	47	(579)	—	(532)
Financing costs – net	1,748	1,276	—	(723)	2,301
Provision for (benefit from) income tax	1,276	1,090	(98)	88	2,356
Net income (loss) / Segment profit (loss)	3,333	3,133	(897)	406	5,975
EBITDA	14,213	9,068	(6)	(1,663)	21,612
EBITDA margin	60%	40%	—	—	52%
Core income (loss)	3,357	3,085	(451)	406	6,397
Assets and liabilities					
Operating assets	303,420	217,848	7,510	(59,084)	469,694
Investments in associates and joint ventures	10	76,805	9,312	(32,802)	53,325
Deferred income tax assets – net	12,622	11,428	(607)	(1,110)	22,333
Total assets	316,052	306,081	16,215	(92,996)	545,352
Operating liabilities	230,003	254,492	808	(55,493)	429,810
Deferred income tax liabilities	2,237	385	251	(360)	2,513
Total liabilities	232,240	254,877	1,059	(55,853)	432,323
Other segment information					
Capital expenditures, including capitalized interest (Note 9)	7,596	11,981	—	—	19,577
March 31, 2019 (Unaudited)					
Revenues					
External customers	21,960	18,658	—	—	40,618
Service revenues	20,593	18,199	—	—	38,792
Non-service revenues	1,367	459	—	—	1,826
Inter-segment transactions	529	3,341	—	(3,870)	—
Service revenues	529	3,340	—	(3,869)	—
Non-service revenues	—	1	—	(1)	—
Total revenues	22,489	21,999	—	(3,870)	40,618
Results					
Depreciation and amortization	6,616	4,059	—	(1,329)	9,346
Asset impairment	747	610	—	—	1,357
Equity share in net earnings (losses) of associates and joint ventures	—	47	(417)	—	(370)
Interest income	228	210	129	(15)	552
Financing costs – net	1,670	1,263	15	(947)	2,001
Provision for income tax	1,159	1,118	13	—	2,290
Net income / Segment profit	2,903	3,330	19	471	6,723
EBITDA	12,166	9,044	(6)	(1,357)	19,847
EBITDA margin	58%	42%	—	—	51%
Core income (loss)	2,984	3,408	(267)	471	6,596
December 31, 2019 (Audited)					
Assets and liabilities					
Operating assets	287,059	198,468	7,943	(45,929)	447,541
Investments in associates and joint ventures	10	73,386	9,897	(29,430)	53,863
Deferred income tax assets – net	13,102	11,791	(711)	(559)	23,623
Total assets	300,171	283,645	17,129	(75,918)	525,027
Operating liabilities	221,755	229,855	833	(46,289)	406,154
Deferred income tax liabilities	1,986	384	252	(39)	2,583
Total liabilities	223,741	230,239	1,085	(46,328)	408,737
March 31, 2019 (Unaudited)					
Other segment information					
Capital expenditures, including capitalized interest (Note 9)	5,318	6,929	—	—	12,247

The following table shows the reconciliation of our consolidated net income to our consolidated EBITDA for the three months ended March 31, 2020 and 2019:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Consolidated net income	**5,975**	6,723
Add (deduct) adjustments:		
Depreciation and amortization	**10,286**	9,346
Provision for income tax (Note 7)	**2,356**	2,290
Financing costs – net (Note 5)	**2,301**	2,001
Equity share in net losses of associates and joint ventures (Note 11)	**532**	370
Amortization of intangible assets (Note 15)	**176**	196
Asset impairment (Note 5)	**32**	—
Foreign exchange losses – net (Note 5)	**24**	18
Losses on derivative financial instruments – net (Note 28)	**12**	3
Impairment of investments (Note 11)	**—**	34
Interest income (Note 5)	**(358)**	(552)
Other income – net	**276**	(582)
Total adjustments	**15,637**	13,124
Consolidated Adjusted EBITDA	**21,612**	19,847

The following table shows the reconciliation of our consolidated net income to our consolidated core income for the three months ended March 31, 2020 and 2019:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Consolidated net income	**5,975**	6,723
Add (deduct) adjustments:		
Unrealized losses (gains) in fair value of investments	**456**	(320)
Manpower rightsizing program, or MRP (Note 5)	**24**	209
Foreign exchange losses – net (Note 5)	**24**	18
Losses (gains) on derivative financial instruments – net, excluding hedge costs (Note 28)	**3**	(10)
Impairment of investments (Note 11)	**—**	34
Core income adjustment on equity share in net losses (earnings) of associates and joint ventures	**(6)**	18
Net income attributable to noncontrolling interests	**(63)**	(15)
Net tax effect of aforementioned adjustments	**(16)**	(61)
Total adjustments	**422**	(127)
Consolidated core income	**6,397**	6,596

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 three months ended March 31, 2020 and 2019:

	March 31,			
	2020		2019	
	Basic	**Diluted**	Basic	Diluted
			(Unaudited)	
Consolidated core EPS	**29.54**	**29.54**	30.46	30.46
Add (deduct) adjustments:				
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	**0.03**	**0.03**	(0.08)	(0.08)
Impairment of investments	**(0.00)**	**(0.00)**	(0.16)	(0.16)
Gains (losses) on derivative financial instruments – net, excluding hedge costs	**(0.01)**	**(0.01)**	0.04	0.04
Foreign exchange losses – net	**(0.07)**	**(0.07)**	(0.08)	(0.08)
MRP	**(0.08)**	**(0.08)**	(0.68)	(0.68)
Unrealized losses in fair value of investments	**(2.11)**	**(2.11)**	1.48	1.48
Total adjustments	**(2.24)**	**(2.24)**	0.52	0.52
Consolidated EPS attributable to common equity holders of PLDT (Note 8)	**27.30**	**27.30**	30.98	30.98

The following table presents our revenues from external customers by category of products and services for the three months ended March 31, 2020 and 2019:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Wireless services		
Service revenues:		
Mobile	**23,198**	20,476
Home broadband	**13**	27
MVNO and others	**43**	90
	23,254	20,593
Non-service revenues:		
Sale of mobile handsets and broadband data modems	**1,671**	1,367
Total wireless revenues	**24,925**	21,960
Fixed line services		
Service revenues:		
Voice	**4,580**	5,034
Data	**13,892**	13,059
Miscellaneous	**71**	106
	18,543	18,199
Non-service revenues:		
Sale of computers, phone units and SIM cards	**–**	364
Point-product-sales	**178**	95
	178	459
Total fixed line revenues	**18,721**	18,658
Total revenues	**43,646**	40,618

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 three months ended March 31, 2020 and 2019.

5. Income and Expenses

Revenue from Contracts with Customers

Disaggregation of Revenue

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

Set out is the disaggregation of PLDT Group's revenue from contracts with customers for the three months ended March 31, 2020 and 2019:

Revenue Streams	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(in million pesos)		
March 31, 2020 (Unaudited)					
Type of good or service					
Service revenue	**23,683**	**22,517**	**—**	**(4,403)**	**41,797**
Non-service revenue	**1,671**	**178**	**—**	**—**	**1,849**
Total revenue from contracts with customers	**25,354**	**22,695**	**—**	**(4,403)**	**43,646**
Timing of revenue recognition					
Transferred over time	**23,683**	**22,517**	**—**	**(4,403)**	**41,797**
Transferred at a point time	**1,671**	**178**	**—**	**—**	**1,849**
Total revenue from contracts with customers	**25,354**	**22,695**	**—**	**(4,403)**	**43,646**
March 31, 2019 (Unaudited)					
Type of good or service					
Service revenue	21,122	21,540	—	(3,870)	38,792
Non-service revenue	1,367	459	—	—	1,826
Total revenue from contracts with customers	22,489	21,999	—	(3,870)	40,618
Timing of revenue recognition					
Transferred over time	21,122	21,540	—	(3,870)	38,792
Transferred at a point time	1,367	459	—	—	1,826
Total revenue from contracts with customers	22,489	21,999	—	(3,870)	40,618

Contract Balances

Contract balances as at March 31, 2020 and December 31, 2019 consists of the following:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(in million pesos)	
Trade and other receivables (Note 17)	**42,189**	39,340
Contract assets	**2,752**	2,817
Contract liabilities and unearned revenues (Notes 22 and 24)	**8,934**	8,483

The increase in trade and other receivables of Php2,890 million as at March 31, 2020 was primarily due to decline in wireless postpaid subscriber base.

The decrease of Php64 million in contract assets as at March 31, 2020 is the result of fewer postpaid new connections during the period.

The increase of Php451 million in contract liabilities and unearned revenues as at March 31, 2020 is due to lower realized revenues.

Set out below is the movement in the allowance for expected credit losses of contracts assets for the three months ended March 31, 2020 and for the year ended December 31, 2019.

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Balances at beginning of the period	**70**	131
Reclassification	**(4)**	(61)
Provisions	**—**	—
Balances at end of the period	**66**	70

Changes in the contract liabilities and unearned revenues accounts for the three months ended March 31, 2020 and for the year ended December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Balances at beginning of the period	**8,483**	7,182
Deferred during the period	**29,936**	111,084
Recognized as revenue during the period	**(29,485)**	(109,783)
Balances at end of the period	**8,934**	8,483

The contract liabilities and unearned revenues accounts as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Unearned revenues from prepaid contracts	**5,853**	5,454
Advance monthly service fees	**1,791**	1,777
Short-term advances for installation services	**798**	726
Leased facilities	**448**	469
Long-term advances from equipment	**44**	57
Total contract liabilities and unearned revenues	**8,934**	8,483
Contract liabilities:		
Noncurrent (Note 22)	**11**	13
Current (Note 24)	**34**	44
Unearned revenues:		
Noncurrent (Note 22)	**662**	591
Current (Note 24)	**8,227**	7,835

As at March 31, 2020, the noncurrent and current portion of contract liabilities and unearned revenues amounted to Php673 million and Php8,261 million, respectively, while as at December 31, 2019, the noncurrent and current portion of contract liabilities and unearned revenues amounted to Php604 million and Php7,879 million, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2020 and 2019 consist of the following:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Compensation and employee benefits	**6,242**	5,796
Repairs and maintenance (Notes 14, 18 and 25)	**4,948**	4,523
Professional and other contracted services (Note 25)	**2,141**	2,276
Selling and promotions (Note 25)	**1,504**	1,107
Taxes and licenses	**1,392**	1,041
Insurance and security services (Note 25)	**442**	421
Rent (Note 25)	**338**	71
Communication, training and travel (Note 25)	**293**	265
Amortization of intangible assets (Note 15)	**176**	196
Other expenses	**375**	195
Total selling, general and administrative expenses	**17,851**	15,891

Compensation and Employee Benefits

Compensation and employee benefits for the three months ended March 31, 2020 and 2019 consist of the following:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Salaries and other employee benefits	**5,529**	5,142
Pension benefit costs (Note 26)	**479**	355
Incentive plan (Note 26)	**210**	90
MRP	**24**	209
Total compensation and employee benefits	**6,242**	5,796

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 three months ended March 31, 2020 and 2019 consist of the following:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Cost of computers, mobile handsets and broadband data modems (Note 18)	**2,279**	1,931
Cost of services (Note 18)	**743**	864
Cost of point-product-sales (Note 18)	**7**	89
Total cost of sales and services	**3,029**	2,884

Asset Impairment

Asset impairment for the three months ended March 31, 2020 and 2019 consist of the following:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Trade and other receivables (Note 17)	**907**	901
Contract assets	**68**	83
Inventories and supplies (Note 18)	**53**	373
Prepayments (Note 19)	**32**	—
Total asset impairment	**1,060**	1,357

Other Expenses – Net

Other expenses – net for the three months ended March 31, 2020 and 2019 consist of the following:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Interest income	**358**	552
Losses on derivative financial instruments – net (Note 28)	**(12)**	(3)
Foreign exchange losses – net (Note 9)	**(24)**	(18)
Equity share in net losses of associates and joint ventures (Note 11)	**(532)**	(370)
Financing costs – net	**(2,301)**	(2,001)
Others – net (Notes 11, 12 and 14)	**(276)**	548
Total other expenses – net	**(2,787)**	(1,292)

Interest Income

Interest income for the three months ended March 31, 2020 and 2019 consist of the following:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Interest income on cash and cash equivalents (Note 16)	**197**	341
Interest income arising from revenue contracts with customers	**111**	111
Interest income on financial instruments at FVOCI	**34**	—
Interest income on financial instruments at amortized cost (Note 13)	**11**	11
Interest income – others	**5**	89
Total interest income	**358**	552

Financing Costs – Net

Financing costs – net for the three months ended March 31, 2020 and 2019 consist of the following:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Interest on loans and other related items (Notes 21 and 28)	**2,407**	2,098
Accretion on lease liabilities (Notes 10)	**230**	222
Accretion on financial liabilities (Note 21)	**31**	31
Financing charges	**24**	8
Capitalized interest (Note 9)	**(391)**	(358)
Total financing costs – net	**2,301**	2,001

6. Components of Other Comprehensive Loss

Changes in other comprehensive loss under equity of our interim consolidated statements of financial position for the three months ended March 31, 2020 and 2019 are as follows:

	Foreign currency translation differences of subsidiaries	Net loss on available -for-sale financial investments – net of tax	Net transactions on cash flow hedges – net of tax	Revaluation increment on investment properties – net of tax	Actuarial losses on defined benefit plans – net of tax	Share in the other comprehensive loss of associates and joint ventures accounted for using the equity method	Fair value changes of financial instrument at FVOCI	Total other comprehensive loss attributable to equity holders of PLDT	Share of noncontrolling interests	Total other comprehensive loss – net of tax
					(in million pesos)					
Balances as at January 1, 2020	**722**	**(9)**	**(896)**	**616**	**(31,763)**	**—**	**(38)**	**(31,368)**	**15**	**(31,353)**
Other comprehensive income (loss)	**(330)**	**—**	**(15)**	**—**	**(508)**	**(5)**	**2**	**(856)**	**—**	**(856)**
Balances as at March 31, 2020 (Unaudited)	**392**	**(9)**	**(911)**	**616**	**(32,271)**	**(5)**	**(36)**	**(32,224)**	**15**	**(32,209)**
Balances as at January 1, 2019	695	(9)	(640)	618	(25,689)	—	(165)	(25,190)	19	(25,171)
Other comprehensive income (loss)	43	—	(76)	—	(550)	(6)	33	(556)	—	(556)
Balances as at March 31, 2019 (Unaudited)	738	(9)	(716)	618	(26,239)	(6)	(132)	(25,746)	19	(25,727)

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 interim consolidated statements of financial position as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax assets	**22,333**	23,623
Net deferred income tax liabilities	**2,513**	2,583

The components of our consolidated net deferred income tax assets and liabilities as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax assets:		
Unamortized past service pension costs	**5,628**	5,846
Lease liabilities	**5,098**	4,474
Pension and other employee benefits	**4,335**	4,886
Accumulated provision for expected credit losses	**4,133**	3,806
Customer list and trademark	**3,724**	3,890
Unearned revenues	**2,277**	2,108
Provision for other assets	**1,697**	1,661
MCIT	**872**	1,408
Accumulated provision for inventory obsolescence and write-down	**655**	701
Unrealized foreign exchange losses	**517**	580
NOLCO	**133**	432
Fixed asset impairment/depreciation due to shortened life of property and equipment	**127**	138
Derivative financial instruments	**44**	—
ROU assets	**(4,616)**	(4,081)
Others	**(2,291)**	(2,226)
Total deferred income tax assets – net	**22,333**	23,623

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax liabilities:		
Intangible assets and fair value adjustment on assets acquired – net of amortization	**1,912**	1,964
Investment property	**278**	278
Unrealized foreign exchange gains	**253**	254
Others	**70**	87
Total deferred income tax liabilities	**2,513**	2,583

Changes in our consolidated net deferred income tax assets (liabilities) as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax assets – balances at beginning of the period	**23,623**	27,697
Net deferred income tax liabilities – balances at beginning of the period	**(2,583)**	(2,981)
Net balances at beginning of the period	**21,040**	24,716
Movement charged directly to other comprehensive income	**226**	2,673
Provision for deferred income tax	**(1,750)**	(6,267)
Adjustments due to adoption of PFRS 16	**—**	(83)
Others	**304**	1
Net balances at end of the period	**19,820**	21,040
Net deferred income tax assets – balances at end of the period	**22,333**	23,623
Net deferred income tax liabilities – balances at end of the period	**(2,513)**	(2,583)

The analysis of our consolidated net deferred income tax assets as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	**19,338**	18,111
Deferred income tax assets to be recovered within 12 months	**5,277**	7,759
	24,615	25,870
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(1,837)**	(2,078)
Deferred income tax liabilities to be settled within 12 months	**(445)**	(169)
	(2,282)	(2,247)
Net deferred income tax assets	**22,333**	23,623

The analysis of our consolidated net deferred income tax liabilities as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(2,347)**	(2,376)
Deferred income tax liabilities to be settled within 12 months	**(166)**	(207)
Net deferred income tax liabilities	**(2,513)**	(2,583)

Provision for income tax for the three months ended March 31, 2020 and 2019 consist of:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Current	**606**	832
Deferred (Note 3)	**1,750**	1,458
	2,356	2,290

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for corporate income tax for the three months ended March 31, 2020 and 2019 are as follows:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Provision for income tax at the applicable statutory tax rate	**2,499**	2,704
Tax effects of:		
Loss (income) not subject to income tax	**306**	(273)
Equity share in net losses of associates and joint ventures	**160**	111
Nondeductible expenses	**49**	297
Diffeence between Optical Standard Deduction, OSD, and itemized deductions	**(9)**	(6)
Income subject to final tax	**(64)**	(110)
Income subject to lower tax rate	**(544)**	(357)
Net movement in unrecognized deferred income tax assets and other adjustments	**(41)**	(76)
Actual provision for income tax	**2,356**	2,290

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 March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
NOLCO	**3,299**	3,322
Accumulated provision for expected credit losses	**2,947**	2,947
Fixed asset impairment	**1,146**	1,146
Gain on disposal of asset	**105**	105
Accumulated write-down of inventories to net realizable values	**63**	11
Unrealized foreign exchange losses	**41**	45
MCIT	**28**	27
Unearned revenues	**7**	95
Operating lease	**1**	1
Pension and other employee benefits	**—**	—
Provisions for other assets	**61**	(116)
	7,698	7,583
Unrecognized deferred income tax assets	**2,329**	2,294

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 Php1,355 million and Php1,362 million as at March 31, 2020 and December 31, 2019, respectively.

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

The breakdown of our consolidated excess MCIT and NOLCO as at March 31, 2020 are as follows:

Date Incurred	Expiry Date	MCIT	NOLCO
		(in million pesos)	
December 31, 2017	December 31, 2020	3	2,411
December 31, 2018	December 31, 2021	14	1,105
December 31, 2019	December 31, 2022	882	200
March 31, 2020	December 31, 2023	1	26
		900	3,742
Consolidated tax benefits		900	1,123
Consolidated unrecognized deferred income tax assets		(28)	(990)
Consolidated recognized deferred income tax assets		872	133

The excess MCIT totaling Php900 million as at March 31, 2020 can be deducted against future RCIT liability. The excess MCIT that was deducted against RCIT amounted to Php536 million and Php122 million for the three months ended March 31, 2020 and 2019, respectively. No excess MCIT expired for the three months ended March 31, 2020 and 2019.

NOLCO totaling Php3,742 million as at March 31, 2020 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php1,018 million and Php3,739 million for the three months ended March 31, 2020 and 2019, respectively. The amount of expired NOLCO amounted to Php28 million and Php37 million for the three months ended March 31, 2020 and 2019, respectively.

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

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

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

8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the three months ended March 31, 2020 and 2019:

	March 31,			
	2020		2019	
	Basic	**Diluted**	Basic	Diluted
			(Unaudited)	
Consolidated net income attributable to equity holders of PLDT	**5,912**	**5,912**	6,708	6,708
Dividends on preferred shares (Note 20)	**(15)**	**(15)**	(15)	(15)
Consolidated net income attributable to common equity holders of PLDT	**5,897**	**5,897**	6,693	6,693
	(in thousands, except per share amounts which are in pesos)			
Weighted average number of common shares	**216,056**	**216,056**	216,056	216,056
EPS attributable to common equity holders of PLDT (Note 5)	**27.30**	**27.30**	30.98	30.98

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 three months ended March 31, 2020 and for the year ended December 31, 2019 are as follows:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, aircraft, furniture and other network equipment	Information origination and termination equipment	Land and land improvements	Property under construction	Total
					(in million pesos)				
As at December 31, 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**
Year ended December 31, 2019 (Audited)									
Net book value at beginning of the year	47,471	15,967	70,338	5,989	6,699	5,071	4,306	40,123	195,964
Effect of adoption of PFRS 16	–	–	(244)	(1)	–	–	–	–	(245)
Net book value at the beginning of the year (as restated)	47,471	15,967	70,094	5,988	6,699	5,071	4,306	40,123	195,719
Additions (Note 4)	1,448	856	557	176	3,804	2,987	3	63,040	72,871
Disposals/Retirements	(24)	–	(99)	(3)	(109)	–	–	(77)	(312)
Reclassifications (Note 14)	12	(8)	(762)	(82)	15	1	–	(30)	(854)
Transfers and others	10,374	7,720	32,290	541	1,247	4,696	21	(56,889)	–
Translation differences charged directly to cumulative translation adjustments	(1)	(1)	–	(4)	2	–	–	–	(4)
Adjustments	–	–	–	(20)	–	–	–	–	(20)
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	–	–	–	(3)	–	–	–	–	(3)
Depreciation and amortization	(8,084)	(3,857)	(17,025)	(1,102)	(3,410)	(1,782)	(3)	–	(35,263)
Net book value at end of the year	**51,196**	**20,677**	**85,055**	**5,491**	**8,248**	**10,973**	**4,327**	**46,167**	**232,134**
As at December 31, 2019 (Audited)									
Cost	192,535	135,340	220,238	26,762	62,097	28,224	4,597	46,167	715,960
Accumulated depreciation, impairment and amortization	(141,339)	(114,663)	(135,183)	(21,271)	(53,849)	(17,251)	(270)	–	(483,826)
Net book value	**51,196**	**20,677**	**85,055**	**5,491**	**8,248**	**10,973**	**4,327**	**46,167**	**232,134**

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, aircraft, furniture and other network equipment	Information origination and termination equipment	Land and land improvements	Property under construction	Total
					(in million pesos)				
Period ended March 31, 2020 (Unaudited)									
Net book value at beginning of the year	**51,196**	**20,677**	**85,055**	**5,491**	**8,248**	**10,973**	**4,327**	**46,167**	**232,134**
Additions (Note 4)	**46**	**205**	**34**	**13**	**253**	**298**	**–**	**18,728**	**19,577**
Disposals/Retirements	**(2)**	**–**	**(34)**	**–**	**(39)**	**–**	**–**	**(6)**	**(81)**
Reclassifications	**75**	**4**	**(510)**	**1**	**(1)**	**–**	**–**	**423**	**(8)**
Transfers and others	**2,845**	**1,224**	**8,023**	**140**	**193**	**359**	**–**	**(12,784)**	**–**
Depreciation and amortization (Note 3)	**(1,884)**	**(986)**	**(4,513)**	**(281)**	**(883)**	**(562)**	**(1)**	**–**	**(9,110)**
Net book value at end of the period	**52,276**	**21,124**	**88,055**	**5,364**	**7,771**	**11,068**	**4,326**	**52,528**	**242,512**
As at March 31, 2020 (Unaudited)									
Cost	**195,298**	**136,327**	**225,381**	**26,798**	**57,184**	**28,012**	**4,597**	**52,528**	**726,125**
Accumulated depreciation, impairment and amortization	**(143,022)**	**(115,203)**	**(137,326)**	**(21,434)**	**(49,413)**	**(16,944)**	**(271)**	**–**	**(483,613)**
Net book value	**52,276**	**21,124**	**88,055**	**5,364**	**7,771**	**11,068**	**4,326**	**52,528**	**242,512**

Interest capitalized to property and equipment that qualified as borrowing costs amounted to Php391 million and Php358 million for the three months ended March 31, 2020 and 2019, respectively. See *Note 5 – Income and Expenses – Financing Costs – Net*. The average interest capitalization rate used was approximately 5% for each of the three months ended March 31, 2020 and 2019.

Our net foreign exchange differences, which qualified as borrowing costs, amounted to nil and Php5 million for the three months ended March 31, 2020 and 2019, respectively.

The cost of fully depreciated property and equipment that are still being used in the Group's operations amounted to Php134,734 million and Php149,119 million as at March 31, 2020 and December 31, 2019, respectively.

As at March 31, 2020 and December 31, 2019, the estimated useful lives of our property and equipment are estimated as follows:

Cable and wire facilities	10 – 15 years
Central office equipment	2 – 15 years
Cellular facilities	3 – 10 years
Buildings	25 – 50 years
Vehicles, aircraft, furniture and other network equipment	3 – 15 years
Information origination and termination equipment	3 – 7 years
Leasehold improvements	3 – 7 years or the term of the lease, whichever is shorter
Land improvements	10 years

On January 28, 2020, PLDT was authorized by the Board of Directors to negotiate and enter into a contract for the sale of Smart Towers Property. The transaction is subject to the confirmation of the Philippine Competition Commission, or PCC, on Non-Coverage.

10. Leases

Group as a Lessee

We have lease contracts for various items of sites, buildings, leased circuits and poles used in our operations. We considered in the lease term the non-cancellable period of the lease together with the periods covered by an option to extend and option to terminate the lease.

Our consolidated estimated useful lives of ROU assets as at March 31, 2020 and December 31, 2019 are estimated as follows:

Sites	1 – 29 years
International leased circuits	4 – 7 years
Poles	1 – 10 years
Domestic leased circuits	3 – 10 years
Office buildings	1 – 6 years
Co-located sites	2 – 7 years

Our consolidated rollforward analysis of ROU assets as at March 31, 2020 and December 31, 2019 are as follows:

	Site	International Leased Circuits	Poles	Domestic Leased Circuits	Office Buildings	Co-located Sites	Total
				(in million pesos)			
As at December 31, 2019 (Audited)							
Costs:							
Balances at beginning of the year	8,980	3,779	607	551	298	11	14,226
Additions	3,506	562	100	489	413	2	5,072
Asset retirement obligation	1,679	—	—	—	124	—	1,803
Modifications	319	—	19	174	91	(2)	601
Termination	(72)	—	—	—	(20)	—	(92)
Balances at end of the year	14,412	4,341	726	1,214	906	11	21,610
Accumulated depreciation and amortization							
Balances at beginning of the year (as restated)	—	—	—	—	—	—	—
Termination	44	—	—	—	14	—	58
Modifications	—	—	—	3	—	1	4
Charges from asset retirement obligation	(1,297)	—	—	—	(92)	—	(1,389)
Depreciation	(2,673)	(834)	(340)	(186)	(358)	(2)	(4,393)
Balances at end of the year	(3,926)	(834)	(340)	(183)	(436)	(1)	(5,720)
Net book value as at December 31, 2019 (Audited)	10,486	3,507	386	1,031	470	10	15,890
As at March 31, 2020 (Unaudited)							
Costs:							
Balances at beginning of the period	**14,412**	**4,341**	**726**	**1,214**	**906**	**11**	**21,610**
Additions	**872**	**444**	**488**	**2**	**125**	—	**1,931**
Asset retirement obligation	**28**	—	—	—	—	—	**28**
Adjustments	**(3)**	—	—	—	—	—	**(3)**
Termination	**(20)**	—	—	—	**(2)**	—	**(22)**
Modifications	**(264)**	**(341)**	**43**	**(73)**	**6**	**114**	**(515)**
Balances at end of the period	**15,025**	**4,444**	**1,257**	**1,143**	**1,035**	**125**	**23,029**
Accumulated depreciation and amortization							
Balances at beginning of the period	**(3,926)**	**(834)**	**(340)**	**(183)**	**(436)**	**(1)**	**(5,720)**
Termination	**10**	—	—	—	—	—	**10**
Adjustments	**1**	—	—	—	**1**	—	**2**
Charges from asset retirement obligation	**(12)**	—	—	—	**(12)**	—	**(24)**
Modifications	**12**	—	**(6)**	**(49)**	**8**	**(21)**	**(56)**
Depreciation (Note 3)	**(685)**	**(214)**	**(150)**	**(6)**	**(120)**	**(1)**	**(1,176)**
Balances at end of the period	**(4,600)**	**(1,048)**	**(496)**	**(238)**	**(559)**	**(23)**	**(6,964)**
Net book value as at March 31, 2020 (Unaudited)	**10,425**	**3,396**	**761**	**905**	**476**	**102**	**16,065**

The following amounts are recognized in our interim consolidated income statement for the three months ended March 31, 2020:

	(in million pesos)
Depreciation expense of ROU assets (Note 3)	**1,176**
Interest expense on lease liabilities (Note 5)	**230**
Variable lease payments (included in general and administrative expenses)	**191**
Expenses relating to short-term leases (included in general and administrative expenses)	**145**
Expenses relating to leases of low-value assets (included in general and administrative expenses)	**2**
Total amount recognized in interim consolidated income statement	**1,744**

Our consolidated rollforward analysis of lease liabilities as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Lease liabilities at beginning of the period	**16,315**	15,233
Additions (Note 29)	**1,951**	5,065
Accretion expenses (Note 5)	**230**	1,061
Foreign exchange losses – net	**(3)**	(12)
Termination	**(25)**	(96)
Lease modifications	**(347)**	463
Settlement of obligations	**(1,788)**	(5,399)
Balances at end of the period (Notes 3 and 29)	**16,333**	16,315
Less: Current portion of lease liabilities (Note 28)	**3,657**	3,215
Noncurrent portion of lease liabilities (Note 28)	**12,676**	13,100

We had total cash outflows for leases of Php1,788 million and Php1,313 million for the three months ended March 31, 2020 and 2019, respectively. We also had non-cash additions to ROU assets of Php1,931 million and Php5,072 million as at March 31, 2020 and December 31, 2019, respectively. We had non-cash additions to lease liabilities of Php1,951 million and Php5,065 as at March 31, 2020 and December 31, 2019, respectively. The future cash outflows relating to leases that have not yet commenced are disclosed in *Note 28 – Financial Assets and Liabilities*.

We have entered into several lease contracts that include automatic extension and termination options. These options are negotiated by us to provide flexibility in managing the leased-asset portfolio and align with our business needs. However, in some of these lease contracts, we did not impute the renewal period in our assessment of the lease terms of these contracts since said renewal period is not yet reasonably estimable at the time of transition or commencement date of the lease, see *Note 3 – Managements Use of Accounting Judgments, Estimates and Assumptions – Determining the lease term of contracts with renewal and terminal options – Company as a Lessee.*

Group as a Lessor

We have entered into operating leases on our investment property portfolio consisting of certain office buildings and business offices. See *Note 14 – Investment Properties*. These leases have term of five years. All leases include a clause to enable upward revision of the rental charge on annual basis according to prevailing market conditions. The lessee is also required to provide a residual guarantee on the properties. Rental income recognized by us amounted to Php3 million and Php114 thousand for the three months ended March 31, 2020 and 2019, respectively.

Future minimum rentals receivable under non-cancellable operating leases as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Within one year	**7**	9
After one year but not more than five years	**—**	—
More than five years	**—**	—
	7	9

11. Investments in Associates and Joint Ventures

As at March 31, 2020 and December 31, 2019, this account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(in million pesos)	
Carrying value of investments in associates:		
MediaQuest PDRs	**9,774**	9,747
VIH	**7,635**	8,219
Digitel Crossing, Inc., or DCI	**694**	674
Appcard, Inc.	**102**	102
Asia Outsourcing Beta Limited, or Beta	**34**	35
AF Payments, Inc., or AFPI	**—**	—
ACeS International Limited, or AIL	**—**	—
Asia Netcom Philippines Corp., or ANPC	**—**	—
	18,239	18,777
Carrying value of investments in joint ventures:		
VTI, Bow Arken and Brightshare	**32,548**	32,538
Multisys	**2,528**	2,538
Telecommunications Connectivity, Inc., or TCI	**10**	10
Beacon	**—**	—
	35,086	35,086
Total carrying value of investments in associates and joint ventures	**53,325**	53,863

Changes in the cost of investments for the three months ended March 31, 2020 and for the year ended December 31, 2019 are as follows:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(in million pesos)	
Balances at beginning of the period	**59,516**	59,519
Additions during the period	**—**	80
Translation and other adjustments	**(1)**	(83)
Balances at end of the period	**59,515**	59,516

Changes in the accumulated impairment losses for the three months ended March 31, 2020 and for the year ended December 31, 2019 are as follows:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(in million pesos)	
Balances at beginning of the period	**2,543**	2,509
Additional impairment (Note 4)	**—**	34
Balances at end of the period	**2,543**	2,543

Changes in the accumulated equity share in net earnings (losses) of associates and joint ventures for the three months ended March 31, 2020 and for the year ended December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Balances at beginning of the period	**(3,110)**	(1,583)
Equity share in net earnings (losses) of associates and joint ventures:	**(532)**	(1,535)
MediaQuest PDRs	**27**	485
DCI	**20**	83
VTI, Bow Arken and Brightshare	**10**	35
Multisys	**(10)**	150
VIH	**(579)**	(20)
Appcard, Inc.	**—**	(2,268)
AFPI	**—**	—
Share in the other comprehensive loss of associates and joint ventures accounted for using the equity method	**(5)**	—
Translation and other adjustments	**—**	8
Balances at end of the period	**(3,647)**	(3,110)

Investments in Associates

Investment of ePLDT in MediaQuest PDRs

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

In June 2013, ePLDT's Board of Directors approved additional investments in PDRs of MediaQuest:

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest and provide ePLDT with a 40% economic interest in Satventures; and

- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings, a wholly-owned subsidiary of MediaQuest incorporated in the Philippines. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including equity interests in the three leading newspapers: The Philippine Star, Philippine Daily Inquirer, and Business World. See *Note 26 – Pension and Other 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 26 – Pension and Other 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 26 – Pension and Other 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 Php9,774 million and Php9,747 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Accounting for investment in MediaQuest through PDRs*.

The table below presents the summarized financial information of Satventures as at March 31, 2020 and December 31, 2019, and for the three months ended March 31, 2020 and 2019:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**21,291**	21,396
Current assets	**3,785**	3,662
Noncurrent liabilities	**1,880**	1,969
Current liabilities	**7,925**	7,859
Equity	**15,271**	15,230
Carrying amount of interest in Satventures	**9,774**	9,747
Additional Information:		
Cash and cash equivalents	**1,484**	1,534
Current financial liabilities*	**7,925**	7,859
Noncurrent financial liabilities*	**1,880**	1,969

* *Excluding trade, other payables and provisions.*

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	**1,714**	1,777
Depreciation and amortization	**228**	221
Interest income	**6**	1
Interest expense	**53**	61
Provision for income tax	**23**	37
Net income	**42**	43
Other comprehensive income	**—**	—
Total comprehensive income	**42**	43
Equity share in net income of Satventures	**27**	28

Investment of PCEV in VIH

Consolidation of the Digital Investments of Smart under PCEV

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

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

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

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

Loss of Control of PCEV over VIH

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

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

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

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

The summarized financial information of VIH as at March 31, 2020 and December 31, 2019, and for the three months ended March 31, 2020 and 2019 is shown below:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**1,303**	1,184
Current assets	**6,268**	8,038
Noncurrent liabilities	**14**	35
Current liabilities	**3,735**	4,205
Equity	**3,822**	4,982
Carrying amount of interest in VIH	**7,635**	8,219
Additional Information:		
Cash and cash equivalents	**3,922**	5,216
Current financial liabilities*	**3,519**	4,155
Noncurrent financial liabilities*	**14**	34

* *Excluding statutory payables and accrued taxes.*

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	**902**	347
Depreciation and amortization	**58**	41
Interest income	**10**	52
Provision for income tax	**1**	—
Net income (loss)	**(1,148)**	925
Other comprehensive loss	**—**	(9)
Total comprehensive loss	**(1,148)**	(934)
Equity share in net losses of VIH	**(579)**	(451)

The carrying value of PCEV's investment in VIH amounted to Php7,635 million and Php8,219 million as at March 31, 2020 and December 31, 2019, respectively.

On April 16, 2020, PLDT, through PCEV, KKR, Tencent, IFC and IFC EAF, or the Subscribers, entered into a new subscription agreement with VIH to commit up to US$120 million of new funding. The Notes Subscription Agreement covers the issuance of VIH's Convertible Loan Notes with an aggregate principal amount of US$65 million and issuance of Warrants with an aggregate subscription amount of US$55 million.

VIH will use the funds to support PayMaya's rapid growth as it pursues its mission to accelerate digital and financial inclusion in the Philippines and enable the wider Filipino population to participate in the digital economy.

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 31, 2020, Digitel is ready to conclude the transfer of its investment in DCI and ANPC, subject to PNPI's ability to meet certain regulatory and valuation requirements. This investment is not classified as noncurrent asset held-for-sale at report date as the transfer is assessed as not highly probable because certain conditions have not yet been met by both Digitel and PNPI.

Investment of PGIC in Beta

On February 5, 2013, PLDT entered into a Subscription and Shareholders' Agreement with Asia Outsourcing Alpha Limited, or Alpha, wherein PLDT, through its indirect subsidiary PGIC, acquired from Alpha approximately 20% equity interest in Beta for a total cost of approximately US$40 million, which consists of preferred shares of US$39.8 million and ordinary shares of US$0.2 million. On various dates in 2013 and 2014, PGIC has bought and transferred-in a net in total of 27 ordinary shares and 9,643 preferred shares to certain employees of Beta for a total net payment of US$51 thousand. In 2014, Beta has divested its healthcare BPO business. PGIC received a total cash distribution of US$41.8 million from Beta through redemption of 35.3 million preferred shares and repayment of loan from PGIC. The equity interest of PGIC in Beta remained at 20% after the transfer with economic interest of 18.32%.

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

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

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

The carrying value of investment in common shares in Beta amounted to Php34 million and Php35 million as at March 31, 2020 and December 31, 2019, respectively. The economic interests of PGIC in Beta remained at 18.32% as at March 31, 2020 and December 31, 2019.

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

Investment of Smart in AFPI

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

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

In March 2019, Smart infused additional capital of Php70 million as additional subscription of preferred shares.

The summary of investments in AFPI made by Smart as at March 31, 2020 and December 31, 2019 is shown below:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in millions)	
Common shares	**625.7**	625.7
Preferred shares	**194.3**	124.3

Smart's investment in AFPI has been fully impaired as at March 31, 2020. Share in net cumulative losses were not recognized as it does not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AFPI.

In March 2020, Smart entered into another subscription agreement with AFPI to subscribe additional preferred shares amounting to Php60 million. The transaction remains unsettled as at May 7, 2020.

Investment of ACeS Philippines in AIL

As at March 31, 2020, 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 three months ended March 31, 2020 and 2019:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	**27**	25
Net income	**20**	19
Other comprehensive income	**—**	—
Total comprehensive income	**20**	19

We did not receive any dividends from our associates for the three months ended March 31, 2020 and 2019.

We have no outstanding contingent liabilities or capital commitments with our associates as at March 31, 2020 and December 31, 2019.

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) a Share Purchase Agreement, or 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 28 – Financial Assets and Liabilities – Commercial Commitments.*

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

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

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

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

The amount of the advances outstanding to PLDT, to cover for the assumed liabilities and working capital requirements of the acquired companies, amounted to Php13 million each as at March 31, 2020 and December 31, 2019.

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 March 31, 2020 and December 31, 2019, and for the three months ended March 31, 2020 and 2019:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**77,771**	78,004
Current assets	**3,858**	3,610
Noncurrent liabilities	**11,402**	11,456
Current liabilities	**2,826**	2,831
Equity	**67,401**	67,327
Carrying amount of interest in VTI, Bow Arken and Brightshare	**32,548**	32,538
Additional Information:		
Cash and cash equivalents	**2,476**	2,590
Current financial liabilities*	**607**	587
Noncurrent financial liabilities*	**—**	—

* *Excluding trade, other payables and provisions.*

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	**887**	778
Depreciation and amortization	**376**	306
Interest income	**12**	18
Provision for income tax	**47**	59
Net income	**20**	11
Other comprehensive income	**—**	—
Total comprehensive income	**20**	11
Equity share in net income of VTI, Bow Arken and Brightshare	**10**	6

Notice of Transaction filed with the PCC

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

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

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

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

In the Matter of the Petition against the PCC

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

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

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

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

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

On November 7, 2017, PCC 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 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 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 received notice of the Supreme Court's Resolution dated January 30, 2018 directing PLDT and Globe to file their respective Comments to the Petition for Review on Certiorari without giving due course to the same.

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

On April 24, 2018, PCC's Motion to Expunge [Respondent PLDT's Comment on the Petition for Review on Certiorari] dated April 18, 2018 was received. On May 9, 2018, PLDT 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 received the Supreme Court's Resolution dated April 24, 2018 granting the motion for extension of PLDT and noting its Comment on the Petition for Review on Certiorari filed in compliance with the Supreme Court's Resolution dated January 30, 2018 and requiring the PCC to file a Consolidated Reply to the comments within ten days from notice. On June 20, 2018, PLDT, through counsel, received PCC's Urgent Omnibus Motion for: (1) Partial Reconsideration of the Resolution dated April 24, 2018; and (2) Additional Time dated June 11, 2018.

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

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

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

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

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

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

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

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

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

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.

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.

Investment of PGIH in Multisys

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

On December 3, 2018, PGIH completed the closing of its investment in Multisys. Out of the Php550 million total consideration for the acquisition of existing shares, PGIH paid Php523 million to the owners of Multisys. On June 3, 2019, the balance of the acquisition consideration amounting to Php27 million was fully paid. Further, PGIH invested Php800 million into Multisys as a deposit for future stock subscription pending the approval by the Philippine SEC of the capital increase of Multisys. On February 1, 2019, the Philippine SEC approved the capital increase of Multisys. The balance of Php800 million stock subscription payable is outstanding as at May 7, 2020.

PLDT has engaged an independent appraiser to determine the fair value adjustments relating to the acquisition. As at December 3, 2018, our share in the fair value of the identifiable net assets and liabilities, which includes technologies and customer relationships, amounted to Php1,357 million. Goodwill of Php1,031 million has been determined based on the final results of the independent valuation. Goodwill arising from this acquisition and carrying amount of the identifiable net assets and liabilities, including deferred tax liability, and the related amortization through equity in net earnings were retrospectively adjusted accordingly.

The carrying value of the investment in Multisys amounted to Php2,528 million and Php2,538 million, including subscription payable of Php800 million and contingent consideration of Php230 million as at March 31, 2020 and December 31, 2019, respectively.

On April 6, 2020, PGIH paid Php153 million of the contingent liability to the owners of Multisys.

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.*

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 million pesos)
June 24, 2014	56.35	5%	235.00	13,243	1,418
April 14, 2015	112.71	10%	235.00	26,487	2,838

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

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

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

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

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

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

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

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

Sale of PCEV's Receivables from MPIC (FVOCI)

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

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

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

PCEV's remaining receivables from MPIC amounted to Php2,954 million, net of Php3 million allowance for ECL, and Php2,919 million, net of Php2 million allowance for ECL as at March 31, 2020 and December 31, 2019, respectively.

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

	March 31, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	
	12-Month ECL	Lifetime ECL	Lifetime ECL	Total
	(in million pesos)			
Balances as at beginning of the period	**2**	**—**	**—**	**2**
Provisions	**1**	**—**	**—**	**1**
Financial assets derecognized during the period	**—**	**—**	**—**	**—**
Balances at end of the period	**3**	**—**	**—**	**3**

	December 31, 2019 (Audited)			
	Stage 1	Stage 2	Stage 3	
	12-Month ECL	Lifetime ECL	Lifetime ECL	Total
	(in million pesos)			
Balances as at beginning of the year	2	—	—	2
Provisions	1	—	—	1
Financial assets derecognized during the year	(1)	—	—	(1)
Balances at end of the year	2	—	—	2

Investment of Smart in TCI

On February 8, 2019, the RA 11202 or the "Mobile Number Portability, or MNP, Act" was enacted into a law. This act allows subscribers to change their subscription plans or service providers while allowing the subscribers to retain their current mobile numbers. In addition, no interconnection fee or charge shall be imposed for mobile domestic calls and SMS made by a subscriber. The act shall take effect fifteen days after its publication in the Official Gazette or in any newspaper of general circulation. Within 90 days from the effectivity of the act, the NTC, as the government entity mandated to implement nationwide MNP, shall coordinate with the Department of Information and Communications Technology, The National Privacy Commission, the Philippine Competition Commission, and other concerned agencies, and promulgate rules and regulations and other issuances to ensure the effective implementation of the Act.

Within six months from the promulgation of the rules and regulations, mobile service providers shall comply with the provisions of the act and set up a mechanism for the purpose of nationwide MNP. On June 17, 2019, the NTC released the implementing rules and regulations which took effect on July 2, 2019. The compliance period given to mobile service providers is within six months from effective date.

In 2019, Smart, along with Globe and Dito Telecommunity, Inc. entered into an agreement to form a joint venture that will address the requirements of the MNP Act.

The joint venture company, TCI was incorporated in the Philippines on December 26, 2019 and registered with the Philippine SEC on January 17, 2020. The primary purpose of the joint venture is to serve as a clearing house for MNP. TCI will ensure smooth implementation of mobile number porting services. On December 23, 2019, Smart subscribed Php10 million representing 33.3% equity interest in TCI, which is equivalent to 10 million shares at a subscription price of Php1.00 per share.

Summarized financial information of individually immaterial joint ventures

The following tables present the summarized financial information of our individually immaterial joint investments in joint ventures for the three months ended March 31, 2020 and 2019:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Income Statements:		
Revenues	**—**	35
Net income	**2**	14
Other comprehensive income	**—**	—
Total comprehensive income	**2**	14

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at March 31, 2020 and December 31, 2019.

12. Financial Assets at FVPL

As at March 31, 2020 and December 31, 2019, this account consists of:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Rocket Internet	**1,951**	2,381
iflix Limited, or iflix	**599**	599
Club shares and others	**341**	328
Phunware, Inc., or Phunware	**35**	61
	2,926	3,369

Investment of PLDT Online in Rocket Internet

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

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

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

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

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

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

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

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

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

On December 6, 2018, Rocket Internet redeemed 1.9 million shares reducing its share capital to €153 million. PLDT Online's equity ownership in Rocket Internet remained at 1.7%

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

On October 9, 2019, Rocket Internet redeemed 1.7 million shares reducing its share capital to €151 million. PLDT Online's equity ownership in Rocket Internet remained at 1.3%

On January 30, 2020, Rocket Internet redeemed 13.5 million shares reducing its share capital to €137 million. As a result of the redemption of shares, PLDT Online's equity ownership in Rocket Internet increased from 1.3% to 1.4%.

Further details on investment in Rocket Internet for the three months ended March 31, 2020 and 2019, and as at March 31, 2020 and December 31, 2019 are as follows:

	March 31,	
	2020	2019
	(Unaudited)	
Total market value as at beginning of the period (in million pesos)	**2,381**	3,128
Closing price per share at end of the period (in Euros)	**18.42**	22.60
Total market value as at end of the period (in million Euros)	**35**	58
Total market value as at end of the period (in million pesos)	**1,951**	3,448
Net gains (losses) recognized during the period (in million pesos)	**(430)**	320

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Balances at beginning of the period	**2,381**	3,128
Fair value adjustment in profit or loss	**(430)**	89
Disposal of investments	**—**	(836)
Balances at end of the period	**1,951**	2,381

As at May 6, 2020, closing price of Rocket Internet is €18.92.

Investment of PLDT Online in iflix

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

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

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

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

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

In 2019, due to additional issuances of shares by iflix, PLDT Online's equity ownership in iflix was reduced from 5.3% to 4.9%.

The fair value of PLDT Online's investment amounted to Php599 million as at March 31, 2020 and December 31, 2019.

Investment of PLDT Capital in Phunware

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

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

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

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

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

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

The fair value amount of PLDT Capital’s investment amounted to Php35 million and Php61 million as at March 31, 2020 and December 31, 2019, respectively.

13. Debt Instruments at Amortized Cost

As at March 31, 2020 and December 31, 2019, this account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(in million pesos)	
GT Capital Bond	–	150
	–	150
Less: Current portion of debt instrument at amortized cost (Note 28)	–	150
Noncurrent portion of debt instrument at amortized cost (Note 28)	–	–

GT Capital Bond

In February 2013, Smart purchased at par a seven-year GT Capital Bond with face value of Php150 million which matured 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 Php11 million for each of the three months ended March 31, 2020 and 2019. The carrying value of this investment amounted to nil and Php150 million as at March 31, 2020 and December 31, 2019, respectively.

14. Investment Properties

Changes in investment properties account for the three months ended March 31, 2020 and for the year ended December 31, 2019 are as follows:

	Land	**Land Improvements**	**Building**	**Total**
		(in million pesos)		
March 31, 2020 (Unaudited)				
Balances at beginning and end of the period	**608**	**1**	**169**	**778**
December 31, 2019 (Audited)				
Balances at beginning of the year	596	7	174	777
Net gains (losses) from fair value adjustments charged to profit or loss	23	(6)	(5)	12
Disposals during the year	(11)	–	–	(11)
Balances at end of the year	**608**	**1**	**169**	**778**

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 Php30 to Php32 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 Php19 million and Php12 million for the three months ended March 31, 2020 and 2019, respectively.

Rental income relating to investment properties that are being leased and included as part of revenues amounted to Php3 million and Php114 thousand for the three months ended March 31, 2020 and 2019, respectively. See *Note 10 – Leases*.

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

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

15. Goodwill and Intangible Assets

Changes in goodwill and intangible assets account for the three months ended March 31, 2020 and for the year ended December 31, 2019 are as follows:

	Intangible Assets with Indefinite Life	Intangible Assets with Finite Life					Total Intangible Assets with Finite Life	Total Intangible		Total Goodwill and Intangible
	Trademark	Franchise	Customer List	Licenses	Spectrum	Others		Assets	Goodwill	Assets
					(in million pesos)					
March 31, 2020 (Unaudited)										
Costs:										
Balances at beginning of the period	4,505	3,016	4,726	1,079	1,205	775	10,801	15,306	62,033	77,339
Translation and other adjustments	—	—	—	(944)	—	(4)	(948)	(948)	—	(948)
Balances at end of the period	4,505	3,016	4,726	135	1,205	771	9,853	14,358	62,033	76,391
Accumulated amortization and impairment:										
Balances at beginning of the period	—	1,520	4,301	1,059	1,205	775	8,860	8,860	654	9,514
Amortization during the year (Notes 4 and 5)	—	46	128	2	—	—	176	176	—	176
Translation and other adjustments	—	—	—	(944)	—	(4)	(948)	(948)	—	(948)
Balances at end of the period	—	1,566	4,429	117	1,205	771	8,088	8,088	654	8,742
Net balances at end of the period	4,505	1,450	297	18	—	—	1,765	6,270	61,379	67,649
Estimated useful lives (in years)	—	16	2 – 9	18	15	1 – 10	—	—	—	—
Remaining useful lives (in years)	—	8	1	3	—	7	—	—	—	—

	Intangible Assets with Indefinite Life	Intangible Assets with Finite Life					Total Intangible Assets with Finite Life	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
	Trademark	**Franchise**	**Customer List**	**Licenses**	**Spectrum**	**Others**				
					(in million pesos)					
December 31, 2019 (Audited)										
Costs:										
Balances at beginning and end of the year	4,505	3,016	4,726	1,079	1,205	775	10,801	15,306	62,033	77,339
Accumulated amortization and impairment:										
Balances at beginning of the year	—	1,334	3,790	1,051	1,152	775	8,102	8,102	654	8,756
Amortization during the year	—	186	511	8	53	—	758	758	—	758
Balances at end of the year	—	1,520	4,301	1,059	1,205	775	8,860	8,860	654	9,514
Net balances at end of the year	4,505	1,496	425	20	—	—	1,941	6,446	61,379	67,825
Estimated useful lives (in years)	—	16	2 – 9	18	15	1 – 10	—	—	—	—
Remaining useful lives (in years)	—	8	1	3	—	—	—	—	—	—

The consolidated goodwill and intangible assets of our reportable segments as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020 (Unaudited)			December 31, 2019 (Audited)		
	Wireless	**Fixed Line**	**Total**	Wireless	Fixed Line	Total
			(in million pesos)			
Trademark	**4,505**	**—**	**4,505**	4,505	—	4,505
Franchise	**1,450**	**—**	**1,450**	1,496	—	1,496
Customer list	**297**	**—**	**297**	425	—	425
Licenses	**18**	**—**	**18**	20	—	20
Total intangible assets	**6,270**	**—**	**6,270**	6,446	—	6,446
Goodwill	**56,571**	**4,808**	**61,379**	56,571	4,808	61,379
Total goodwill and intangible assets	**62,841**	**4,808**	**67,649**	63,017	4,808	67,825

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.

The consolidated future amortization of intangible assets as at March 31, 2020 is as follows:

Year	**(in million pesos)**
2020[(1)]	614
2021	194
2022	191
2023	186
2024 and onwards	751
	1,936

[(1)] *April 1, 2020 through December 31, 2020.*

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 March 31, 2020, 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.

The recoverable amount of the Wireless and Fixed Line CGUs have 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 8.22% for the Wireless and Fixed Line CGUs. Cash flows beyond the projection period are determined using a 2.00% 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 rate 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 March 31, 2020 and December 31, 2019.

The accumulated impairment balance as at March 31, 2020 and December 31, 2019 is comprised of Php438 million from PLDT's acquisition of Digitel and Php216 million from ePLDT's acquisition of AGS.

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

16. Cash and Cash Equivalents

As at March 31, 2020 and December 31, 2019, this account consists of:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Cash on hand and in banks (Note 28)	**7,733**	6,706
Temporary cash investments (Note 28)	**23,211**	17,663
	30,944	24,369

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 28 – Financial Assets and Liabilities.*

Interest income earned from cash in banks and temporary cash investments amounted to Php197 million, Php341 million for the three months ended March 31, 2020 and 2019, respectively.

17. Trade and Other Receivables

As at March 31, 2020 and December 31, 2019, this account consists of receivables from:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Retail subscribers (Note 28)	**19,763**	17,178
Corporate subscribers (Note 28)	**12,985**	13,005
Foreign administrations (Note 28)	**2,060**	1,896
Domestic carriers (Note 28)	**386**	889
Dealers, agents and others (Note 28)	**6,995**	6,372
	42,189	39,340
Less allowance for expected credit losses	**17,755**	16,904
	24,434	22,436

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

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

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

For terms and conditions relating to related party receivables, see *Note 25 – Related Party Transactions*.

See *Note 28 – Financial Assets and Liabilities* on credit risk of trade receivables to understand how we manage and measure credit quality of trade receivables that are neither past due nor impaired.

The following table explains the changes in the allowance for expected credit losses as at March 31, 2020 and December 31, 2019:

	March 31, 2020 (Unaudited)												
	Retail Subscribers		**Corporate Subscribers**		**Foreign Administrations**		**Domestic Carriers**		**Dealers, Agents and Others**		**Total**		
	Stage 2	**Stage 3**	**Stage 2**	**Stage 3**	**Stage 2**	**Stage 3**	**Stage 2**	**Stage 3**	**Stage 2**	**Stage 3**	**Stage 2**	**Stage 3**	
	Lifetime ECL		**Lifetime ECL**		**Lifetime ECL**		**Lifetime ECL**		**Lifetime ECL**		**Lifetime ECL**		**Total**
	(in million pesos)												
Balances at beginning of the period	**926**	**9,766**	**732**	**3,870**	**3**	**374**	**4**	**86**	**98**	**1,045**	**1,763**	**15,141**	**16,904**
Provisions (Note 5)	**231**	**446**	**79**	**146**	**—**	**5**	**—**	**2**	**2**	**(4)**	**312**	**595**	**907**
Reclassifications and reversals	**(123)**	**136**	**(55)**	**63**	**—**	**—**	**—**	**—**	**(2)**	**1**	**(180)**	**200**	**20**
Write-offs	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(75)**	**—**	**(75)**	**(75)**
Translation adjustments	**—**	**—**	**(1)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1)**	**—**	**(1)**
Balances at end of the period	**1,034**	**10,348**	**755**	**4,079**	**3**	**379**	**4**	**88**	**98**	**967**	**1,894**	**15,861**	**17,755**

	December 31, 2019 (Audited)												
	Retail Subscribers		**Corporate Subscribers**		**Foreign Administrations**		**Domestic Carriers**		**Dealers, Agents and Others**		**Total**		
	Stage 2	**Stage 3**	**Stage 2**	**Stage 3**	**Stage 2**	**Stage 3**	**Stage 2**	**Stage 3**	**Stage 2**	**Stage 3**	**Stage 2**	**Stage 3**	
	Lifetime ECL		**Lifetime ECL**		**Lifetime ECL**		**Lifetime ECL**		**Lifetime ECL**		**Lifetime ECL**		**Total**
	(in million pesos)												
Balances at beginning of the year	893	8,931	603	3,906	5	914	3	74	91	1,083	1,595	14,908	16,503
Provisions (Note 5)	418	2,725	211	661	(2)	64	1	12	10	(29)	638	3,433	4,071
Reclassifications and reversals	(366)	793	(80)	201	—	(604)	—	—	(3)	4	(449)	394	(55)
Write-offs	(12)	(2,683)	(1)	(895)	—	—	—	—	—	(13)	(13)	(3,591)	(3,604)
Translation adjustments	(7)	—	(1)	(3)	—	—	—	—	—	—	(8)	(3)	(11)
Balances at end of the year	926	9,766	732	3,870	3	374	4	86	98	1,045	1,763	15,141	16,904

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 28 – Financial Assets and Liabilities.*

18. Inventories and Supplies

As at March 31, 2020 and December 31, 2019, this account consists of:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Terminal and cellular phone units:		
At net realizable value[(1)]	**1,936**	2,358
At cost	**2,662**	3,140
Spare parts and supplies:		
At net realizable value[(1)]	**584**	462
At cost	**1,753**	1,621
Others:		
At net realizable value[(1)]	**348**	592
At cost	**604**	954
Total inventories and supplies at the lower of cost or net realizable value	**2,868**	3,412

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

The cost of inventories and supplies recognized as expense for the three months ended March 31, 2020 and 2019 are as follows:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Cost of sales	**2,231**	9,528
Repairs and maintenance	**178**	823
Provisions (Note 5)	**53**	471
Selling and promotions	**—**	138
	2,462	10,960

Changes in the allowance for inventory obsolescence and write-down for the three months ended March 31, 2020 and for the year ended December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Balances at beginning of the period	**2,303**	3,212
Provisions (Note 5)	**53**	471
Reclassification	**(100)**	(220)
Cost of sales	**(105)**	(495)
Write-off	**—**	(136)
Reversals	**—**	(529)
Balances at end of the period	**2,151**	2,303

19. Prepayments

As at March 31, 2020 and December 31, 2019, this account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(in million pesos)	
Advances to suppliers and contractors (Note 25)	**44,088**	41,798
Prepaid taxes	**13,925**	13,905
Prepaid fees and licenses	**1,430**	1,335
Prepaid rent	**506**	417
Prepaid benefit costs (Note 26)	**352**	342
Prepaid repairs and maintenance	**220**	458
Prepaid insurance (Note 25)	**148**	142
Prepaid selling and promotions	**13**	24
Other prepayments	**1,573**	1,810
	62,255	60,231
Less current portion of prepayments	**11,518**	11,298
Noncurrent portion of prepayments	**50,737**	48,933

Advances to suppliers and contractors are non-interest-bearing and are to be applied to contractors' subsequent progress billings for projects.

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 interim consolidated statements of financial position. See *Note 26 – Pension and Other Employee Benefits*.

20. Equity

PLDT's number of shares of subscribed and outstanding capital stock as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(in million shares)	
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 three months ended March 31, 2020 and 2019.

Preferred Stock

Non-Voting Serial Preferred Stock

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

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

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

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

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

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

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends.

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

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

Voting Preferred Stock

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

On October 12, 2012, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, determined the following specific rights, terms and features of the Voting Preferred Stock: (a) entitled to receive cash dividends at the rate of 6.5% per annum, payable before any dividends are paid to the holders of Common Stock; (b) in the event of dissolution or liquidation or winding up of PLDT, holders will be entitled to be paid in full, or pro-rata insofar as the assets of PLDT will permit, the par value of such shares of Voting Preferred Stock and any accrued or unpaid dividends thereon before any distribution shall be made to the holders of shares of Common Stock; (c) redeemable at the option of PLDT; (d) not convertible to Common Stock or to any shares of stock of PLDT of any class; (e) voting rights at any meeting of the stockholders of PLDT for the election of directors and all other matters to be voted upon by the stockholders in any such meetings, with one vote in respect of each Voting Preferred Share; and (f) holders will have no pre-emptive right to subscribe for or purchase any shares of stock of any class, securities or warrants issued, sold or disposed by PLDT.

On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement between BTFHI and PLDT dated October 15, 2012. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 7%, respectively, as at March 31, 2020. See *Note 1 – Corporate Information* and *Note 27 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition*.

Redemption of Preferred Stock

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

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

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

PLDT has set aside Php236 thousand (the amount required to fund the redemption price for the Series GG Shares) in addition to Php74 thousand for unclaimed dividends on Series GG Shares, or a total amount of Php310 thousand, to fund the redemption price for the Series GG Shares, or the Redemption Trust Fund for Series GG Shares, which forms an integral part of the Redemption Trust Fund previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series GG Shares. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series GG Shares or any balance thereof, in trust, for the benefit of holders of Series GG Shares, for a period of ten years from August 30, 2012, or until August 30, 2022. After the said date, any and all remaining balance in the Redemption Trust Fund for Series GG Shares shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series GG Shares shall accrue for the benefit of, and be paid from time to time, to PLDT.

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

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

On January 28, 2014, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2008, or the Series HH Shares issued in 2008, from the holders of record as of February 14, 2014 and all such shares were redeemed and retired effective May 16, 2014. In accordance with the terms and conditions of Series HH Shares issued in 2008, the holders of Series HH Shares issued in 2008 as at February 14, 2014 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 16, 2014, or the Redemption Price of Series HH Shares issued in 2008.

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

On January 26, 2016, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series II 10% Cumulative Convertible Preferred Stock, or the Series II Shares, from the holder of record as of February 10, 2016, and all such shares were redeemed and retired effective on May 11, 2016. In accordance with the terms and conditions of Series II Shares, the holders of Series II Shares as at February 10, 2016 is entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 11, 2016, or the Redemption Price of Series II Shares.

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

As at January 19, 2012, August 30, 2012, May 16, 2013, May 16, 2014 and May 11, 2016, notwithstanding that any stock certificate representing the Series A to FF Shares, Series GG Shares, Series HH Shares issued in 2007, Series HH Shares issued in 2008 and Series II Shares, respectively, were not surrendered for cancellation, the Series A to II Shares were no longer deemed outstanding and the right of the holders of such shares to receive dividends thereon ceased to accrue and all rights with respect to such shares ceased and terminated, except only the right to receive the Redemption Price of such shares, but without interest thereon.

On January 28, 2020, the Board of Directors authorized and approved, the retirement of shares of PLDT's Series JJ 10% Cumulative Convertible Preferred Stock, or SIP Shares, effective May 12, 2020. The record date for the determination of the holders of outstanding SIP Shares available for redemption was February 11, 2020.

Total amounts of Php1 million each was withdrawn from the Trust Account, representing total payments on redemption for the three months ended March 31, 2020 and 2019. The balance of the Trust Account of Php7,850 million and Php7,851 million were presented as part of "Current portion of other financial assets" as at March 31, 2020 and December 31, 2019, respectively, and the related redemption liability were presented as part of "Accrued expenses and other current liabilities" in our interim consolidated statements of financial position. See related disclosures below under Perpetual Notes, *Note 24 – Accrued Expenses and Other Current Liabilities* and *Note 28 – Financial Assets and Liabilities*.

PLDT expects to similarly redeem and retire the outstanding shares of Series 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 three months ended March 31, 2020 and 2019 are detailed as follows:

March 31, 2020 (Unaudited)

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
				(in million pesos, except per share amounts)	
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	**January 28, 2020**	**February 24, 2020**	**March 15, 2020**	**–**	**12**
Voting Preferred Stock	**March 5, 2020**	**March 25, 2020**	**April 15, 2020**	**–**	**3**
					15
Common Stock					
Regular Dividend	**March 5, 2020**	**March 19, 2020**	**April 3, 2020**	**39.00**	**8,426**
Charged to retained earnings					**8,441**

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

March 31, 2019 (Unaudited)

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
				(in million pesos, except per share amounts)	
Cumulative Non-Convertible Preferred Stock					
Series IV*	January 29, 2019	February 22, 2019	March 15, 2019	–	12
Voting Preferred Stock	March 7, 2018	March 27, 2019	April 15, 2019	–	3
					15
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.*

Our dividends declared after March 31, 2020 are detailed as follows:

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
				(in million pesos, except per share amounts)	
10% Cumulative Convertible Redeemable Preferred Stock Series JJ	**April 8, 2020**	**February 11, 2020**	**May 12, 2020**	**0.0027/day**	**–**
Series IV Cumulative Non-Convertible Redeemable Preferred Stock(*)	**May 7, 2020**	**May 21, 2020**	**June 15, 2020**	**–**	**12**
Charged to retained earnings					**12**

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

Perpetual Notes

Smart issued Php2,610 million and Php1,590 million perpetual notes on March 3, 2017 and March 6, 2017, respectively, under two Notes Facility Agreements dated March 1, 2017 and March 2, 2017, respectively. The transaction costs amounting to Php35 million were accounted as a deduction from the perpetual notes. Smart paid distributions amounting to Php59 million and Php236 million as at March 31, 2020 and December 31, 2019, respectively.

On July 18, 2017, Smart issued Php1,100 million perpetual notes, to RCBC, Trustee of PLDT's Redemption Trust Fund, under the Notes Facility Agreement dated July 18, 2017. The transaction costs amounting to Php5 million were accounted as a deduction from the perpetual notes. Smart paid distributions amounting to Php14 million and Php57 million as at March 31, 2020 and December 31, 2019, respectively. This transaction was eliminated in our interim consolidated financial statements.

On September 19, 2019, Smart issued Php4,700 million perpetual notes to DMPI under the Notes Facility Agreement dated September 16, 2019. The transaction cost amounting to Php35 million was accounted as a deduction from the perpetual notes. Smart paid distributions amounting to Php14 million and Php57 million as at March 31, 2020 and December 31, 2019, respectively. This transaction was eliminated in our interim consolidated financial statements.

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

21. Interest-bearing Financial Liabilities

As at March 31, 2020 and December 31, 2019, this account consists of the following:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Long-term portion of interest-bearing financial liabilities:		
Long-term debt (Notes 28 and 29)	**166,075**	172,834
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year (Notes 28 and 29)	**35,263**	19,722
Short-term debt	**4,000**	–
	39,263	19,722
	205,338	192,556

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 Php584 million and Php491 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 28 – Financial Assets and Liabilities.*

The following table describes all changes to unamortized debt discount for the three months ended March 31, 2020 and for the year ended December 31, 2019:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Unamortized debt discount at beginning of the period	**491**	418
Additions during the period	**124**	195
Accretion during the period included as part of Financing costs – net (Note 5)	**(31)**	(122)
Unamortized debt discount at end of the period	**584**	491

Long-term Debt

As at March 31, 2020 and December 31, 2019, long-term debt consists of:

Description	Interest Rates	March 31, 2020 (Unaudited) U.S. Dollar	March 31, 2020 (Unaudited) Php	December 31, 2019 Audited U.S. Dollar	December 31, 2019 Audited Php
			(in millions)		
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Exportkreditnamnden, or EKN	1.4100% in 2019	**-**	**-**	-	-
Term Loans:					
Others	2.8850% and US$ LIBOR + 0.7900% to 1.4500% in 2020 and 2019	**298**	**15,126**	335	17,029
		298	**15,126**	335	17,029
Philippine Peso Debts:					
Fixed Rate Corporate Notes	5.6423% to 5.9058% in 2020 and 5.3938% to 5.9058% in 2019		**6,152**		6,152
Fixed Rate Retail Bonds	5.2250% to 5.2813% in 2020 and 2019		**14,971**		14,965
Term Loans:					
Unsecured Term Loans	3.9000% to 6.7339%; PHP BVAL + 0.6000% to 1.0000% and PDST-R2 + 0.5000% to 0.6000% in 2020 and 2019		**165,089**		154,410
			186,212		175,527
Total long-term debt (Notes 28 and 29)			**201,338**		192,556
Less portion maturing within one year (Note 28)			**35,263**		19,722
Noncurrent portion of long-term debt (Note 28)			**166,075**		172,834

The scheduled maturities of our consolidated outstanding long-term and short-term debt at nominal values as at March 31, 2020 are as follows:

Year	U.S. Dollar Debt U.S. Dollar	U.S. Dollar Debt Php	Php Debt Php	Total Php
		(in millions)		
2020[(1)]	**173**	**8,779**	**9,933**	**18,712**
2021	**45**	**2,304**	**22,423**	**24,727**
2022	**30**	**1,543**	**15,607**	**17,150**
2023	**25**	**1,270**	**25,313**	**26,583**
2024	**25**	**1,270**	**12,675**	**13,945**
2025 and onwards	**—**	**—**	**104,805**	**104,805**
Total long-term and short-term debt (Note 28)	**298**	**15,166**	**190,756**	**205,922**

[(1)] *April 1, 2020 through December 31, 2020.*

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 March 31, 2020 and December 31, 2019:

									Outstanding Amounts			
						Drawn Amount	Cancelled Undrawn Amount		March 31, 2020 (Unaudited)		December 31, 2019 (Audited)	
	Date of	Terms										
Loan Amount	Loan Agreement	Lender(s)	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												
Exportkreditnamnden, or EKN, the Export-Credit Agency of Sweden												
Smart												
US$45.6M[1] Tranche A1: US$25M; Tranche A2: US$19M; Tranche B1: US$0.9M; Tranche B2: US$0.7M	February 22, 2013	Nordea Bank, subsequently assigned to SEK on July 3, 2013	10 equal semi-annual, commencing 6 months after the applicable mean delivery date	Tranche A1 and B1: July 16, 2018; Tranche A2 and B2: April 15, 2019	Various dates in 2013-2014	45.6	—	July 16, 2018 and April 15, 2019	—	—	—	—
									—	—	—	—

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

								Outstanding Amounts			
					Drawn Amount	Cancelled Undrawn Amount		March 31, 2020 (Unaudited)		December 31, 2019 (Audited)	
Loan Amount	Date of Loan Agreement	Lender(s)	Terms	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											
Other Term Loans[(1)]											
Smart											
US$100M	March 7, 2014	MUFG Bank, Ltd.	9 equal semi-annual installment, commencing 12 months after drawdown date, with final installment on March 7, 2019	Various dates in 2014 March 2, 2015	90 10	—	March 7, 2019	—	—	—	—
Smart											
US$50M	May 14, 2014	Mizuho Bank Ltd.	9 equal semi-annual installment, commencing 11 months after drawdown date, with final installment on May 14, 2019	July 1, 2014	50	—	May 14, 2019	—	—	—	—
PLDT											
US$100M	August 5, 2014	Philippine National Bank, or PNB	Annual amortization rate of 1% of the issue price on the first-year up to the fifth-year from the initial drawdown date, with final installment on August 11, 2020	Various dates in 2014	100	—	—	**95**	**4,824**	95	4,826
PLDT											
US$50M	August 29, 2014	Metrobank	Annual amortization rate of 1% of the issue price payable semi-annually starting on the first-year up to the fifth-year anniversary of from the initial drawdown date and the balance payable upon maturity on September 2, 2020	September 2, 2014	50	—	—	**47**	**2,412**	48	2,426
								142	**7,236**	143	7,252

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts			
								March 31, 2020 (Unaudited)		December 31, 2019 (Audited)	
					U.S. Dollar			**U.S. Dollar**	**Php**	U.S. Dollar	Php
					(in millions)			(in millions)			
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	—	—	**60** (*)	**3,036** (*)	**74** (*)	**3,797** (*)
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	—	March 4, 2020	—	—	**22** (*)	**1,128** (*)
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	—	—	**46** (*)	**2,326** (*)	**46** (*)	**2,324** (*)
PLDT											
US$25M	March 22, 2016	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 30, 2023	March 30, 2016	25	—	—	**25** (*)	**1,265** (*)	**25** (*)	**1,265** (*)
PLDT											
US$25M	January 31, 2017	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 27, 2024	March 30, 2017	25	—	—	**25** (*)	**1,263** (*)	**25** (*)	**1,263** (*)
Smart											
US$140M	March 4, 2020	PNB	Quarterly amortization rates equivalent to: (a) 2.5% of the total amount drawn payable on the first interest payment date up to the 28th interest payment date; (b) 5% of the total amount drawn payable on the 29th interest payment date up to the 32nd interest payment date; and (3) 2.5% of the total amount drawn payable on the 37th interest payment date up to maturity.	—	—	—	—	—	—	—	—
								156	**7,890**	192	9,777
								298	**15,126**	335	17,029

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

Loan Amount	Date of Loan Agreement	Facility Agent	Installments	Date of Issuance/ Drawdown	Payments Amount Php	Payments Date	Outstanding Amounts March 31, 2020 (Unaudited) Php	Outstanding Amounts December 31, 2019 (Audited) Php
					(in millions)		(in millions)	
Philippine Peso Debts								
Fixed Rate Corporate Notes[(1)]								
PLDT Php1,500M	July 25, 2012	Metrobank	Annual amortization rate of 1% of the issue price on the first-year up to the sixth-year from issue date and the balance payable upon maturity on July 27, 2019	July 27, 2012	1,188 282	July 29, 2013 April 29, 2019	**—**	—
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 2,741	June 21, 2013 September 23, 2019	**3,599**	3,599
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	**2,255**	2,255
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	1,644	September 23, 2019	**298**	298
PLDT Php1,188M	July 19, 2013	Metrobank	Annual amortization rate of 1% of the issue on the first-year up to the fifth-year from the issue date and the balance payable upon maturity on July 27, 2019	July 29, 2013	1,129	April 29, 2019	**—**	—
							6,152	6,152

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

Loan Amount	Date of Loan Agreement	Paying Agent	Terms	Date of Issuance/ Drawdown	Payments Amount Php	Payments Date	Outstanding Amounts March 31, 2020 (Unaudited) Php	Outstanding Amounts December 31, 2019 (Audited) Php
					(in millions)		(in millions)	
Fixed Rate Retail Bonds[1]								
PLDT								
Php15,000M	January 22, 2014	Philippine Depositary Trust Corp.	Php12.4B – non-amortizing, payable in full upon maturity on February 6, 2021; Php2.6B – non-amortizing payable in full on February 6, 2024	February 6, 2014	—	—	**14,971** (*)	14,965 (*)

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

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts March 31, 2020 (Unaudited) Php	Outstanding Amounts December 31, 2019 (Audited) Php
					(in millions)			(in millions)	
Term Loans									
Unsecured Term Loans[1]									
PLDT Php2,000M	March 20, 2012	RCBC	Annual amortization rate of 1% on the fifth-year up to the ninth-year from the initial drawdown date and the balance payable upon maturity on April 12, 2022	April 12, 2012	2,000	—	—	**1,940**	1,940
PLDT Php200M	August 31, 2012	Manufacturers Life Insurance Co. (Phils.), Inc.	Payable in full upon maturity on October 9, 2019	October 9, 2012	200	—	April 10, 2019	—	—
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	—	January 13, 2020	—	940
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	—	December 20, 2019	—	—
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	—	—	**1,880**	1,880
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	—	—	**1,199** (*)	1,199 (*)
								6,019	6,959

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

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts March 31, 2020 (Unaudited) Php	Outstanding Amounts December 31, 2019 (Audited) Php
					(in millions)			(in millions)	
Smart Php3,000M	December 3, 2013	BPI	Annual amortization rate of 1% of the total amount drawn for the first six-years and the final installment is payable upon maturity on December 10, 2020	December 10, 2013	3,000	—	—	**2,818** (*)	2,818 (*)
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	—	—	**2,818** (*)	2,847 (*)
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	—	—	**470**	475
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	—	—	**1,880**	1,900
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	—	—	**470**	475
PLDT Php1,000M	May 23, 2014	Philam Life	Payable in full upon maturity on May 28, 2024	May 28, 2014	1,000	—	—	**1,000**	1,000
PLDT Php1,000M	June 9, 2014	LBP	Annual amortization rate of 1% on the first-year up to the ninth-year from initial drawdown date and the balance payable upon maturity on June 13, 2024	June 13, 2014	1,000	—	—	**950**	950
PLDT Php1,500M	July 28, 2014	Union Bank	Annual amortization rate of 1% on the first-year up to the ninth-year from initial drawdown date and the balance payable upon maturity on July 31, 2024	July 31, 2014	1,500	—	—	**1,425**	1,425
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	—	—	**1,900**	1,920
PLDT Php3,000M	June 26, 2015	BPI	Annual amortization rate of 1% on the first-year up to the ninth-year from initial drawdown date and the balance payable upon maturity on June 30, 2025	June 30, 2015	3,000	—	—	**2,880**	2,880
								18,111	18,190

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts March 31, 2020 (Unaudited) Php	Outstanding Amounts December 31, 2019 (Audited) Php
					(in millions)			(in millions)	
PLDT Php5,000M	August 3, 2015	Metrobank	Annual amortization rate of 1% on the first-year up to the ninth-year from initial drawdown date and the balance payable upon maturity on September 23, 2025	Various dates in 2015	5,000	—	—	**4,800**	4,800
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	—	—	**4,785** (*)	4,785 (*)
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	—	—	**4,785** (*)	4,784 (*)
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	—	—	**4,784** (*)	4,784 (*)
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	—	—	**5,594** (*)	5,593 (*)
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	—	—	**2,899** (*)	2,929 (*)
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	—	—	**5,805** (*)	5,804 (*)
PLDT Php8,000M	July 14, 2016	Security Bank	Annual amortization rate of 1% of the total amount drawn payable semi-annually 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	—	—	**7,572** (*)	7,651 (*)
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	—	—	**6,287** (*)	6,286 (*)
								47,311	47,416

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts March 31, 2020 (Unaudited) Php	Outstanding Amounts December 31, 2019 (Audited) Php
					(in millions)			(in millions)	
Smart Php3,000M	September 28, 2016	BDO	Annual amortization rate of 1% of the principal amount on the first-year up to the ninth-year commencing on the first-year anniversary of the initial drawdown date and the balance payable upon maturity on October 5, 2026	October 5, 2016	3,000	—	—	**2,910**	2,910
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	—	—	**5,230** (*)	5,229 (*)
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	—	—	**5,126** (*)	5,125 (*)
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	—	—	**2,250**	2,250
Smart Php4,000M	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	—	—	**1,935** (*)	1,935 (*)
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	—	—	**980**	980
Smart Php2,000M	December 22, 2016	LBP	Annual amortization rate of 1% of the amount drawn starting on the first anniversary of the advance up to the ninth anniversary of the advance and the balance payable upon maturity on January 21, 2028	January 22, 2018	2,000	—	—	**1,960**	1,980
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	—	—	**3,417** (*)	3,417 (*)
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	—	—	**1,470**	1,485
								25,278	25,311

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts March 31, 2020 (Unaudited) Php	Outstanding Amounts December 31, 2019 (Audited) Php
					(in millions)			(in millions)	
PLDT									
Php2,000M	May 24, 2017	Security Bank	Semi-annual amortization rate of Php10 million starting on October 5, 2017 and every six months thereafter with the balance payable upon maturity on April 5, 2027	May 29, 2017	2,000	—	—	**1,950**	1,950
PLDT									
Php3,500 M	July 5, 2017	LBP	Annual amortization rate of 1% on the first- year up to the ninth-year after the drawdown date and the balance payable upon maturity on July 12, 2027	July 10, 2017	3,500	—	—	**3,430**	3,430
PLDT									
Php1,500M	August 29, 2017	LBP	Annual amortization rate equivalent to 1% of the total loan payable on the first-year up to the ninth-year after the drawdown date and the balance payable upon maturity on April 3, 2028	April 2, 2018	1,500	—	—	**1,485**	1,485
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	—	—	**980**	990
PLDT									
Php2,000M	April 19, 2018	LBP	Annual amortization rate equivalent to 1% of the total loan payable on the first-year up to the ninth-year after the drawdown date and the balance payable upon maturity on April 25, 2028	April 25, 2018	2,000	—	—	**1,980**	1,980
PLDT									
Php1,000M	April 20, 2018	LBP	Annual amortization rate equivalent to 1% of the total loan payable on the first-year up to the ninth-year after the drawdown date and the balance payable upon maturity on May 3, 2028	May 3, 2018	1,000	—	—	**990**	990
PLDT									
Php2,000M	May 9, 2018	BPI	Annual amortization rate equivalent to 1% of the amount drawn starting on the first- year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on May 10, 2028	May 10, 2018	2,000	—	—	**1,980**	1,980
								12,795	12,805

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts March 31, 2020 (Unaudited) Php	Outstanding Amounts December 31, 2019 (Audited) Php
					(in millions)			(in millions)	
Smart									
Php2,000M	May 25, 2018	BPI	Annual amortization rate equivalent to 1% of the amount drawn starting on the first- year anniversary of the advance up to the fifth-year anniversary of the advance and the balance payable upon maturity on May 28, 2024	May 28, 2018	2,000	—	—	**1,969** (*)	1,969 (*)
Smart									
Php1,500M	June 27, 2018	Development Bank of the Philippines, or DBP	Annual amortization rate equivalent to 1% of the amount drawn starting on the third- year anniversary of the advance up to the fifth-year anniversary of the advance and the balance payable upon maturity on June 28, 2024	June 28, 2018	1,500	—	—	**1,500**	1,500
Smart									
Php3,000M	July 31, 2018	BPI	Annual amortization rate equivalent to 1% of the amount drawn starting on the first-year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on May 10, 2028	August 10, 2018	3,000	—	—	**2,951** (*)	2,950 (*)
Smart									
Php5,000M	January 11, 2019	DBP	Annual amortization rate equivalent to 1% of the amount drawn starting on the third-year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on May 7, 2029	May 6, 2019 September 2, 2019	2,000 3,000	—	—	**4,979** (*)	4,978
PLDT									
Php8,000M	February 18, 2019	Union Bank	Annual amortization rate equivalent to 1% of the amount drawn starting on the first-year anniversary up to the ninth-year anniversary of the initial drawdown date and the balance payable upon maturity on July 11, 2029	July 11, 2019 September 6, 2019 October 1, 2019 November 5, 2019	3,000 2,000 1,000 2,000	—	—	**7,979** (*)	7,978
Smart									
Php4,000M	February 21, 2019	PNB	Annual amortization rate equivalent to 1% of the amount drawn starting on the first-year anniversary up to the seventh-year anniversary of the initial drawdown date and the balance payable upon maturity on March 11, 2027	March 11, 2019	4,000	—	—	**3,933** (*)	3,972
PLDT									
Php2,000M	April 11, 2019	Bank of China Limited, Manila Branch	Annual amortization rate equivalent to 1% of the amount of loan payable on the first-year anniversary up to the sixth-year anniversary of the initial drawdown date and the balance payable upon maturity on September 7, 2026	September 6, 2019	2,000	—	—	**1,986** (*)	1,985
PLDT									
Php2,000M	July 1, 2019	PNB	Annual amortization rate equivalent to 1% of the total amount drawn from the facility on the first-year anniversary up to the sixth-year anniversary of the initial drawdown date and the balance payable upon maturity on September 7, 2026	September 6, 2019	2,000	—	—	**1,986** (*)	1,985
Smart									
Php8,000M	September 25, 2019	CBC	Annual amortization rate equivalent to 10% of the total amount drawn starting on the third-year anniversary up to the ninth-year anniversary of the initial drawdown date and the balance payable upon maturity on October 2, 2029	October 2, 2019	8,000	—	—	**7,943** (*)	7,942
								35,226	35,259

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts March 31, 2020 (Unaudited) Php		Outstanding Amounts December 31, 2019 (Audited) Php
					(in millions)			(in millions)		
Smart Php4,000M	December 9, 2019	DBP	Annual amortization rate equivalent to 1% of the total amount drawn starting on the third-year anniversary up to the ninth-year anniversary of the initial drawdown date and the balance payable upon maturity on December 12, 2029	December 12, 2019	4,000	—	—	**3,971**	(*)	3,970
PLDT Php4,500M	December 12, 2019	BPI	Annual amortization rate equivalent to 1% of the advance on the first year up to the ninth-year anniversary of the drawdown date and the balance payable upon maturity on December 18, 2029	December 15, 2019	4,500	—	—	**4,467**	(*)	4,500
Smart Php3,000M	January 20, 2020	BDO	Annual amortization rate equivalent to 1% of the total amount drawn starting on the first-year anniversary up to the ninth-year anniversary of the drawdown date and the balance payable upon maturity on January 24, 2030	January 24, 2020	3,000	—	—	**2,978**	(*)	—
PLDT Php5,000M	January 29, 2020	BDO	Annual amortization rate equivalent to 1% of the total amount drawn starting on the first-year anniversary up to the ninth-year anniversary of the drawdown date and the balance payable upon maturity on January 31, 2030	January 31, 2020	5,000	—	—	**4,963**	(*)	—
PLDT Php4,000M	March 24, 2020	RCBC	Annual amortization rate equivalent to 1% of the advance starting on the first-year anniversary of the drawdown date and the balance payable upon maturity on March 27, 2028	March 26, 2020	4,000	—	—	**3,970**	(*)	—
PLDT Php2,500M	March 30, 2020	MUFG Bank, Ltd.	Amortization rate equivalent to: (1) 20% of the amount drawn payable on the 30th, 48th, 54th and 72nd month from the drawdown date; (2) 0.50% of the amount drawn payable on the 36th, 42nd, 60th and 66th month from the drawdown date; and (3) 18% of the amount drawn payable upon maturity on October 2, 2026	April 2, 2020	2,500	—	—	—		—
								20,349		8,470
								165,089		154,410

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

Short-term Debt

In March and April 2020, PLDT and Smart availed unsecured short-term debt from various banks amounting to Php6,000 million and Php4,000 million respectively with interest ranging from 5.00% to 5.75%. PLDT and Smart have an outstanding balance of Php2,000 million for each of the short-term debt as at March 31, 2020.

Compliance with Debt Covenants

PLDT's debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios tests, such as total debt to EBITDA and interest cover ratio, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

The principal factors that could negatively affect our ability to comply with these financial ratio covenants and other financial tests are depreciation of the Philippine Peso relative to the U.S. Dollar, poor operating performance of PLDT and its subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine Peso relative to the U.S. Dollar, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Of our total consolidated debts, approximately 7% and 9% were denominated in U.S. Dollars as at March 31, 2020 and December 31, 2019, 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 28 – Financial Assets and Liabilities – Foreign Currency Exchange Risk*.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) making or permitting any material change in the character of its business; (b) selling, leasing, transferring or disposing of all or substantially all of its assets or any significant portion thereof other than in the ordinary course of business; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; and (e) merging or consolidating with any other company.

PLDT's debt instruments also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (f) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. Smart's loan agreements include compliance with financial tests such as Smart's consolidated debt to consolidated EBITDA, debt service coverage ratio and interest coverage ratio. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair the guarantors' ability to perform their obligations under its loan agreements.

The loan agreements with banks (foreign and local alike) and other financial institutions provide for certain restrictions and requirements with respect to, among others, maintenance of percentage of ownership of specific shareholders, incurrence of additional long-term indebtedness or guarantees and creation of property encumbrances.

As at March 31, 2020 and December 31, 2019, we were in compliance with all of our debt covenants.

Consent Solicitation Exercise of PLDT

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

On October 30, 2019, PLDT announced the early closing of the consent solicitation exercise from its original schedule of November 15, 2019 when the Company received the required consents to effect the proposed amendment. The new debt covenants is effective as at November 8, 2019.

22. Deferred Credits and Other Noncurrent Liabilities

As at March 31, 2020 and December 31, 2019, this account consists of:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Provision for asset retirement obligations	**1,693**	1,767
Accrual of capital expenditures under long-term financing	**1,290**	2,118
Contract liabilities and unearned revenues (Note 5)	**673**	604
Others	**111**	68
	3,767	4,557

Accrual of capital expenditures under long-term financing represents expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks. See *Note 21 – Interest-bearing Financial Liabilities.*

The following table summarizes the changes to provision for asset retirement obligations for the three months ended March 31, 2020 and for the year ended December 31, 2019:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Provision for asset retirement obligations at beginning of the period	**1,767**	1,656
Additional liability	**31**	154
Accretion expenses	**15**	82
Settlement of obligations and others	**(120)**	(125)
Provision for asset retirement obligations at end of the period	**1,693**	1,767

23. Accounts Payable

As at March 31, 2020 and December 31, 2019, this account consists of:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Suppliers and contractors (Note 28)	**71,261**	68,051
Taxes (Note 27)	**1,532**	1,457
Carriers and other customers (Note 28)	**1,294**	1,387
Related parties (Notes 25 and 28)	**612**	602
Others	**5,846**	6,348
	80,545	77,845

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

In 2019, one of our major suppliers entered into Trade Financing Arrangements, or TFA, to sell a portion of its Philippine Peso receivables from the Parent Company amounting to Php1,799 million and from Smart amounting to Php3,200 million. Under the terms of the TFA, the Purchaser will have exclusive ownership of the purchased receivables and all of its rights, title and interest. The amount reclassified from "Accounts Payable – Suppliers and contractors" to "Accounts Payable – Others" amounted to Php4,999 million for the year ended December 31, 2019.

For terms and conditions pertaining to the payables to related parties, see *Note 25 – Related Party Transactions*.

For detailed discussion on the PLDT Group's liquidity risk management processes, see *Note 28 – Financial Assets and Liabilities – Liquidity Risk.*

24. Accrued Expenses and Other Current Liabilities

As at March 31, 2020 and December 31, 2019, this account consists of:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Accrued utilities and related expenses (Notes 25 and 28)	**62,575**	60,966
Accrued taxes and related expenses (Note 27)	**11,239**	11,380
Contract liabilities and unearned revenues (Note 5)	**8,261**	7,879
Liability from redemption of preferred shares (Notes 20 and 28)	**7,850**	7,851
Accrued employee benefits and other provisions (Notes 26 and 28)	**6,771**	8,700
Accrued interests and other related costs (Note 29)	**1,584**	1,531
Others	**2,437**	2,508
	100,717	100,815

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.

Contract liabilities and 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.

25. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. Transactions with related parties are on an arm's length basis, similar to transactions with third parties.

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

The following table provides the summary of outstanding balances as at March 31, 2020 and December 31, 2019 transactions that have been entered into with related parties:

	Classifications	Terms	Conditions	**March 31, 2020 (Unaudited)**	December 31, 2019 (Audited)
				(in million pesos)	
Indirect investment in joint ventures through PCEV:					
Meralco	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	Electricity charges – immediately upon receipt of invoice	Unsecured	**390**	415
	ROU assets (Note 10)	Upon expiration of depreciation of lease	Unsecured	**357**	–
Meralco Industrial Engineering Services Corporation, or MIESCOR	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice	Unsecured	**3**	3
MPIC	Financial assets at FVOCI – net of current portion (Note 11)	Due after March 31, 2021 for 2020 and due after December 31, 2020 for 2019; non-interest-bearing	Unsecured	**161**	162
	Current portion of financial assets at FVOCI (Note 11)	Due on or before March 31, 2021 for 2020 and due on or before December 31, 2020 for 2019; non-interest-bearing	Unsecured	**2,793**	2,757
Transactions with major stockholders, directors and officers:					
NTT Finance Corporation	Interest-bearing financial liabilities (Note 21)	Non-amortizing, payable upon maturity on March 30, 2023 and March 27, 2024	Unsecured	**2,539**	2,540
NTT World Engineering Marine Corporation	Accrued expenses and other current liabilities (Note 24)	1st month of each quarter; non-interest-bearing	Unsecured	**162**	147
NTT Communications	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**11**	10
NTT Worldwide Telecommunications Corporation	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**4**	3
NTT DOCOMO	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**6**	6
JGSHI and Subsidiaries	ROU assets (Note 10)	Upon expiration of depreciation of lease	Unsecured	**160**	168
	Lease liabilities - net of current portion (Note 10)	Due after March 31, 2021 for 2020 and due after December 31, 2020 for 2019	Unsecured	**133**	154
	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	1st month of each quarter; 30 days upon receipt of invoice; non-interest-bearing	Unsecured	**19**	33
	Current portion of lease liabilities (Note 10)	Due on or before March 31, 2021 for 2020 and due on or before December 31, 2020 for 2019	Unsecured	**26**	20
Malayan Insurance Co., Inc. or Malayan	Prepayments (Note 19)	Immediately upon receipt of invoice	Unsecured	**12**	19
	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	Immediately upon receipt of invoice	Unsecured	**6**	5
Gotuaco del Rosario and Associates, or Gotuaco	Prepayments (Note 19)	Immediately upon receipt of invoice	Unsecured	**–**	6
	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	Immediately upon receipt of invoice	Unsecured	**1**	1
Others:					
Cignal Cable Corporation, or Cignal Cable (formerly Dakila Cable TV Corp.)	Accrued expenses and other current liabilities (Notes 23 and 24)	Immediately upon receipt of invoice	Unsecured	**60**	–
Various	ROU assets (Note 10)	Upon expiration/depreciation of lease	Unsecured	**242**	232
	Trade and other receivables (Note 17)	30 days upon receipt of invoice	Unsecured	**2,262**	2,082
	Lease liabilities - net of current portion (Note 10)	Due after March 31, 2021 for 2020 and due after December 31, 2020 for 2019	Unsecured	**172**	218
	Accounts payable (Note 23)	30 days non-interest-bearing	Unsecured	**162**	571
	Accounts payable (Note 23)	Immediately upon receipt of billing	Unsecured	**612**	602
	Accrued expenses and other current liabilities (Note 24)	Immediately upon receipt of billing	Unsecured	**32**	65
	Current portion of lease liabilities (Note 10)	Due on or before March 31, 2021 for 2020 and due on or before December 31, 2020 for 2019	Unsecured	**76**	92

The following table provides the summary of transactions that have been entered into with related parties for the three months ended March 31, 2020 and 2019 in relation with the table above.

		March 31,	
		2020	2019
	Classifications	(Unaudited)	
		(in million pesos)	
Indirect investment in joint ventures through PCEV:			
Meralco	Repairs and maintenance	**622**	650
	Rent	**38**	29
	Depreciation and amortization	**119**	54
MIESCOR	Repairs and maintenance	**—**	10
Transactions with major stockholders, directors and officers:			
NTT Finance Corporation	Financing costs - net	**22**	27
NTT World Engineering Marine Corporation	Repairs and maintenance	**44**	4
NTT Communications	Professional and other contracted services	**16**	24
NTT Worldwide Telecommunications Corporation	Selling and promotions	**1**	2
NTT DOCOMO	Professional and other contracted services	**12**	18
JGSHI and Subsidiaries	Rent	**19**	17
	Repairs and maintenance	**10**	16
	Communication, training and travel	**3**	3
	Miscellaneous expenses	**2**	3
Malayan	Insurance and security services	**55**	57
Gotuaco	Insurance and security services	**35**	34
First Pacific Investment Management Limited, or FPIML	Professional and other contracted services	**26**	26
Others:			
TV5	Selling and promotions	**55**	—
Cignal Cable	Cost of services	**38**	127
	Selling and promotions	**38**	—
	Other income - net	**76**	—
Various	Revenues	**557**	655
	Expenses	**706**	930

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 interim consolidated income statements, amounted to Php622 million and Php650 million for the three months ended March 31, 2020 and 2019, respectively. Under these agreements, the outstanding obligations, which were presented as part of accounts payable and accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php390 million and Php415 million as at March 31, 2020 and December 31, 2019, 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 interim consolidated income statements, amounted to Php38 million and Php29 million for the three months ended March 31, 2020 and 2019, respectively. Total fees under these contracts, which were presented as part of depreciation and amortization in our interim consolidated income statements, amounted to Php119 million and Php54 million for the three months ended March 31, 2020 and 2019, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php66 thousand each as at March 31, 2020 and December 31, 2019. Under these agreements, the outstanding obligations, which were presented as part of ROU assets in our interim consolidated statement of financial position amounted to Php357 million and nil as at March 31, 2020 and December 31, 2019, respectively.

b. Agreements between PLDT and MIESCOR

PLDT has an existing Outside and Inside Plant Contracted Services Agreement with MIESCOR, a subsidiary of Meralco, which expired on December 31, 2018. Under the agreement, MIESCOR assumes full and overall responsibility for the implementation and completion of any assigned project such as cable and civil works that are required for the provisioning and restoration of lines and recovery of existing plant.

Total fees under this agreement, which were presented as part of repairs and maintenance in our interim consolidated income statements, amounted to nil for the three months ended March 31, 2020 and 2019. Total amounts capitalized to property and equipment amounted to nil and Php432 thousand for the three months ended March 31, 2020 and 2019, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php185 thousand each as at March 31, 2020 and December 31, 2019.

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

Total fees under this agreement, which were presented as part of repairs and maintenance in our interim consolidated income statements, amounted to nil and Php10 million for the three months ended March 31, 2020 and 2019, respectively. Total amounts capitalized to property and equipment amounted to nil for the three months ended March 31, 2020 and 2019. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php3 million each as at March 31, 2020 and December 31, 2019.

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 March 31, 2020 and December 31, 2019, and for the three months ended March 31, 2020 and 2019 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 – net in our interim consolidated income statements, amounted to Php11 million and Php13.5 million for the three months ended March 31, 2020 and 2019, respectively. The amounts of US$25 million, or Php1,269.5 million, and US$25 million, or Php1,270 million, remained outstanding as at March 31, 2020 and December 31, 2019, 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 – net in our interim consolidated income statements, amounted to Php11 million and Php13.5 million for the three months ended March 31, 2020 and 2019, respectively. The amount of US$25 million, or Php1,269.5 million, and US$25 million, or Php1,270 million, remained outstanding as at March 31, 2020 and December 31, 2019, 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 interim consolidated income statements, amounted to Php44 million Php4 million for the three months ended March 31, 2020 and 2019, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php162 million and Php147 million as at March 31, 2020 and December 31, 2019, 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 interim consolidated income statements, amounted to Php16 million and Php24 million for the three months ended March 31, 2020 and 2019, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accounts payable and accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php8 million each as at March 31, 2020 and December 31, 2019;

- *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 interim consolidated income statements, amounted to nil for the three months ended March 31, 2020 and 2019. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accounts payable and accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php3 million and Php2 million as at March 31, 2020 and December 31, 2019, 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 interim consolidated income statements, amounted to Php1 million and Php2 million for the three months ended March 31, 2020 and 2019, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php4 million and Php3 million as at March 31, 2020 and December 31, 2019, 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 interim consolidated income statements, amounted to Php12 million and Php18 million for the three months ended March 31, 2020 and 2019, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php6 million each as at March 31, 2020 and December 31, 2019.

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 interim consolidated income statements, amounted to Php19 million and Php17 million for the three months ended March 31, 2020 and 2019, respectively. Under these agreements, the outstanding obligations, which were presented as part of ROU assets in our interim consolidated statements of financial position amounted to Php160 million and Php168 million as at March 31, 2020 and December 31, 2019, respectively, and lease liabilities in our interim consolidated statements of financial position, amounted to Php159 million and Php174 million as at March 31, 2020 and December 31, 2019, respectively. Under these agreements, the outstanding obligations, which were presented as part of accounts payable and accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php16 million and Php31 million each as at March 31, 2020 and December 31, 2019, respectively.

There were also other transactions such as communication, training and travel, repairs and maintenance and miscellaneous expenses in our interim consolidated income statements, amounting to Php15 million and Php22 million for the three months ended March 31, 2020 and 2019, respectively. Under these agreements, the outstanding obligations for these transactions, which were presented as part of accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php3 million and Php2 million as at March 31, 2020 and December 31, 2019, 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 interim consolidated income statements, amounted to Php55 million and Php57 million for the three months ended March 31, 2020 and 2019, respectively. Under this agreement, outstanding prepayments, which were presented as part of prepayments in our interim consolidated statements of financial position, amounted to Php12 million and Php19 million as at March 31, 2020 and December 31, 2019 respectively, while the outstanding obligations, which were presented as part of accounts payable and accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php6 million and Php5 million as at March 31, 2020 and December 31, 2019, 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 interim consolidated income statement, amounted to Php35 million and Php34 million for the three months ended March 31, 2020 and 2019, respectively. Under this agreement, the outstanding prepayments, which were presented as part of prepayments in our interim consolidated statements of financial position, amounted to nil and Php6 million as at March 31, 2020 and December 31, 2019, respectively, while the outstanding obligations, which were presented as part of accounts payable and accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php1 million each as at March 31, 2020 and December 31, 2019.

7. *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 US$$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 interim consolidated income statements, amounted to Php26 million for each of the three months ended March 31, 2020 and 2019. There were no outstanding payable under this agreement as at March 31, 2020 and December 31, 2019.

On March 26, 2020, Smart and FPIML mutually agreed to reduce the monthly service fee to US$100 thousand in consideration of the services provided under this agreement, effective April 1, 2020.

8. *Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO*

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DOCOMO pursuant to the SPA dated January 31, 2006 between NTT Communications and NTT DOCOMO, the FP Parties, NTT Communications and NTT DOCOMO entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DOCOMO, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- *Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DOCOMO*. Each of NTT Communications and NTT DOCOMO has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.

- *Limitation on Competition*. NTT Communications, NTT DOCOMO and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DOCOMO with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.

- *Business Cooperation*. PLDT and NTT DOCOMO agreed in principle to collaborate with each other on the business development, roll-out and use of a Wireless-Code Division Multiple Access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DOCOMO.

- *Additional Rights of NTT DOCOMO*. Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:

    1. NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the Board of Directors of each PLDT and Smart;

    2. PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DOCOMO, or which NTT DOCOMO has announced publicly an intention to carry on;

    3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and

    4. PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock as at March 31, 2020 and December 31, 2019.

- *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 Php55 million and nil for the three months ended March 31, 2020 and 2019, respectively. There were no prepayments under this advertising placement agreements as at March 31, 2020 and December 31, 2019.

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. The content cost recognized for the three months ended March 31, 2020 and 2019 amounted to nil and Php127 million, respectively. Under this agreement, outstanding prepayments, which were presented as part of prepayments in our interim consolidated statements of financial position, amounted to nil as at March 31, 2020 and December 31, 2019. There were no outstanding obligations under this agreement as at December 31, 2019 and 2018.

   PLDT and Smart entered into a new two-year agreement with Cignal Cable to resell and distribute the *iflix* service to their respective subscribers effective June 18, 2019. The agreement stipulates that PLDT and Smart will each pay a minimum guarantee of US$1,500 thousand annually, which is committed for the Advertising Spend Guarantee. *Iflix* shall pay PLDT and Smart 30% each of the monthly marketing costs subject to a monthly cap of US$500 thousand each. The cost of services, selling and promotions, and other income – net recognized in our interim consolidated income statement under this agreement amounted to Php38 million, Php38 million and Php76 million for the three months ended March 31, 2020. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our interim consolidated statements of financial position, amounted to Php60 million and nil as at March 31, 2020 and December 31, 2019, 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 Php557 million and Php655 million for the three months ended March 31, 2020 and 2019, respectively. The expenses under these services amounted to Php706 million and Php930 million for the three months ended March 31, 2020 and 2019, respectively.

   Under these agreements, the ROU assets in our interim consolidated statement of financial position amounted to Php242 million and Php232 million as at March 31, 2020 and December 31, 2019, respectively, and the trade and other receivables in our interim consolidated statements of financial position amounted to Php2,262 million and Php2,082 million as at March 31, 2020 and December 31, 2019, respectively. Under these agreements, the outstanding obligations, which were presented as part of lease liabilities amounted to Php248 million and Php310 million as at March 31, 2020 and December 31, 2019, respectively, accounts payable in our interim consolidated statements of financial position amounted to Php774 million and Php1,173 million as at March 31, 2020 and December 31, 2019, respectively, and accrued expenses and other current liabilities amounted to Php32 million and Php65 million as at March 31, 2020 and December 31, 2019, respectively.

   See *Note 11 – Investments in Associates and Joint Ventures – Investment of ePLDT in MediaQuest PDRs* and *Sale of PCEV's Receivables from 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 three months ended March 31, 2020 and 2019 are as follows:

	March 31,	
	2020	2019
		(Unaudited)
	(in million pesos)	
Share-based payments (Note 26)	**187**	123
Short-term employee benefits	**103**	86
Post-employment benefits (Note 26)	**5**	5
Total compensation paid to key officers of the PLDT Group	**295**	214

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

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

Total fees paid for board meetings and board committee meetings amounted to Php14 million and Php23 million for the three months ended March 31, 2020 and 2019, 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.

26. Pension and Other 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. There is no significant change in the fair value of plan assets from December 31, 2019 to March 31, 2020. Based on the latest actuarial valuation, the actual present value of accrued (prepaid) benefit costs for the three months ended March 31,2020 and for the year ended December 31, 2019, and net periodic benefit costs and average assumptions used in developing the valuation as at and for the three months ended March 31, 2020 and 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Changes in the present value of defined benefit obligations:		
Present value of defined benefit obligations at beginning of the period	**22,638**	20,683
Service costs	**331**	1,043
Interest costs on benefit obligation	**241**	1,338
Actuarial losses (gains) on obligations – economic assumptions	**—**	3,829
Actuarial losses on obligations – experience	**—**	570
Actuarial losses on obligations – demographic assumptions	**—**	4
Actual benefits paid/settlements	**(321)**	(4,558)
Curtailments and others (Note 5)	**(4)**	(271)
Present value of defined benefit obligations at end of the period	**22,885**	22,638
Changes in fair value of plan assets:		
Fair value of plan assets at beginning of the period	**13,724**	13,539
Actual contributions	**621**	7,598
Interest income on plan assets	**161**	1,360
Actual benefits paid/settlements	**(321)**	(4,215)
Return on plan assets (excluding amount included in net interest)	**(733)**	(4,558)
Fair value of plan assets at end of the period	**13,452**	13,724
Unfunded status – net	**(9,433)**	(8,914)
Accrued benefit costs	**9,504**	8,985
Prepaid benefit costs (Note 19)	**71**	71

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Components of net periodic benefit costs:		
Service costs	**331**	231
Interest costs – net	**80**	95
Curtailment/settlement losses and other adjustments	**—**	—
Net periodic benefit costs (Note 5)	**411**	326

Actual net losses on plan assets amounted to Php572 million and Php513 million for the three months ended March 31, 2020 and 2019, respectively.

Based on the latest actuarial valuation, our expected contribution to the defined benefit plan in 2020 will amount to Php1,589 million.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at March 31, 2020:

	(in million pesos)
2020[1]	644
2021	362
2022	377
2023	620
2024	1,011
2025 to 2065	128,008

[1] *April 1, 2020 through December 31, 2020.*

The average duration of the defined benefit obligation at the end of the reporting period is 8 to 19 years.

The weighted average assumptions used to determine pension benefits for the three months ended March 31, 2020 and 2019 are as follows:

	March 31,	
	2020	2019
		(Unaudited)
Rate of increase in compensation	**6.0%**	6.0%
Discount rate	**4.8%**	7.3%

In 2019, we have changed the source of the mortality rates from the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries to the 2017 Philippine Intercompany Mortality Table developed by the Actuarial Society of the Philippines Life Insurance Committee. Both sources provides separate rates for males and females. The disability rates were based on the 1952 Disability Study of the U.S. Society of Actuaries for Period 2, Benefit 5 adjusted to suit local experience.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at March 31, 2020 and December 31, 2019, assuming if all other assumptions were held constant:

	Increase (Decrease)	
		(in million pesos)
Discount rate	1%	(2,216)
	(1%)	2,809
Future salary increases	1%	2,747
	(1%)	(2,216)

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 year 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 March 31, 2020 and December 31, 2019:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Unquoted equity investments	**10,785**	10,815
Shares of stock	**1,838**	2,077
Corporate bonds	**135**	145
Government securities	**22**	22
Mutual funds	**21**	9
Total noncurrent financial assets	**12,801**	13,068
Current Financial Assets		
Cash and cash equivalents	**438**	441
Receivables	**6**	8
Total current financial assets	**444**	449
Total PLDT's Plan Assets	**13,245**	13,517
Subsidiaries Plan Assets	**207**	207
Total Plan Assets of Defined Benefit Pension Plans	**13,452**	13,724

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.

Unquoted Equity Investments

As at March 31, 2020 and December 31, 2019, this account consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)	**March 31, 2020 (Unaudited)**	December 31, 2019 (Audited)
	% of Ownership		(in million pesos)	
MediaQuest	**100%**	100%	**10,050**	10,050
Tahanan Mutual Building and Loan Association, Inc., or TMBLA, (net of subscriptions payable of Php32 million)	**100%**	100%	**512**	544
BTFHI	**100%**	100%	**223**	221
			10,785	10,815

Investments in MediaQuest

MediaQuest was registered with the Philippine SEC on June 29, 1999 primarily to purchase, subscribe for or otherwise acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property or every kind and description, and to pay thereof in whole or in part, in cash or by exchanging, stocks, bonds and other evidences of indebtedness or securities of this any other corporation. Its investments include common shares of stocks of various communication, broadcasting and media entities.

Investments in MediaQuest are carried at fair value. The VIU calculations were derived from cash flow projections over a period of three to five years based on the 2019 financial budgets approved by the MediaQuest's Board of Directors and calculated terminal value. Other key assumptions used in the cash flow projections include revenue growth rate, direct costs and capital expenditures. The post-tax discount rates applied to cash flow projections range from 11.3% to 11.9%. Cash flows beyond the five-year period are determined using 0% to 4.1% growth rates.

On May 8, 2012, the Board of Trustees of the PLDT Beneficial Trust Fund approved the issuance by MediaQuest of PDRs amounting to Php6 billion. The underlying shares of these PDRs are the shares of stocks of Cignal TV held by MediaQuest through Satventures (Cignal TV PDRs). On the same date, MediaQuest Board of Directors approved the investment in Cignal TV PDRs by ePLDT, which gave ePLDT a 40% economic interest in Cignal TV. In June 2012, MediaQuest received a deposit for future PDRs subscription of Php4 billion from ePLDT. Additional deposits of Php1 billion each were received on July 6, 2012 and August 9, 2012.

On January 25, 2013, the Board of Trustees of the PLDT Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php3.6 billion. The underlying shares of these additional PDRs are the shares of Satventures held by MediaQuest (Satventures PDRs), the holder of which will have a 40% economic interest in Satventures. Satventures is a wholly-owned subsidiary of MediaQuest and the investment vehicle for Cignal TV. From March to August 2013, MediaQuest received from ePLDT an amount aggregating to Php3.6 billion representing deposits for future PDRs subscription. The Satventures PDRs and Cignal TV PDRs were subsequently issued on September 27, 2013, providing ePLDT an effective 64% economic interest in Cignal TV.

Also, on January 25, 2013, the Board of Trustees of the PLDT Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php1.95 billion. The underlying shares of these additional PDRs are the shares of stocks of Hastings held by MediaQuest (Hastings PDRs). Hastings is a wholly-owned subsidiary of MediaQuest, which holds all the print-related investments of MediaQuest, including equity interests in the three leading newspapers: The Philippine Star, Philippine Daily Inquirer, and Business World. From June 2013 to October 2013, MediaQuest received from ePLDT an amount aggregating to Php1.95 billion representing deposits for future PDRs subscription.

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

On May 21, 2015, ePLDT's Board of Directors approved an additional Php800 million investment in Hastings PDRs and settlement of the Php200 million balance of the Php500 million Hastings PDR investment in 2014. Subsequently, on May 30, 2015, the Board of Trustees of the PLDT Beneficial Trust Fund and the Board of Directors of MediaQuest approved the issuance of Php3,250 million Hastings PDRs. This provided ePLDT with 70% economic interest in Hastings. In February 2018, ePLDT entered into a Deed of Assignment with the Board of Trustees of the PLDT Beneficial Trust Fund transferring the Hastings PDRs for Php1,664 million. See *Note 11 – Investments in Associates and Joint Ventures – Investment of ePLDT 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 year ended December 31, 2018 amounting to Php3,038 million was recognized in the statements of changes in net assets available for plan benefits under "Net fair value gain (loss) on investments, which is part of return on plan assets."

In 2019, the Board of Trustees of the PLDT Beneficial Trust Fund approved the additional investment in MediaQuest amounting to Php3,100 million to fund MediaQuest's investment requirements. As at December 31, 2019, MediaQuest has fully drawn the total amount of Php3,100 million. Loss on changes in fair value of the investment for the year ended December 31, 2019 amounting to Php3,072 million was recognized in the statements of changes in net assets available for plan benefits under "Net fair value gain (loss) on investments, which is part of return on plan assets."

In 2020, the Board of Trustees of the PLDT Beneficial Trust Fund approved the additional investment in MediaQuest amounting to Php1,400 million to fund MediaQuest's investment requirements. As at March 31, 2020, MediaQuest has already drawn a total amount Php350 million. Loss on changes in fair value of the investment for the three months ended March 31, 2020 amounting to Php350 million were recognized in the statements of changes in net assets available for plan benefits under "Net fair value gain (loss) on investments."

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 Php432 million and Php464 million as at March 31, 2020 and December 31, 2019 and 2018, respectively.

Investment in BTFHI

BTFHI was incorporated for the primary purpose of acquiring voting preferred shares in PLDT and while the owner, holder of possessor thereof, to exercise all the rights, powers, and privileges of ownership or any other interest therein.

On October 26, 2012, BTFHI subscribed to a total of 150 million shares of Voting Preferred Stock of PLDT at a subscription price of Php1.00 per share for a total subscription price of Php150 million. Total cash dividend income amounted to Php2 million for each of the three months ended March 31, 2020 and 2019. Dividend receivables amounted to Php2 million each as at March 31, 2020 and December 31, 2019.

Shares of Stocks

As at March 31, 2020 and December 31, 2019, this account consists of:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Common shares		
PSE	**1,101**	1,161
PLDT	**29**	26
Others	**348**	530
Preferred shares	**360**	360
	1,838	2,077

Dividends earned on PLDT common shares amounted to Php1 million and Php2 million for the three months ended March 31, 2020 and 2019, 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, 2019 and 2018. 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 Php12 million for each of the three months ended March 31, 2020 and 2019.

Corporate Bonds

Investment in corporate bonds includes various long-term peso and dollar denominated bonds with maturities ranging from December 2020 to May 2027 and fixed interest rates from 3.95% to 7.06% per annum. Total investment in corporate bonds amounted to Php135 million and Php145 million as at March 31, 2020 and December 31, 2019, respectively.

Government Securities

Investment in government securities includes Fixed Rate Treasury Notes bearing interest rate of 5.88% per annum and zero-rated U.S. 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 Php22 million each as at March 31, 2020 and December 31, 2019.

Mutual Funds

Investment in mutual funds includes a local equity fund, which aims to out-perform benchmarks in various indices as part of its investment strategy. Total investment in mutual funds amounted to Php21 million and Php9 million as at March 31, 2020 and December 31, 2019, respectively.

The allocation of the fair value of the assets for the PLDT pension plan as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
Investments in listed and unlisted equity securities	**96%**	96%
Temporary cash investments	**3%**	3%
Debt and fixed income securities	**1%**	1%
	100%	100%

Defined Contribution Plans

Smart's and certain of its subsidiaries' contributions to the plan are made based on the employees' years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and certain of its subsidiaries regularly monitor their compliance with R.A. 7641. As at March 31, 2020 and December 31, 2019, 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. There is no significant change in the fair value of plan assets from December 31, 2019 to March 31, 2020. Based on the latest actuarial valuation, the actual present value of prepaid benefit costs for the three months ended March 31, 2020 and for the year ended December 31, 2019, and the net periodic benefit costs and average assumptions used in developing the valuation for the three months ended March 31, 2020 and 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Changes in the present value of defined benefit obligations:		
Present value of defined benefit obligations at beginning of the period	**2,813**	2,804
Service costs	**68**	239
Interest costs on benefit obligation	**—**	174
Actuarial losses – experience	**—**	100
Actuarial losses – economic assumptions	**—**	13
Actual benefits paid/settlements	**—**	(37)
Curtailment and others	**(449)**	(480)
Present value of defined benefit obligations at end of the period	**2,432**	2,813
Changes in fair value of plan assets:		
Fair value of plan assets at beginning of the period	**3,084**	3,159
Actual contributions	**128**	281
Interest income on plan assets	**—**	190
Return on plan assets (excluding amount included in net interest)	**—**	100
Actual benefits paid/settlements	**—**	(37)
Others	**(499)**	(609)
Fair value of plan assets at end of the period	**2,713**	3,084
Funded status – net	**281**	271
Accrued benefit costs	**—**	—
Prepaid benefit costs (Note 19)	**281**	271

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Components of net periodic benefit costs:		
Service costs	**68**	29
Interest costs – net	**—**	—
Net periodic benefit costs (Note 5)	**68**	29

Smart's net consolidated pension benefit costs amounted to Php68 million and Php29 million for the three months ended March 31, 2020 and 2019, respectively.

Actual net gains on plan assets amounted to nil for the three months ended March 31, 2020 and 2019.

Based on the latest actuarial valuation, Smart and certain of its subsidiaries expect to contribute the amount of approximately Php337 million to the plan in 2020.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at March 31, 2020:

	(in million pesos)
2020[(1)]	392
2021	101
2022	100
2023	113
2024	153
2025 to 2060	859

[(1)] *April 1, 2020 through December 31, 2020.*

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 three months ended March 31, 2020 and 2019 are as follows:

	March 31,	
	2020	2019
	(Unaudited)	
Rate of increase in compensation	**5.0%**	5.0%
Discount rate	**7.3%**	5.8%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at March 31, 2020, assuming if all other assumptions were held constant:

		Increase (Decrease)
		(in million pesos)
Discount rate	(0.27%)	(8)
	0.74%	21
Future salary increases	0.72%	20
	(0.27%)	(8)

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 50%, 30% and 20% for fixed income securities, temporary placements and equity securities, respectively.

The following table sets forth the fair values, which are equal to the carrying values, of Smart's plan assets recognized as at Mach 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Domestic fixed income	**2,397**	1,993
Philippine foreign currency bonds	**509**	516
Domestic equities	**360**	649
International equities	**312**	1,114
International fixed income	**146**	142
Total noncurrent financial assets	**3,724**	4,414
Current Financial Assets		
Cash and cash equivalents	**158**	32
Receivables	**3**	2
Total current financial assets	**161**	34
Total plan assets	**3,885**	4,448
Less: Employee's share, forfeitures and mandatory reserve account	**1,172**	1,364
Total Plan Assets of Defined Contribution Plans	**2,713**	3,084

Domestic Fixed Income

Investments in domestic fixed income include Philippine Peso denominated bonds, such as government securities and corporate debt securities, with fixed interest rates from 2.8% to 12.0% per annum. Total investments in domestic fixed income amounted to Php2,397 million and Php1,993 million as at March 31, 2020 and December 31, 2019, respectively.

Philippine Foreign Currency Bonds

Investments in Philippine foreign currency bonds include U.S. Dollar denominated fixed income instruments issued by the Philippine government and local corporations with fixed interest rates from 3.70% to 10.63% per annum. Total investment in Philippine foreign currency bonds amounted to Php509 million and Php516 million as at March 31, 2020 and December 31, 2019, 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 Php360 million and Php649 million as at March 31, 2020 and December 31, 2019, respectively. This includes investment in PLDT shares with fair value of Php20 million and Php13 million as at March 31, 2020 and December 31, 2019, respectively.

International Equities

Investments in international equities include investment in Wellington Global Quality Growth Fund. Total investments in international equities amounted to Php312 million and Php1,114 million as at March 31, 2020 and December 31, 2019, respectively.

International Fixed Income

Investments in international fixed income include mutual fund invested in PIMCO GIS Global Bond Fund. Total investments in international fixed income amounted to Php146 million and Php142 million as at March 31, 2020 and December 31, 2019, 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 March 31, 2020 and December 31, 2019 is as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
Investments in debt and fixed income securities and others	**83%**	60%
Investments in listed and unlisted equity securities	**17%**	40%
	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 ECC of the Board approved Management's recommended modifications to the Plan, and partial equity and cash settled set-up was implemented for the 2019 TIP Grant. The revised set-up includes a fixed number of shares that will be granted ("equity award") and the estimated fair value of the difference between the number of shares granted in the original equity grant and the equity award will be paid in cash ("cash award"). The fair value of the award is determined at each reporting date using the estimated fair value of the corresponding shares.

As at May 7, 2020, a total of 757 thousand PLDT common shares have been acquired by the Trustee, of which 238 thousand PLDT common shares have been released to the eligible participants on March 12, 2020 and April 7, 2020 for the 2019 annual grant, 302 thousand PLDT common shares have been released on March 28, 2019 for the 2018 annual grant, and 204 thousand shares on April 5, 2018 for the 2017 annual grant, respectively. The cash award for the 2019 annual grant that was paid on March 12, 2020 amounted to Php654 million. The TIP is administered by the ECC of the Board. The expense accrued for the TIP amounted to Php210 million and Php638 million as at March 31, 2020 and December 31, 2019, respectively. The accrued incentive payable, representing the cash settled set-up amounted to Php572 million and Php795 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Pension Benefit Costs and Other Employee Benefits* and *Note 5 – Income and Expenses – Compensation and Employee Benefits*.

27. 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 March 31, 2020, 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, the Province of Cagayan filed a Partial Motion for Reconsideration, praying among others, that the Court enter a new decision declaring as valid and legal the tax assessment issued by Province of Cagayan to Smart. The CTA En Banc then issued a Resolution dated June 22, 2016 denying the Partial Motion for Reconsideration filed by the Province of Cagayan for lack of merit. On July 31, 2016, the Decision dated December 8, 2015 became final and executory and recorded in the book of entries of judgement of the CTA.

In 2016, Cagayan issued another local franchise tax assessment against Smart covering years 2011-2015. Using the same grounds in the first case, Smart appealed the assessment with the RTC of Tuguegarao where the case is pending. The RTC then directed the parties to file their respective Memorandum within 30 days from date of receipt. Smart filed its Memorandum on November 7, 2018.

In 2015, the City of Manila issued assessments for alleged business tax deficiencies and cell sites regulatory fees and charges. Smart protested the assessments. After Manila denied the protest, Smart appealed to the RTC of the City of Manila, arguing that it is not liable for local business taxes on income realized from its telecommunications operations and that the assessments were a clear circumvention of Manila City Ordinance No. 8299 exempting Smart from the payment of local franchise tax. The assessment for regulatory fees was contested for being void, as they were made without a valid and legal basis. In the Decision promulgated on March 9, 2016, the RTC declared the local business tax and cell site regulatory fee assessments as invalid and void. The City of Manila filed a Petition for Review with the CTA seeking to reverse the Decision. Through a Decision dated December 18, 2017, the Court dismissed the Petition for lack of jurisdiction. On January 2018, Smart received a copy of the City of Manila's Motion for Reconsideration, which was denied by the CTA in a Resolution dated May 17, 2018. The City of Manila filed a Petition for Review dated June 1, 2018 before the CTA En Banc. Smart filed its Comment on October 23, 2018. Petition for review is submitted for decision pursuant to Resolution dated November 15, 2018. The Petition for Review filed by the City of Manila was denied by the Court of Tax Appeals En Banc in a Decision dated November 6, 2019. The CTA En Banc affirmed the: (1) Decision of CTA Division dated December 18, 2017, dismissing the petition of the City of Manila for lack of jurisdiction; and (2) Resolution of CTA Division dated May 17, 2018, dismissing the Motion for Reconsideration of the City of Manila for lack of merit. The CTA issued an Entry of Judgment, certifying that the petition for review by the City of Manila was denied in a Decision dated January 21, 2020.

Digitel's Franchise Tax Assessment and Real Property Tax Assessment

Digitel is discussing with various local government units as to settlement of its franchise tax and real property tax liabilities.

DMPI vs. City of Trece Martires

In 2010, DMPI petitioned to declare void the City of Trece Martires ordinance of imposing tower fee of Php150 thousand for each cell site every year. Application for the issuance of a preliminary injunction by DMPI is pending resolution as of date.

ACeS Philippines' Local Business and Franchise Tax Assessments

ACeS Philippines has a pending case with the Supreme Court (*ACeS Philippines Satellite Corporation vs. Commissioner of Internal Revenue* Supreme Court G.R. No. 226680) for alleged 2006 deficiency withholding tax. On July 23, 2014, the CTA Second Division affirmed the assessment of the Commissioner of Internal Revenue for deficiency basic withholding tax, surcharge plus deficiency interest and delinquency interest amounting to Php87 million. On November 18, 2014, ACeS Philippines filed a Petition for Review with the CTA En Banc. On August 16, 2016, the CTA En Banc also affirmed the assessment with finality. Hence, on October 19, 2016, ACeS Philippines filed a petition before the Supreme Court assailing the decision of the CTA. ACeS Philippines intends to file a formal request for compromise of tax liabilities before the BIR while the case is pending before the Supreme Court. On February 23, 2017 and March 15, 2017, respectively, the Company paid and filed a formal request for compromise of tax liabilities amounting to Php27 million before the BIR while the case is pending before the Supreme Court. No outstanding Letter of Authority for other years.

Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI

Since 1990 up to the present, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. Among PLDT's claims against ETPI are ETPI's alleged uncompensated bypass of PLDT's systems from July 1, 1998 to November 28, 2003; unpaid access charges from July 1, 1999 to November 28, 2003; and non-payment of applicable rates for Off-Net and On-Net traffic from January 1, 1999 to November 28, 2003 arising from ETPI's unilateral reduction of its rates for the Philippines-Hong Kong traffic stream through Hong Kong REACH-ETPI circuits. ETPI's claims against PLDT, on the other hand, involve an alleged Philippines-Hong Kong traffic shortfall for the period July 1, 1998 to November 28, 2003; unpaid share of revenues generated from PLDT's activation of additional growth circuits in the Philippines-Singapore traffic stream for the period July 1, 1999 to November 28, 2003; under reporting of ETPI share of revenues under the terms of a Compromise Agreement for the period January 1, 1999 to November 28, 2003 (which ETPI is seeking to retroact to February 6, 1990); lost revenues arising from PLDT's blocking of incoming traffic from Hong Kong from November 1, 2001 up to November 2003; and lost revenues arising from PLDT's circuit migration from January 1, 2001 up to December 31, 2001.

While the parties have entered into Compromise Agreements in the past (one in February 1990 and another in March 1999), said agreements have not put to rest the issues between them. To avoid protracted litigation and to preserve their business relationship, PLDT and ETPI agreed to submit their differences and issues to voluntary arbitration. On April 16, 2008, PLDT and ETPI signed an Arbitration Settlement Agreement and submitted their respective Statement of Claims and Answers. Subsequent to such submissions, PLDT and ETPI agreed to suspend the arbitration proceedings. ETPI's total claim against PLDT is about Php2.9 billion while PLDT's total claim against ETPI is about Php2.8 billion.

In an agreement, PLDT and Globe have agreed that they shall cause ETPI, within a reasonable time after May 30, 2016, to dismiss Civil Case No. 17694 entitled *Eastern Telecommunications Philippines, Inc. vs. Philippine Long Distance Telephone Company*, and all related or incidental proceedings (including the voluntary arbitration between ETPI and PLDT), and PLDT, in turn, simultaneously, shall withdraw its counterclaims against ETPI in the same entitled case, all with prejudice.

In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition

In *Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al. (G.R. No. 176579)* (the "Gamboa Case"), the Supreme Court held that the term 'capital' in Section 11, Article XII of the 1987 Constitution refers only to "shares of stock entitled to vote in the election of directors" and thus only to voting common shares, and not to the "total outstanding capital stock (common and non-voting preferred shares)." It directed the Philippine SEC "to apply this definition of the term 'capital' in determining the extent of allowable foreign ownership in PLDT, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law." On October 9, 2012, the Supreme Court issued a Resolution denying with finality all Motions for Reconsideration of the respondents. The Supreme Court decision became final and executory on October 18, 2012.

On May 20, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, Series of 2013 - Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly-Nationalized Activities, or MC No. 8, which provides that the required percentage of Filipino ownership shall be applied to BOTH (a) the total number of outstanding shares of stock entitled to vote in the election of directors; AND (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.

On June 10, 2013, Jose M. Roy III filed before the Supreme Court a Petition for Certiorari against the Philippine SEC, Philippine SEC Chairman and PLDT, or the Petition, claiming: (1) that MC No. 8 violates the decision of the Supreme Court in the Gamboa Case, which according to the Petitioner required that (a) the 60-40 ownership requirement be imposed on "each class of shares" and (b) Filipinos must have full beneficial ownership of 60% of the outstanding capital stock of those corporations subject to that 60-40 Filipino-foreign ownership requirement; and (2) that the PLDT Beneficial Trust Fund is not a Filipino-owned entity and consequently, the corporations owned by PLDT Beneficial Trust Fund, including BTFHI, which owns 150 million voting preferred shares in PLDT, cannot be considered a Filipino-owned corporation. PLDT and Philippine SEC sought the dismissal of the Petition.

In July 16, 2013, Wilson C. Gamboa, Jr. et. al. filed a Motion for Leave to file a Petition-in-Intervention dated July 16, 2013, which the Supreme Court granted on August 6, 2013. The Petition-in-Intervention raised identical arguments and issues as those in the Petition.

The Supreme Court, in its November 22, 2016 decision, dismissed the Petition and Petition-In-Intervention and upheld the validity of MC No. 8. In the course of discussing the Petition, the Supreme Court expressly rejected petitioners' argument that the 60% Filipino ownership requirement for public utilities must be applied to each class of shares. According to the Court, the position is "simply beyond the literal text and contemplation of Section 11, Article XII of the 1987 Constitution" and that the petitioners' suggestion would "effectively and unwarrantedly amend or change" the Court's ruling in the Gamboa Case. In categorically rejecting the petitioners' claim, the Court declared and stressed that its ruling in the Gamboa Case "did NOT make any definitive ruling that the 60% Filipino ownership requirement was intended to apply to each class of shares." On the contrary, according to the Court, "nowhere in the discussion of the term "capital" in Section 11, Article XII of the 1987 Constitution in the Gamboa Decision did the Court mention the 60% Filipino equity requirement to be applied to each class of shares."

In respect of ensuring Filipino ownership and control of public utilities, the Court noted that this is already achieved by the requirements under MC No. 8. According to the Court, "since Filipinos own at least 60% of the outstanding shares of stock entitled to vote directors, which is what the Constitution precisely requires, then the Filipino stockholders control the corporation – i.e., they dictate corporate actions and decisions…"

The Court further noted that the application of the Filipino ownership requirement as proposed by petitioners "fails to understand and appreciate the nature and features of stocks and financial instruments" and would "greatly erode" a corporation's "access to capital – which a stock corporation may need for expansion, debt relief/repayment, working capital requirement and other corporate pursuits." The Court reaffirmed that "stock corporations are allowed to create shares of different classes with varying features" and that this "is a flexibility that is granted, among others, for the corporation to attract and generate capital (funds) from both local and foreign capital markets" and that "this access to capital – which a stock corporation may need for expansion, debt relief/repayment, working capital requirement and other corporate pursuits – will be greatly eroded with further unwarranted limitations that are not articulated in the Constitution." The Court added that "the intricacies and delicate balance between debt instruments (liabilities) and equity (capital) that stock corporations need to calibrate to fund their business requirements and achieve their financial targets are better left to the judgment of their boards and officers, whose bounden duty is to steer their companies to financial stability and profitability and who are ultimately answerable to their shareholders."

The Court went on to say that "a too restrictive definition of 'capital', one that was never contemplated in the Gamboa Decision, will surely have a dampening effect on the business milieu by eroding the flexibility inherent in the issuance of preferred shares with varying terms and conditions. Consequently, the rights and prerogatives of the owners of the corporation will be unwarrantedly stymied." Accordingly, the Court said that the petitioners' "restrictive interpretation of the term "capital" would have a tremendous adverse impact on the country as a whole – and to all Filipinos."

Petitioner Jose M. Roy III filed a Motion for Reconsideration of the Supreme Court Decision dated November 22, 2016. On April 18, 2017, the Supreme Court denied with finality Petitioner's Motion for Reconsideration. On August 5, 2017, PLDT received a copy of the Entry of Judgment.

Department of Labor and Employment, or DOLE, Compliance Order, or Order, to PLDT

The CA issued a Decision in this case on July 31, 2018.

In a series of orders including a Compliance Order issued by the DOLE Regional Office on July 3, 2017, which was partly affirmed by DOLE Secretary Silvestre Bello, III, or DOLE Secretary, in his resolutions dated January 10, 2018 and April 24, 2018, the DOLE had previously ordered PLDT to regularize 7,344 workers from 38 of PLDT's third party service contractors. PLDT questioned these "regularization orders" before the CA, which led to the July 31, 2018 Decision.

In sum, the CA: (i) granted PLDT's prayer for an injunction against the regularization orders; (ii) set aside the regularization orders insofar as they declared that there was labor-only contracting of the following functions: (a) janitorial services, messengerial and clerical services; (b) information technology, or IT, firms and services; (c) IT support services, both hardware and software, and applications development; (d) back office support and office operations; (e) business process outsourcing or call centers; (f) sales; and (g) medical, dental engineering and other professional services; and (iii) remanded to the DOLE for further proceedings, the matters of: (a) determining which contractors, and which individuals deployed by these contractors, are performing installation, repair and maintenance of PLDT lines; and (b) properly computing monetary awards for benefits such as unpaid overtime or 13th month pay, which in the regularization orders amounted to Php51.8 million.

The CA agreed with PLDT's contention that the DOLE Secretary's regularization order was "tainted with grave abuse of discretion" because it did not meet the "substantial evidence" standards set out by the Supreme Court in landmark jurisprudence. The Court also said that the DOLE's appreciation of evidence leaned in favor of the contractor workers, and that the DOLE Secretary had "lost sight" of distinctions involving the labor law concepts of "control over means and methods," and "control over results."

On August 20, 2018, PLDT filed a motion seeking a partial reconsideration of that part of the CA decision, which ordered a remand to the Office of the Regional Director of the DOLE-National Capital Region of the matter of the regularization of individuals performing installation, repair and maintenance, or IRM, services. In its motion, PLDT argued that the fact-finding process contemplated by the Court's remand order is actually not part of the visitorial power of the DOLE (i.e., the evidence that will need to be assessed cannot be gleaned by in the 'normal course' of a labor inspection) and is therefore, outside the jurisdiction of the DOLE Secretary.

PLDT also questioned that part of the CA ruling which seems to conclude that all IRM jobs are "regular." It argued that the law recognizes that some work of this nature can be project-based or seasonal in nature. Instead of the DOLE, PLDT suggested that the National Labor Relations Commission – a tribunal with better fact-finding powers – take over from the DOLE to determine whether the jobs are in fact IRM, and if so, whether they are "regular" or can be considered project-based or seasonal.

Both adverse parties, the PLDT rank-and-file labor union *Manggagawa sa Komunikasyon ng Pilipinas,* or MKP, and the DOLE filed Motions for Reconsideration.

On February 14, 2019, the CA issued a Resolution denying all Motions for Reconsideration and upheld its July 31, 2018 Decision. After filing a Motion for Extension of Time on March 7, 2019, PLDT filed on April 5, 2019 a Petition for Review with the Supreme Court, questioning only one aspect of the CA decision i.e. its order remanding to the DOLE the determination of which jobs fall within the scope of "installation, repair and maintenance," without however a qualification as to the "project" or "seasonal" nature of those engagements. The Supreme Court has consolidated PLDT's Petition with the separate Petitions for Review filed by the DOLE and MKP. The consolidated case remains pending with the Supreme Court as of the date of the report.

Attys. Baquiran and Tecson vs. NTC, et al.

This is a Petition for Mandamus filed on October 23, 2018 by Attys. Joseph Lemuel Baligod Baquiran and Ferdinand C. Tecson against the Respondents NTC, the PCC, Liberty, BellTel, Globe, PLDT and Smart. Briefly, the case involves the 700 MHz frequency, among others, or Subject Frequencies, that was originally assigned to Liberty and which eventually became subject of the Co-Use Agreement between Globe, on the one hand, and PLDT and Smart, on the other.

The Petition prayed that: (a) a Temporary Restraining Order, or TRO, /Writ of Preliminary Injunction, or WPI, be issued to enjoin and restrain Globe, PLDT and Smart from utilizing and monopolizing the Subject Frequencies and the NTC from bidding out or awarding the frequencies returned by PLDT, Smart and Globe; (b) the NTC's conditional assignment of the Subject Frequencies be declared unconstitutional, illegal and void; (c) alternatively, Liberty and its successors-in-interest be divested of the Subject Frequencies and the same be reverted to the State; (d) Liberty be declared to have transgressed Section 11 (1), Article XVI of the Constitution; (e) Liberty and its parent company be declared to have contravened paragraph 2 of Section 10, Article XII of the 1987 Constitution; (f) Liberty's assignment of the Subject Frequencies to BellTel be declared illegal and void; (g) the Co-Use Agreement be declared invalid; (h) the NTC be found to have unlawfully neglected the performance of its positive duties; (i) the PCC be found to have unlawfully neglected the performance of its positive duties; (j) a Writ of Mandamus be issued commanding the NTC to revoke the Co-Use Agreement, recall the Subject Frequencies in favor of the State, and make the same available to the best qualified telecommunication players; (k) a Writ of Mandamus be issued commanding the PCC to conduct a full review of PLDT's and Globe's acquisition of all issued and outstanding shares of Vega Telecom; (l) an Investigation of NTC be ordered for possible violation of Section 3 (e) of R.A. 3019 and other applicable laws; and (m) the said TRO/WPI be made permanent.

Essentially, petitioners contend that the NTC's assignments of the Subject Frequencies of Liberty were void for failing to comply with Section 4 (c) of R.A. 7925 which essentially states that "the radio frequency spectrum is a scarce public resource xxx." Even assuming the assignments were valid, Liberty should be deemed divested of the same by operation of law (with the Subject Frequencies reverted to the State), considering that it underutilized or never utilized the Subject Frequencies in violation of the terms and conditions of the assignment. Assuming further that the NTC's assignments of the Subject Frequencies were valid and that Liberty was not divested of the same by operation of law, still, Liberty did not validly assign the Subject Frequencies to BellTel because of the absence of Congressional approval. Petitioners conclude that since the assignments of the Subject Frequencies from the NTC to Liberty, and from Liberty to BellTel, were all illegal and void, it follows that the Subject Frequencies could not serve as the object of the Co-Use Agreement between PLDT, Smart and Globe.

On November 23, 2018, PLDT filed an Entry of Appearance on behalf of PLDT and Smart. On January 17, 2019, PLDT and Smart filed their Comment. Essentially, the Comment raised the following arguments: *first*, that the requisites for judicial review and for a mandamus petition are lacking; *second*, that there was no need for Liberty to obtain prior Congressional approval before it assigned the Subject Frequencies to BellTel; and *third*, that the Co-Use Agreement is valid and approved by the NTC, and did not violate the Constitution or any laws.

On January 15, 2019, PLDT received a copy of BellTel's Comment/Opposition dated January 10, 2019. On February 12, 2019, PLDT received a copy of Globe Telecom, Inc.'s, or Globe's Comment/Opposition dated January 21, 2019. In a Resolution dated March 19, 2019, the Supreme Court noted the aforesaid filings. As at the date of the report, however, PLDT has not received any pleadings from the OSG on behalf of the public respondents.

On June 18, 2019, the Supreme Court issued a Resolution consolidating this case with G.R. No. 230798 (Philippine Competition Commission vs. CA [Twelfth Division] and PLDT; Globe, intervenor) and G.R. No. 234969 (Philippine Competition Commission vs. PLDT and Globe). The consolidated cases were assigned to the Court in charge of G.R. No. 230798, the case with the lowest docket number.

Other disclosures required by PAS 37*, Provisions, Contingent Liabilities and Contingent Assets*, were not provided as it may prejudice our position in on-going claims, litigations and assessments. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Provision for legal contingencies and tax assessments*.

28. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables, cash and short-term deposits. Our principal financial liabilities, other than derivatives, comprise of bank loans, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, interest rate swaps and forward foreign exchange contracts and options to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies – Financial Instruments*.

The following table sets forth our consolidated financial assets and financial liabilities as at March 31, 2020 and December 31, 2019:

	Financial instruments at amortized cost	Financial instruments at FVPL	Financial instruments at FVOCI	Total financial instruments
		(in million pesos)		
Assets as at March 31, 2020 (Unaudited)				
Noncurrent:				
Financial assets at fair value through profit or loss	**—**	**2,926**	**—**	**2,926**
Derivative financial assets – net of current portion	**—**	**1**	**—**	**1**
Financial assets at fair value through other comprehensive income – net of current portion	**—**	**—**	**161**	**161**
Other financial assets – net of current portion	**2,053**	**—**	**—**	**2,053**
Current:				
Cash and cash equivalents	**30,944**	**—**	**—**	**30,944**
Short-term investments	**2,949**	**—**	**—**	**2,949**
Trade and other receivables	**24,434**	**—**	**—**	**24,434**
Current portion of derivative financial assets	**—**	**28**	**—**	**28**
Current portion of financial assets at fair value through other comprehensive income	**—**	**—**	**2,793**	**2,793**
Current portion of other financial assets	**1,223**	**6,865**	**—**	**8,088**
Total assets	**61,603**	**9,820**	**2,954**	**74,377**
Liabilities as at March 31, 2020 (Unaudited)				
Noncurrent:				
Interest-bearing financial liabilities – net of current portion	**166,075**	**—**	**—**	**166,075**
Lease liabilities – net of current portion	**12,676**	**—**	**—**	**12,676**
Derivative financial liabilities – net of current portion	**—**	**14**	**—**	**14**
Customers' deposits	**2,206**	**—**	**—**	**2,206**
Deferred credits and other noncurrent liabilities	**1,393**	**—**	**—**	**1,393**
Current:				
Accounts payable	**79,010**	**—**	**—**	**79,010**
Accrued expenses and other current liabilities	**72,961**	**7,850**	**—**	**80,811**
Current portion of interest-bearing financial liabilities	**39,263**	**—**	**—**	**39,263**
Current portion of lease liabilities	**3,657**	**—**	**—**	**3,657**
Dividends payable	**10,007**	**—**	**—**	**10,007**
Current portion of derivative financial liabilities	**—**	**81**	**—**	**81**
Total liabilities	**387,248**	**7,945**	**—**	**395,193**
Net assets (liabilities)	**(325,645)**	**1,875**	**2,954**	**(320,816)**

	Financial instruments at amortized cost	Financial instruments at FVPL	Financial instruments at FVOCI	Total financial instruments
		(in million pesos)		
Assets as at December 31, 2019 (Audited)				
Noncurrent:				
Financial assets at fair value through profit or loss	—	3,369	—	3,369
Derivative financial assets – net of current portion	—	1	—	1
Financial assets at fair value through other comprehensive income – net of current portion	—	—	162	162
Other financial assets – net of current portion	1,986	—	—	1,986
Current:				
Cash and cash equivalents	24,369	—	—	24,369
Short-term investments	314	—	—	314
Trade and other receivables	22,436	—	—	22,436
Current portion of derivative financial assets	—	41	—	41
Current portion of debt instruments at amortized cost	150	—	—	150
Current portion of financial assets at fair value through other comprehensive income	—	—	2,757	2,757
Current portion of other financial assets	1,220	6,866	—	8,086
Total assets	50,475	10,277	2,919	63,671
Liabilities as at December 31, 2019 (Audited)				
Noncurrent:				
Interest-bearing financial liabilities – net of current portion	172,834	—	—	172,834
Lease liabilities – net of current portion	13,100	—	—	13,100
Derivative financial liabilities – net of current portion	—	25	—	25
Customers' deposits	2,205	—	—	2,205
Deferred credits and other noncurrent liabilities	2,179	—	—	2,179
Current:				
Accounts payable	76,384	—	—	76,384
Accrued expenses and other current liabilities	73,303	7,851	—	81,154
Current portion of interest-bearing financial liabilities	19,722	—	—	19,722
Current portion of lease liabilities	3,215	—	—	3,215
Dividends payable	1,584	—	—	1,584
Current portion of derivative financial liabilities	—	88	—	88
Total liabilities	364,526	7,964	—	372,490
Net assets (liabilities)	(314,051)	2,313	2,919	(308,819)

The following table sets forth our consolidated offsetting of financial assets and liabilities recognized as at March 31, 2020 and December 31, 2019:

	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set-off in the consolidated statements of financial position	Net amount presented in the consolidated statements of financial position
		(in million pesos)	
March 31, 2020 (Unaudited)			
Current Financial Assets			
Trade and other receivables			
Foreign administrations	**6,181**	**4,503**	**1,678**
Domestic carriers	**1,242**	**948**	**294**
Total	**7,423**	**5,451**	**1,972**
Current Financial Liabilities			
Accounts payable			
Suppliers and contractors	**71,269**	**8**	**71,261**
Carriers and other customers	**10,658**	**3,522**	**7,136**
Total	**81,927**	**3,530**	**78,397**
December 31, 2019 (Audited)			
Current Financial Assets			
Trade and other receivables			
Foreign administrations	5,857	4,338	1,519
Domestic carriers	1,018	219	799
Total	6,875	4,557	2,318
Current Financial Liabilities			
Accounts payable			
Suppliers and contractors	68,121	70	68,051
Carriers and other customers	11,437	3,706	7,731
Total	79,558	3,776	75,782

There are no financial instruments subject to an enforceable master netting arrangement as at March 31, 2020 and December 31, 2019.

The following table sets forth our consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at March 31, 2020 and December 31, 2019 other than those whose carrying amounts are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	March 31, 2020	December 31, 2019	**March 31, 2020**	December 31, 2019
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
		(in million pesos)		
Noncurrent Financial Assets				
Other financial assets – net of current portion	**2,053**	1,986	**1,716**	1,657
Total	**2,053**	1,986	**1,716**	1,657
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities:				
Long-term debt – net of current portion	**166,075**	172,834	**154,793**	169,965
Customers' deposits	**2,206**	2,205	**1,475**	1,539
Deferred credits and other noncurrent liabilities	**1,393**	2,179	**1,224**	1,953
Total	**169,674**	177,218	**157,492**	173,457

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 interim consolidated financial statements as at March 31, 2020 and December 31, 2019. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

	March 31, 2020 (Unaudited)				December 31, 2019 (Audited)			
	Level 1[(1)]	**Level 2[(2)]**	**Level 3[(3)]**	**Total**	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]	Total
				(in million pesos)				
Noncurrent Financial Assets								
Listed equity securities								
Financial assets at FVPL	**2,584**	**317**	**25**	**2,926**	2,442	304	623	3,369
Derivative financial assets – net of current portion	**—**	**1**	**—**	**1**	—	1	—	1
Financial assets at FVOCI – net of current portion	**—**	**161**	**—**	**161**	—	162	—	162
Current Financial Assets								
Current portion of derivative financial assets	**—**	**28**	**—**	**28**	—	41	—	41
Current portion of FVOCI	**—**	**2,793**	**—**	**2,793**	—	2,757	—	2,757
Current portion of other financial assets	**—**	**6,865**	**—**	**6,865**	—	6,866	—	6,866
Total	**2,584**	**10,165**	**25**	**12,774**	2,442	10,131	623	13,196
Noncurrent Financial Liabilities								
Derivative financial liabilities – net of current portion	**—**	**14**	**—**	**14**	—	25	—	25
Current Financial Liabilities								
Accrued expenses and other current liabilities	**—**	**7,850**	**—**	**7,850**	—	7,851	—	7,851
Current portion of derivative financial liabilities	**—**	**81**	**—**	**81**	—	88	—	88
Total	**—**	**7,945**	**—**	**7,945**	—	7,964	—	7,964

(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 March 31, 2020 and December 31, 2019, there were no transfers into and out of Level 3 fair value measurements.

As at March 31, 2020 and December 31, 2019, 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.	Level 3
Variable Rate Loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.	Level 2

Derivative Financial Instruments

Forward foreign exchange contracts, foreign currency swaps and interest rate swaps: The fair values were computed as the present value of estimated future cash flows using market U.S. Dollar and Philippine Peso interest rates as at valuation date.

The valuation techniques considered various inputs including the credit quality of counterparties.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, trade and other receivables, accounts payable, accrued expenses and other current liabilities and dividends payable approximate their carrying values as at the end of the reporting period.

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our interim 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 March 31, 2020 and December 31, 2019, 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 March 31, 2020 and December 31, 2019:

							March 31, 2020		December 31, 2019	
							(Unaudited)		(Audited)	
	Original Notional Amount	**Trade Date**	**Underlying Transaction in U.S. Dollar**	**Termination Date**	**Weighted Average Hedge Cost**	**Weighted Average Foreign Exchange Rate**	**Notional Amount**	**Net Mark-to-market Gains (Losses) in Php**	Notional Amount	Net Mark-to-market Gains (Losses) in Php
	(in millions)		(in millions)				(in millions)			
Transactions not designated as hedges:										
PLDT										
Forward foreign exchange contracts	US$22	Various dates in 2019 and January to February 2020	U.S. Dollar Liabilities	Various dates in January 2020 to June 2020	–	Php51.48	**US$14**	**(1)**	US$22	(12)
	EUR5	Various dates in July and August 2019	EUR Assets	January 2020	–	Php58.65	**–**	**–**	EUR5	8
	US$31	Various dates in April to May 6, 2020	U.S. Dollar Liabilities	Various dates in May 2020 to September 2020	–	Php50.85	**–**	**–**	–	–
Smart										
Forward foreign exchange contracts	US$144	Various dates in 2018 and 2019	U.S. Dollar Liabilities	Various dates in 2019	–	Php52.73	**–**	**–**	–	–
	US$63	Various dates in 2019 and 2020	U.S. Dollar Liabilities	Various dates in 2020	–	Php51.22	**US$17**	**(2)**	US$41	(22)
	US$20	Various dates in April to May 6, 2020	U.S. Dollar Liabilities	Various dates in May 2020 to August 2020	–	Php50.76	**–**	**–**	–	–
PCEV										
Forward foreign exchange contracts	US$22	Various dates in 2019	U.S. Dollar Cash Conversion	Various dates in 2019	–	Php52.24	**–**	**–**	–	–
								(3)		(26)

	Original Notional Amount	Trade Date	Underlying Transaction in U.S. Dollar	Termination Date	Weighted Average Hedge Cost	Weighted Average Foreign Exchange Rate	**March 31, 2020 (Unaudited)** Notional Amount	Net Mark-to-market Gains (Losses) in Php	December 31, 2019 (Audited) Notional Amount	Net Mark-to-market Gains (Losses) in Php
	(in millions)		(in millions)				(in millions)			
Transactions designated as hedges:										
PLDT										
Interest rate swaps[c]	US$100	August 2014	100 PNB	August 11, 2020	3.46%	–	**US$95**	**(13)**	US$95	(6)
	US$50	September 2014	50 Metrobank	September 2, 2020	3.47%	–	**US$48**	**(9)**	US$48	(5)
	US$150	April and June 2015	200 Term Loan	February 25, 2022	2.70%	–	**US$45**	**(24)**	US$56	2
Long-term currency swaps[d]	US$4	January 2017	100 PNB	August 11, 2020	1.01%	Php49.79	**US$1**	**1**	US$1	1
	US$6	April and June 2017	200 MUFG Bank, Ltd.	August 26,2019	1.63%	Php49.51	–	–	–	–
	US$2	January 2018	200 MUFG Bank, Ltd.	August 26,2019	1.59%	Php49.86	–	–	–	–
	US$6	February 2018	200 MUFG Bank, Ltd.	February 26, 2020	1.82%	Php51.27	–	–	US$1	(2)
	US$22	November 2018 to June 2019	200 MUFG Bank, Ltd.	February 25, 2022	2.28%	Php52.08	**US$13**	**(10)**	US$17	(30)
								(55)		(40)
Smart										
Interest rate swaps[e]	US$85	Various dates in 2014 and 2015	100 Bank of Tokyo	March 7, 2019	2.23%	–	–	–	–	–
	US$50	October 2, 2014	50 Mizuho	May 14, 2019	2.58%	–	–	–	–	–
	US$200	Various dates in 2015	200 Mizuho	March 4, 2020	2.10%	–	–	–	US$22	4
	US$30	February 2016	100 Mizuho	December 7, 2021	2.03%	–	**US$12**	**(1)**	US$12	5
Long-term currency swaps[f]	US$18	Various dates in 2017, 2018 and 2019	100 Mizuho	December 7, 2020	1.77%	Php50.98	**US$9**	**(3)**	US$9	(3)
	US$13	Various dates in 2018 and 2019	200 Mizuho	March 4, 2020	2.06%	Php51.93	–	–	US$4	(6)
	US$6	February 2019	2015 Mizuho US$100M	December 7, 2021	2.22%	Php51.83	**US$4**	**(4)**	US$4	(5)
								(8)		(5)
								(66)		(71)

(a) PLDT's interest rate swap agreements outstanding as at March 31, 2020 and December 31, 2019 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 interim consolidated income statements. The mark-to-market losses amounting to Php43 million and Php11 million were recognized in our consolidated statements of other comprehensive income as at March 31, 2020 and December 31, 2019, respectively. Interest accrual on the interest rate swaps amounting to Php3 million and Php2 million were recorded as at March 31, 2020 and December 31, 2019, respectively. There were no ineffective portion in the fair value recognized in our interim consolidated income statements for the three months ended March 31, 2020 and 2019.

(b) PLDT's long-term principal only-currency swap agreements outstanding as at March 31, 2020 and December 31, 2019 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 interim consolidated income statements. The mark-to-market losses amounting to Php8 million and Php23 million were recognized in our consolidated statement of other comprehensive income as at March 31, 2020 and December 31, 2019, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php2 million and Php7 million were recognized as at March 31, 2020 and December 31, 2019, respectively. The amounts recognized as other comprehensive income are transferred to profit or loss when the hedged loan is revalued for changes in the foreign exchange rate. The hedge cost portion of the movements in the fair value amounting to Php1 million and Php2 million were recognized in our interim consolidated income statements for the three months ended March 31, 2020 and 2019, respectively.

(c) Smart's interest rate swap agreements outstanding as at March 31, 2020 and December 31, 2019 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 interim consolidated income statements. The mark-to-market loss amounting to Php2 million and mark-to-market gain amounting to Php6 million were recognized in our consolidated statements of other comprehensive income as at March 31, 2020 and December 31, 2019, respectively. Reduction on interest arising from the interest rate swaps amounted to Php1 million and Php3 million as at March 31, 2020 and December 31, 2019, respectively. There were no ineffective portion in the fair value recognized in our interim consolidated income statements for the three months ended March 31, 2020 and 2019.

(d) Smart's long-term principal only-currency swap agreements outstanding as at March 31, 2020 and December 31, 2019 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 interim consolidated income statements. The mark-to-market losses amounting to Php3 million and Php12 million were recognized in our consolidated statements of other comprehensive income as at March 31, 2020 and December 31, 2019, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php4 million and Php2 million were recognized as at March 31, 2020 and December 31, 2019, respectively. The amounts recognized as other comprehensive income are transferred to profit or loss when the hedged loan is revalued for changes in the foreign exchange rate. The hedge cost portions of the movements in the fair value amounting to Php1 million and Php2 million were recognized in our interim consolidated income statements for the three months ended March 31, 2020 and 2019, respectively.

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Presented as:		
Noncurrent assets	**1**	1
Current assets	**28**	41
Noncurrent liabilities (Note 29)	**(14)**	(25)
Current liabilities (Note 29)	**(81)**	(88)
Net liabilities	**(66)**	(71)

Movements of our consolidated mark-to-market gains (losses) for the three months ended March 31, 2020 and for the year ended December 31, 2019 are summarized as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Net mark-to-market gains (losses) at beginning of the period	**(71)**	243
Effective portion recognized in the profit or loss for the cash flow hedges	**(1)**	14
Losses on derivative financial instruments (Note 4)	**(3)**	(233)
Net fair value losses on cash flow hedges charged to other comprehensive income	**(23)**	(330)
Settlements, interest expense and others	**32**	235
Net mark-to-market losses at end of the period	**(66)**	(71)

Our consolidated analysis of losses on derivative financial instruments for the three months ended March 31, 2020 and 2019 are as follows:

	March 31,	
	2020	2019
	(Unaudited)	
	(in million pesos)	
Gains (losses) on derivative financial instruments (Note 4)	**(3)**	10
Hedge costs	**(9)**	(13)
Net losses on derivative financial instruments (Notes 4 and 5)	**(12)**	(3)

Financial Risk Management Objectives and Policies

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks, which are summarized below. We also monitor the market price risk arising from all financial instruments.

Liquidity Risk

Our exposure to liquidity risk refers to the risk that our financial requirements, working capital requirements and planned capital expenditures will not be met.

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-term and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates and managed funds. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

Our cash position remains sufficient to support our planned capital expenditure requirements and service our debt and financing obligations; however, we may be required to finance a portion of our future capital expenditures from external financing sources. We have cash and cash equivalents, and short-term investments amounting to Php30,944 million and Php2,949 million, respectively, as at March 31, 2020, which we can use to meet our short-term liquidity needs. See *Note 16 – Cash and Cash Equivalents.*

The following table summarizes the maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at March 31, 2020 and December 31, 2019:

	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in million pesos)		
March 31, 2020 (Unaudited)					
Financial instruments at amortized cost:	***71,910***	***69,572***	***1,825***	***341***	***172***
Other financial assets	**3,561**	**1,223**	**1,825**	**341**	**172**
Temporary cash investments	**23,211**	**23,211**	—	—	—
Short-term investments	**2,949**	**2,949**	—	—	—
Retail subscribers	**19,763**	**19,763**	—	—	—
Corporate subscribers	**12,985**	**12,985**	—	—	—
Foreign administrations	**2,060**	**2,060**	—	—	—
Domestic carriers	**386**	**386**	—	—	—
Dealers, agents and others	**6,995**	**6,995**	—	—	—
Financial instruments at FVPL:	***9,791***	***6,865***	—	—	***2,926***
Financial assets at fair value through profit or loss	**2,926**	—	—	—	**2,926**
Other financial assets	**6,865**	**6,865**	—	—	—
Financial instruments at FVOCI:	***2,954***	***2,793***	***161***	—	—
Financial assets at fair value through other comprehensive income	**2,954**	**2,793**	**161**	—	—
Total	**84,655**	**79,230**	**1,986**	**341**	**3,098**

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in million pesos)		
December 31, 2019 (Audited)					
Financial instruments at amortized cost:	*60,971*	*58,687*	*1,768*	*338*	*178*
Other financial assets	3,504	1,220	1,768	338	178
Debt instruments at amortized cost	150	150	—	—	—
Temporary cash investments	17,663	17,663	—	—	—
Short-term investments	314	314	—	—	—
Retail subscribers	17,178	17,178	—	—	—
Corporate subscribers	13,005	13,005	—	—	—
Foreign administrations	1,896	1,896	—	—	—
Domestic carriers	889	889	—	—	—
Dealers, agents and others	6,372	6,372	—	—	—
Financial instruments at FVPL:	*10,235*	*6,866*	—	—	*3,369*
Financial assets at fair value through profit or loss	3,369	—	—	—	3,369
Other financial assets	6,866	6,866	—	—	—
Financial instruments at FVOCI:	*2,919*	*2,757*	*162*	—	—
Financial assets at fair value through other comprehensive income	2,919	2,757	162	—	—
Total	74,125	68,310	1,930	338	3,547

The following table summarizes the maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at March 31, 2020 and December 31, 2019:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in million pesos)		
March 31, 2020 (Unaudited)					
Debt[(1)]:	***258,766***	***36,078***	***51,771***	***54,936***	***115,981***
Principal	**205,922**	**34,706**	**27,488**	**42,453**	**101,275**
Interest	**52,844**	**1,372**	**24,283**	**12,483**	**14,706**
Lease obligations	***21,854***	***4,605***	***9,111***	***4,242***	***3,896***
Various trade and other obligations:	***162,214***	***159,807***	***389***	***35***	***1,983***
Suppliers and contractors	**71,261**	**71,261**	—	—	—
Utilities and related expenses	**53,874**	**53,776**	**98**	—	—
Dividends	**10,007**	**10,007**	—	—	—
Liability from redemption of preferred shares	**7,850**	**7,850**	—	—	—
Employee benefits	**6,731**	**6,731**	—	—	—
Customers' deposits	**2,206**	—	**188**	**35**	**1,983**
Carriers and other customers	**1,294**	**1,294**	—	—	—
Others	**8,991**	**8,888**	**103**	—	—
Total contractual obligations	**442,834**	**200,490**	**61,271**	**59,213**	**121,860**
December 31, 2019 (Audited)					
Debt[(1)]:	*243,226*	*19,014*	*66,052*	*54,146*	*104,014*
Principal	193,047	15,221	44,253	40,288	93,285
Interest	50,179	3,793	21,799	13,858	10,729
Lease obligations	*25,465*	*10,458*	*6,879*	*4,401*	*3,727*
Various trade and other obligations:	*153,255*	*148,839*	*2,405*	*38*	*1,973*
Suppliers and contractors	70,169	68,051	2,118	—	—
Utilities and related expenses	51,875	51,843	32	—	—
Employee benefits	8,673	8,673	—	—	—
Liability from redemption of preferred shares	7,851	7,851	—	—	—
Customers' deposits	2,205	—	194	38	1,973
Dividends	1,584	1,584	—	—	—
Carriers and other customers	1,387	1,387	—	—	—
Others	9,511	9,450	61	—	—
Total contractual obligations	421,946	178,311	75,336	58,585	109,714

[(1)] *Consists of long-term debt, including current portion; gross of unamortized debt discount and debt issuance costs.*

Debt

See *Note 21 – Interest-bearing Financial Liabilities – Long-term Debt* for a detailed discussion of our debt.

Our consolidated future minimum lease commitments payable with non-cancellable leases as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Within one year	**4,605**	10,480
After one year but not more than five years	**13,353**	11,258
More than five years	**3,896**	3,727
Total	**21,854**	25,465

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 Php162,214 million and Php153,255 million as at March 31, 2020 and December 31, 2019, respectively. See *Note 23 – Accounts Payable* and *Note 24 – Accrued Expenses and Other Current Liabilities*.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to nil as at March 31, 2020 and December 31, 2019. These commitments will expire within one year. See *Note 11 – Investments in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare.*

Collateral

We have not made any pledges as collateral with respect to our financial liabilities as at March 31, 2020 and December 31, 2019.

Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine Peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency denominated financial assets and liabilities. While a certain percentage of our revenues are either linked to or denominated in U.S. Dollars, a substantial portion of our capital expenditures, a portion of our indebtedness and related interest expense and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. Dollars. As such, a strengthening or weakening of the Philippine Peso against the U.S. Dollar will decrease or increase in Philippine Peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. Dollar-linked and U.S. Dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine Peso to U.S. Dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. Further details of the risk management strategy is recognized in our hedge designation documentation. We use forward foreign exchange purchase contracts, currency swap contracts and currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated financial liabilities. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized in our consolidated other comprehensive income until the hedged transaction affects our interim 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 interim consolidated statements of financial position as at March 31, 2020 and December 31, 2019 are as follows:

	Notional Amount (U.S. Dollar)	Carrying Amount (Php)	Line item in our Consolidated Statements of Financial Position
	(in million pesos)		
March 31, 2020 (Unaudited)			
Long-term currency swaps	**27**	**1**	Derivative financial assets – net of current portion
	—	**4**	Current portion of derivative financial assets
	—	**(9)**	Derivative financial liabilities – net of current portion
	—	**(12)**	Current portion of derivative financial liabilities
	27	**(16)**	
December 31, 2019 (Audited)			
Long-term currency swaps	37	1	Derivative financial assets – net of current portion
	—	3	Current portion of derivative financial assets
	—	(24)	Derivative financial liabilities – net of current portion
	—	(24)	Current portion of derivative financial liabilities

The impact of the hedged items on our interim consolidated statements of financial position as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020 (Unaudited)		December 31, 2019 (Audited)	
	Cash flow hedge reserve	**Cost of hedging reserve**	Cash flow hedge reserve	Cost of hedging reserve
		(in million pesos)		
PLDT:				
US$300M Term Loan	**(273)**	**—**	(273)	—
US$100M PNB	**(11)**	**—**	(11)	—
US$200M MUFG Bank, Ltd.	**(37)**	**2**	(48)	8
	(321)	**2**	(332)	8
Smart:				
US$200M Mizuho	**(1)**	**—**	(12)	5
US$100M Mizuho	**(6)**	**13**	(22)	12
	(7)	**13**	(34)	17

The effect of the cash flow hedge on our interim consolidated income statements and statements of other comprehensive income as at March 31, 2020 and December 31, 2019 are as follows:

	Total hedging loss recognized in OCI	Line item in our Interim Consolidated Income Statements
	(in million pesos)	
March 31, 2020 (Unaudited)		
Long-term currency swaps	**(328)**	Other comprehensive loss
December 31, 2019 (Audited)		
Long-term currency swaps	(366)	Other comprehensive loss

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine Peso equivalents as at March 31, 2020 and December 31, 2019:

	March 31, 2020 (Unaudited)		December 31, 2019 (Audited)	
	U.S. Dollar	**Php[(1)]**	U.S. Dollar	Php[(2)]
		(in millions)		
Noncurrent Financial Assets				
Derivative financial assets – net of current portion	**—**	**1**	—	1
Other financial assets – net of current portion	**—**	**2**	—	13
Total noncurrent financial assets	**—**	**3**	—	14
Current Financial Assets				
Cash and cash equivalents	**122**	**6,208**	122	6,181
Short-term investments	**57**	**2,920**	6	285
Trade and other receivables – net	**766**	**38,885**	777	39,472
Current portion of derivative financial assets	**1**	**28**	1	41
Current portion of other financial assets	**—**	**13**	—	11
Total current financial assets	**946**	**48,054**	906	45,990
Total Financial Assets	**946**	**48,057**	906	46,004
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	**111**	**5,625**	126	6,389
Derivative financial liabilities – net of current portion	**—**	**14**	—	25
Other noncurrent liabilities	**—**	**22**	—	15
Total noncurrent financial liabilities	**111**	**5,661**	126	6,429
Current Financial Liabilities				
Accounts payable	**717**	**36,413**	676	34,325
Accrued expenses and other current liabilities	**186**	**9,449**	208	10,555
Current portion of interest-bearing financial liabilities	**188**	**9,541**	210	10,687
Current portion of derivative financial liabilities	**2**	**81**	2	88
Total current financial liabilities	**1,093**	**55,484**	1,096	55,655
Total Financial Liabilities	**1,204**	**61,145**	1,222	62,084

(1) *The exchange rate used to convert the U.S. Dollar amounts into Philippine Peso was Php50.78 to US$1.00, the Philippine Peso-U.S. Dollar exchange rate as quoted through the Bankers Association of the Philippines as at March 31, 2020.*

(2) *The exchange rate used to convert the U.S. Dollar amounts into Philippine Peso was Php50.80 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, 2019.*

As at May 6, 2020, the Philippine Peso-U.S. Dollar exchange rate was Php50.56 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have decreased in Philippine Peso terms by Php57 million as at March 31, 2020.

Approximately 7% and 9% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. Dollars as at March 31, 2020 and December 31, 2019, respectively. Our consolidated foreign currency-denominated debt decreased to Php15,126 million as at March 31, 2020 from Php17,029 million as at December 31, 2019, respectively. See *Note 21 – Interest-bearing Financial Liabilities*. The aggregate notional amount of our consolidated outstanding long-term principal only-currency swap contracts were US$27 million and US$36 million as at March 31, 2020 and December 31, 2019, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 6.7% and 8% as at March 31, 2020 and December 31, 2019, respectively.

Approximately 17%% and 15% of our consolidated revenues were denominated in U.S. Dollars and/or were linked to U.S. Dollars for the three months ended March 31, 2020 and 2019, respectively. Approximately 11% and 8% of our consolidated expenses were denominated in U.S. Dollars and/or linked to the U.S. Dollar for the three months ended March 31, 2020 and 2019, respectively. In this respect, the higher weighted average exchange rate of the Philippine Peso against the U.S. Dollar increased our revenues and expenses, and consequently, affects our cash flow from operations in Philippine Peso terms. In view of the anticipated continued decline in dollar-denominated/dollar-linked revenues, which provide a natural hedge against our foreign currency exposure, we are progressively refinancing our dollar-denominated debts in Philippine Pesos.

The Philippine Peso appreciated by 0.04% against the U.S. Dollar to Php50.78 to US$1.00 as at March 31, 2020 from Php50.80 to US$1.00 as at December 31, 2019. 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 Php24 million and Php18 million for the three months ended March 31, 2020 and 2019, respectively.

Management conducted a survey among our banks to determine the outlook of the Philippine Peso-U.S. Dollar exchange rate until June 30, 2020. 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 Php50.78 to US$1.00 as at March 31, 2020. If the Philippine Peso-U.S. Dollar exchange rate had weakened/strengthened by 0.83% as at March 31, 2020, with all other variables held constant, consolidated profit after tax for the three months ended March 31, 2020 and stockholders' equity as at March 31, 2020 would have been approximately Php71 million and Php75 million, respectively, lower/higher, mainly as a result of consolidated foreign exchange gains and losses on conversion of U.S. Dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates.

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. We enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. Further details of the risk management strategy is recognized in our hedge designation documentation. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our debt obligations and not for trading purposes.

The impact of the hedging instruments on our interim consolidated statements of financial position as at March 31, 2020 and December 31, 2019 are as follows:

	Notional Amount (U.S. Dollar)	**Carrying Amount (Php)**	**Line item in our Consolidated Statements of Financial Position**
	(in million pesos)		
March 31, 2020 (Unaudited)			
Interest rate swaps	**200**	**–**	Derivative financial assets – net of current portion
	–	**24**	Current portion of derivative financial assets
	–	**(6)**	Derivative financial liabilities – net of current portion
	–	**(65)**	Current portion of derivative financial liabilities
	200	**(47)**	
December 31, 2019 (Audited)			
Interest rate swaps	233	1	Derivative financial assets – net of current portion
	–	31	Current portion of derivative financial assets
	–	(1)	Derivative financial liabilities – net of current portion
	–	(31)	Current portion of derivative financial liabilities
	233	–	

The impact of the hedged items on our interim consolidated statements of financial position as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020 (Unaudited)		December 31, 2019 (Audited)	
	Cash flow hedge reserve	**Cost of hedging reserve**	Cash flow hedge reserve	Cost of hedging reserve
	(in million pesos)			
PLDT:				
US$100M PNB	**(11)**	—	(6)	—
US$50M MBTC	**(8)**	—	(4)	—
US$200M MUFG Bank, Ltd.	**(24)**	—	(1)	—
	(43)	—	(11)	—
Smart:				
2014 BTMU US$100M	—	—	(1)	—
2014 Mizuho US$50M	—	—	(1)	—
2015 Mizuho US$200M	**(1)**	—	(36)	—
2015 Mizuho US$100M	**(6)**	—	(19)	—
	(7)	—	(57)	—

The effect of the cash flow hedge on our interim consolidated income statements and statements of other comprehensive income as at March 31, 2020 and December 31, 2019 are as follows:

	Total hedging loss recognized in OCI	**Line item in our Interim Consolidated Income Statements**
	(in million pesos)	
March 31, 2020 (Unaudited)		
Interest rate swaps	**(50)**	Other comprehensive loss
December 31, 2019 (Audited)		
Interest rate swaps	(68)	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 March 31, 2020 and December 31, 2019. Financial instruments that are not subject to interest rate risk were not included in the table.

As at March 31, 2020 (Unaudited)

	In U.S. Dollars							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	In Php	In Php	In U.S. Dollar	In Php
									(in millions)		
Assets:											
Cash in Bank											
U.S. Dollar	25	—	—	—	—	25	1,293	—	1,293	25	1,293
Interest rate	0.0100% to 0.5000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	70	—	—	—	—	70	3,540	—	3,540	70	3,540
Interest rate	0.0500% to 1.2500%	—	—	—	—	—	—	—	—	—	—
Other Currencies	1	—	—	—	—	1	32	—	32	1	32
Interest rate	0.1000% to 0.5000%	—	—	—	—	—	—	—	—	—	—
Temporary Cash Investments											
U.S. Dollar	104	—	—	—	—	104	5,297	—	5,297	104	5,297
Interest rate	0.2500% to 4.7500%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	353	—	—	—	—	353	17,914	—	17,914	353	17,914
Interest rate	0.1250% to 5.0000%	—	—	—	—	—	—	—	—	—	—
Short-term Investments											
U.S. Dollar	57	—	—	—	—	57	2,920	—	2,920	57	2,920
Interest rate	1.0000% to 1.8750%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	1	—	—	—	—	1	29	—	29	1	29
Interest rate	0.0250% to 1.7500%	—	—	—	—	—	—	—	—	—	—
	611	—	—	—	—	611	31,025	—	31,025	611	31,025
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Fixed Loans	—	15	—	—	—	15	762	1	761	15	752
Interest rate	—	2.8850%	—	—	—	—	—	—	—	—	—
Philippine Peso	305	99	305	741	1,855	3,305	167,816	510	167,306	3,071	155,960
Interest rate	4.4850% to 5.2250%	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	142	76	40	25	—	283	14,404	39	14,365	283	14,404
Interest rate	1.4000% 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	157	4	2	70	140	373	18,940	34	18,906	373	18,940
Interest rate	1.0000% over PHP BVAL	0.5000% to 0.6000% over PHP BVAL	0.5000% to 0.6000% over PHP BVAL	0.5000% to 0.6000% over PHP BVAL	0.6000% over PHP BVAL/PDST-R2	—	—	—	—	—	—
Short-term Debt											
Fixed Rate											
Philippine Peso	79	—	—	—	—	79	4,000	—	4,000	79	4,000
Interest rate	5.2500% to 5.7500%	—	—	—	—	—	—	—	—	—	—
	683	194	347	836	1,995	4,055	205,922	584	205,338	3,821	194,056

As at December 31, 2019 (Audited)

	In U.S. Dollars									Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	In U.S. Dollar	In Php
								(in millions)			
Assets:											
Debt Instruments at Amortized Cost											
Philippine Peso	3	—	—	—	—	3	150	—	150	3	150
Interest rate	4.8371%	—	—	—	—	—	—	—	—	—	—
Cash in Bank											
U.S. Dollar	31	—	—	—	—	31	1,586	—	1,586	31	1,586
Interest rate	0.0100% to 1.0000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	83	—	—	—	—	83	4,228	—	4,228	83	4,228
Interest rate	0.0500% to 1.2500%	—	—	—	—	—	—	—	—	—	—
Other Currencies	2	—	—	—	—	2	92	—	92	2	92
Interest rate	0.1000% to 0.5000%	—	—	—	—	—	—	—	—	—	—
Temporary Cash Investments											
U.S. Dollar	72	—	—	—	—	72	3,645	—	3,645	72	3,645
Interest rate	0.7000% to 4.7500%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	276	—	—	—	—	276	14,018	—	14,018	276	14,018
Interest rate	0.1250% to 5.0000%	—	—	—	—	—	—	—	—	—	—
Short-term Investments											
Philippine Peso	1	—	—	—	—	1	29	—	29	1	29
Interest rate	1.5000% to 3.0000%	—	—	—	—	—	—	—	—	—	—
Other Currencies	6	—	—	—	—	6	285	—	285	6	285
Interest rate	0.0000%	—	—	—	—	—	—	—	—	—	—
	474	—	—	—	—	474	24,033	—	24,033	474	24,033
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Fixed Loans	—	15	4	—	—	19	952	—	952	19	945
Interest rate	—	2.8850%	2.8850%	—	—	—	—	—	—	—	—
Philippine Peso	42	376	302	673	1,697	3,090	156,996	408	156,588	3,024	153,644
Interest rate	4.4850% to 5.5000%	3.9000% to 6.7339%	3.9000% to 6.7339%	3.9000% to 6.7339%	4.2500% to 6.7339%	—	—	—	—	—	—
Variable Rate											
U.S. Dollar Loans	165	76	26	50	—	317	16,124	47	16,077	317	16,123
Interest rate	0.7900% to 1.4500% over LIBOR	0.7900% to 0.9500% over LIBOR	0.7900% to 0.9500% over LIBOR	1.0500% over LIBOR	—	—	—	—	—	—	—
Philippine Peso	93	69	3	70	139	374	18,975	36	18,939	374	18,975
Interest rate	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	0.6000% over PHP BVAL	—	—	—	—	—	—
	300	536	335	793	1,836	3,800	193,047	491	192,556	3,734	189,687

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 16% and 18% of our consolidated debts were variable rate debts as at March 31, 2020 and December 31, 2019, respectively. Our consolidated variable rate debt decreased to Php33,344 million as at March 31, 2020 from Php35,098 million as at December 31, 2019. Considering the aggregate notional amount of our consolidated outstanding long-term interest rate swap contracts of US$200 million and US$233 million as at March 31, 2020 and December 31, 2019, respectively, approximately 89% and 88% of our consolidated debts were fixed as at March 31, 2020 and December 31, 2019, respectively.

Management conducted a survey among our banks to determine the outlook of the U.S. Dollar and Philippine Peso interest rates until June 30, 2020. Our outlook is that the U.S. Dollar and Philippine Peso interest rates may move 10 basis points, or bps, and 5 bps higher/lower, respectively, as compared to levels as at March 31, 2020. If the U.S. Dollar interest rates had been 10 bps higher/lower as compared to market levels as at March 31, 2020, with all other variables held constant, consolidated profit after tax for the three months ended March 31, 2020 and stockholders' equity as at March 31, 2020 would have been approximately Php1 million and Php2 million, respectively, lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If the Philippine Peso interest rates had been 5 bps higher/lower as compared to market levels as at March 31, 2020, with all other variables held constant, consolidated profit after tax for the three months March 31, 2020 and stockholders' equity as at March 31, 2020 would have been approximately Php127 thousand and Php3 million, respectively, lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

Credit Risk

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

Maximum exposure to credit risk of financial assets not subject to impairment

The gross carrying amount of financial assets not subject to impairment also represents our maximum exposure to credit risk as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	(in million pesos)	
Financial assets at fair value through profit or loss (Note 12)	**2,926**	3,369
Derivative financial assets – net of current portion	**1**	1
Current portion of derivative financial assets	**28**	41
Total	**2,955**	3,411

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 interim consolidated statements of financial position, including derivative financial instruments as at March 31, 2020 and December 31, 2019. The maximum exposure is shown gross before both the effect of mitigation through use of master netting and collateral arrangements. The extent to which collateral and other credit enhancements mitigate the maximum exposure to credit risk is described in the footnotes to the table.

For financial assets recognized on our interim consolidated statements of financial position, the gross exposure to credit risk equal their carrying amount.

	March 31, 2020 (Unaudited)			
	Stage 1 12-Month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	(in million pesos)			
High grade	**38,413**	**8,929**	–	**47,342**
Standard grade	**1,704**	**6,684**	–	**8,388**
Substandard grade	**6**	**8,821**	–	**8,827**
Default	**285**	**1,894**	**15,861**	**18,040**
Gross carrying amount	**40,408**	**26,328**	**15,861**	**82,597**
Less allowance	**285**	**1,894**	**15,861**	**18,040**
Carrying amount	**40,123**	**24,434**	–	**64,557**

	December 31, 2019 (Audited)			
	Stage 1 12-Month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	(in million pesos)			
High grade	29,241	9,228	–	38,469
Standard grade	1,710	6,224	–	7,934
Substandard grade	7	6,984	–	6,991
Default	298	1,763	15,141	17,202
Gross carrying amount	31,256	24,199	15,141	70,596
Less allowance	298	1,763	15,141	17,202
Carrying amount	30,958	22,436	–	53,394

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 March 31, 2020 and December 31, 2019.

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 interim consolidated statements of financial position, including derivative financial instruments as at March 31, 2020 and December 31, 2019:

	March 31, 2020 (Unaudited)		
	Gross Maximum Exposure	**Collateral and Other Credit Enhancements***	**Net Maximum Exposure**
		(in million pesos)	
Financial instruments at amortized cost:	***61,603***	***606***	***60,997***
Other financial assets	**3,276**	**—**	**3,276**
Cash and cash equivalents	**30,944**	**210**	**30,734**
Short-term investments	**2,949**	**—**	**2,949**
Retail subscribers	**8,381**	**60**	**8,321**
Corporate subscribers	**8,150**	**336**	**7,814**
Foreign administrations	**1,678**	**—**	**1,678**
Domestic carriers	**295**	**—**	**295**
Dealers, agents and others	**5,930**	**—**	**5,930**
Financial instruments at FVPL:	***9,820***	**—**	***9,820***
Financial assets at FVPL	**2,926**	**—**	**2,926**
Other financial assets	**6,865**	**—**	**6,865**
Interest rate swap	**24**	**—**	**24**
Currency swap	**4**	**—**	**4**
Long-term currency swap	**1**	**—**	**1**
Financial instruments at FVOCI:	***2,954***	**—**	***2,954***
Financial assets at FVOCI	**2,954**	**—**	**2,954**
Total	**74,377**	**606**	**73,771**

* *Includes bank insurance, security deposits and customer deposits. We have no collateral held as at March 31, 2020.*

	December 31, 2019 (Audited)		
	Gross Maximum Exposure	**Collateral and Other Credit Enhancements***	**Net Maximum Exposure**
		(in million pesos)	
Financial instruments at amortized cost:	*50,475*	*561*	*49,914*
Other financial assets	3,206	—	3,206
Debt instruments at amortized cost	150	—	150
Cash and cash equivalents	24,369	184	24,185
Short-term investments	314	—	314
Retail subscribers	6,486	46	6,440
Corporate subscribers	8,403	331	8,072
Foreign administrations	1,519	—	1,519
Domestic carriers	799	—	799
Dealers, agents and others	5,229	—	5,229
Financial instruments at FVPL:	*10,277*	—	*10,277*
Financial assets at FVPL	3,369	—	3,369
Other financial assets	6,866	—	6,866
Interest rate swap	31	—	31
Forward foreign exchange contracts	8	—	8
Currency swap	2	—	2
Long-term currency swap	1	—	1
Financial instruments at FVOCI:	*2,919*	—	*2,919*
Financial assets at FVOCI	2,919	—	2,919
Total	63,671	561	63,110

* *Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2019.*

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at March 31, 2020 and December 31, 2019:

		Neither past due nor credit impaired		**Past due but not credit impaired**	
	Total	**Class A[1]**	**Class B[2]**		**Impaired**
		(in million pesos)			
March 31, 2020 (Unaudited)					
Financial instruments at amortized cost:	***79,643***	***44,388***	***8,388***	***8,827***	***18,040***
Other financial assets	**3,561**	**1,819**	**1,451**	**6**	**285**
Cash and cash equivalents	**30,944**	**30,691**	**253**	**—**	**—**
Short-term investments	**2,949**	**2,949**	**—**	**—**	**—**
Retail subscribers	**19,763**	**3,528**	**2,054**	**2,799**	**11,382**
Corporate subscribers	**12,985**	**3,656**	**1,152**	**3,343**	**4,834**
Foreign administrations	**2,060**	**281**	**820**	**577**	**382**
Domestic carriers	**386**	**173**	**18**	**103**	**92**
Dealers, agents and others	**6,995**	**1,291**	**2,640**	**1,999**	**1,065**
Financial instruments at FVPL:	***9,820***	***9,701***	***119***	**—**	**—**
Financial assets at FVPL	**2,926**	**2,807**	**119**	**—**	**—**
Other financial assets	**6,865**	**6,865**	**—**	**—**	**—**
Interest rate swap	**24**	**24**	**—**	**—**	**—**
Currency swap	**4**	**4**	**—**	**—**	**—**
Long-term currency swap	**1**	**1**	**—**	**—**	**—**
Financial instruments at FVOCI:	**2,954**	**2,954**	**—**	**—**	**—**
Financial assets at FVOCI	**2,954**	**2,954**	**—**	**—**	**—**
Total	**92,417**	**57,043**	**8,507**	**8,827**	**18,040**

[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.

		Neither past due nor credit impaired		**Past due but not credit impaired**	
	Total	**Class A[1]**	**Class B[2]**		**Impaired**
		(in million pesos)			
December 31, 2019 (Audited)					
Financial instruments at amortized cost:	*67,677*	*35,550*	*7,934*	*6,991*	*17,202*
Other financial assets	3,504	1,747	1,452	7	298
Debt instruments at amortized cost	150	150	—	—	—
Cash and cash equivalents	24,369	24,111	258	—	—
Short-term investments	314	314	—	—	—
Retail subscribers	17,178	3,280	1,634	1,572	10,692
Corporate subscribers	13,005	3,652	2,041	2,710	4,602
Foreign administrations	1,896	460	414	645	377
Domestic carriers	889	374	40	385	90
Dealers, agents and others	6,372	1,462	2,095	1,672	1,143
Financial instruments at FVPL:	*10,277*	*10,160*	*117*	—	—
Financial assets at FVPL	3,369	3,252	117	—	—
Other financial assets	6,866	6,866	—	—	—
Interest rate swap	31	31	—	—	—
Forward foreign exchange contracts	8	8	—	—	—
Currency swap	2	2	—	—	—
Long-term currency swap	1	1	—	—	—
Financial instruments at FVOCI:	*2,919*	*2,919*	—	—	—
Financial assets at FVOCI	2,919	2,919	—	—	—
Total	80,873	48,629	8,051	6,991	17,202

[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 March 31, 2020 and December 31, 2019 are as follows:

	Total	Neither past due nor credit impaired	Past due but not credit impaired 1-60 days	61-90 days	Over 91 days	Impaired
			(in million pesos)			
March 31, 2020 (Audited)						
Financial instruments at amortized cost:	***79,643***	***52,776***	***3,201***	***1,145***	***4,481***	***18,040***
Other financial assets	**3,561**	**3,270**	—	—	**6**	**285**
Cash and cash equivalents	**30,944**	**30,944**	—	—	—	—
Short-term investments	**2,949**	**2,949**	—	—	—	—
Retail subscribers	**19,763**	**5,582**	**2,326**	**201**	**272**	**11,382**
Corporate subscribers	**12,985**	**4,808**	**608**	**644**	**2,091**	**4,834**
Foreign administrations	**2,060**	**1,101**	**80**	**38**	**459**	**382**
Domestic carriers	**386**	**191**	**19**	**24**	**60**	**92**
Dealers, agents and others	**6,995**	**3,931**	**168**	**238**	**1,593**	**1,065**
Financial instruments at FVPL:	***9,820***	***9,820***	—	—	—	—
Financial assets at FVPL	**2,926**	**2,926**	—	—	—	—
Other financial assets	**6,865**	**6,865**	—	—	—	—
Interest rate swap	**24**	**24**	—	—	—	—
Currency swap	**4**	**4**	—	—	—	—
Long-term currency swap	**1**	**1**	—	—	—	—
Financial instruments at FVOCI:	***2,954***	***2,954***	—	—	—	—
Financial assets at FVOCI	**2,954**	**2,954**	—	—	—	—
Total	**92,417**	**65,549**	**3,201**	**1,145**	**4,481**	**18,040**
December 31, 2019 (Audited)						
Financial instruments at amortized cost:	*67,677*	*43,484*	*2,006*	*1,247*	*3,738*	*17,202*
Other financial assets	3,504	3,199	—	—	7	298
Debt instruments at amortized cost	150	150	—	—	—	—
Cash and cash equivalents	24,369	24,369	—	—	—	—
Short-term investments	314	314	—	—	—	—
Retail subscribers	17,178	4,914	994	150	428	10,692
Corporate subscribers	13,005	5,693	705	770	1,220	4,617
Foreign administrations	1,896	874	41	26	578	377
Domestic carriers	889	414	103	240	43	89
Dealers, agents and others	6,372	3,557	163	61	1,462	1,129
Financial instruments at FVPL:	*10,277*	*10,277*	—	—	—	—
Financial assets at FVPL	3,369	3,369	—	—	—	—
Other financial assets	6,866	6,866	—	—	—	—
Interest rate swap	31	31	—	—	—	—
Forward foreign exchange contracts	8	8	—	—	—	—
Currency swap	2	2	—	—	—	—
Long-term currency swap	1	1	—	—	—	—
Financial instruments at FVOCI:	*2,919*	*2,919*	—	—	—	—
Financial assets at FVOCI	2,919	2,919	—	—	—	—
Total	80,873	56,680	2,006	1,247	3,738	17,202

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.

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. 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. 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.

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 three months ended March 31, 2020 and 2019.

29. Notes to the Statement of Cash Flows

The following table shows the changes in liabilities arising from financing activities as at March 31, 2020 and December 31, 2019:

	January 1, 2020 (Unaudited)	Cash flows	Foreign exchange movement	Others	March 31, 2020 (Unaudited)
			(in million pesos)		
Interest-bearing financial liabilities (Note 21)	**192,556**	**12,757**	**(6)**	**31**	**205,338**
Lease liabilities (Notes 3 and 10)	**16,315**	**(1,788)**	**–**	**1,806**	**16,333**
Derivative financial liabilities	**113**	**(41)**	**–**	**23**	**95**
Accrued interests and other related costs (Note 24)	**1,531**	**(1,955)**	**–**	**2,008**	**1,584**
Dividends (Note 20)	**1,584**	**(18)**	**–**	**8,441**	**10,007**
	212,099	**8,955**	**(6)**	**12,309**	**233,357**

	January 1, 2019 (Audited)	Cash flows	Foreign exchange movement	Others	December 31, 2019 (Audited)
			(in million pesos)		
Interest-bearing financial liabilities (Note 21)	176,276	16,811	(653)	122	192,556
Lease liabilities (Notes 3 and 10)	15,233	(5,399)	–	6,481	16,315
Derivative financial liabilities	80	(50)	–	83	113
Accrued interests and other related costs (Note 24)	1,347	(7,143)	–	7,327	1,531
Dividends (Note 20)	1,533	(15,592)	–	15,643	1,584
	194,469	(11,373)	(653)	29,656	212,099

Others include the effect of accretion of long-term borrowings, effect of recognition and accretion of lease liabilities, effect of accrued but not yet paid interest on interest-bearing loans and borrowings and accrual of dividends that were not yet paid at the end of the period.

Non-cash Investing Activities

The following table shows our significant non-cash investing activities and corresponding transaction amounts for the three months ended March 31, 2020:

	(in million pesos)
Additions to ROU assets (Note 10)	**1,929**

Non-cash Financing Activities

The following table shows our significant non-cash financing activities and corresponding transaction amounts for the three months ended March 31, 2020:

	(in million pesos)
Additions to lease liabilities (Note 10)	**1,951**

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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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 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

At December 31, 2019, the Group recognized revenues amounting to Php169,187 million as disclosed in Notes 3, 4 and 5 to the consolidated financial statements. The Group derives revenues from wireless and fixed line telecommunications services, which includes bundled offers such as telecommunications services and handsets provided to a large number of subscribers.

Auditing management's revenue recognition process over bundled offers was complex due to the complexity of the arrangements involving multiple deliverables and elements which required the identification of separate performance obligations, allocation of transaction prices to the performance obligations using amounts that reflect their estimated standalone selling prices and the subsequent recognition of revenue either over time or at a point in time upon the satisfaction of the performance obligations, that are judgmental in nature. In addition, auditing the information technology (IT) systems used to capture accurate and complete information to recognize substantial amounts of the wireless and fixed line service revenues was especially challenging due to 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.

Audit Response

We obtained an understanding of the PLDT Group's revenue recognition process, involving our IT professionals to assist us in evaluating the design and testing of the effectiveness of controls around the capture, measurement and recording of wireless and fixed line revenues. For example, we evaluated the design and tested the operating effectiveness of controls around access rights, system development, program changes and IT dependent business controls to establish that changes to the system were appropriately authorized, developed, and implemented including those over: set-up of customer accounts, pricing data, segregation of duties and the linkage to usage data that drives revenue recognition.

To test revenue recognition, among other procedures, we compared the customer billing data to the details in the billing systems for wireless and fixed line postpaid revenues on a sample basis. We also tested the recognition of revenue based on actual usage and inspected the reconciliation of the ending balance of unearned income for wireless prepaid revenues between the subledger and the general ledger. In addition, we obtained a sample of contracts and (a) assessed whether performance obligations within the contracts with customers have been identified (b) tested the allocation of the transaction price to the performance obligations (c) evaluated management's estimate and underlying assumptions on the standalone selling price for each performance obligation included within the sample of contracts to available published market prices and (d) assessed the PLDT Group's timing of revenue recognition based on when the performance occurs and control of the related goods or services is transferred to the customer. We also assessed the adequacy of the Group's disclosures in respect to the accounting policies on revenue recognition.

Valuation of pension assets

At December 31, 2019, the Group has pension assets amounting to Php16,808 million that are netted against accrued pension benefit obligations. As explained in Notes 3 and 26 to the consolidated financial statements, the Company updates the estimates used to measure the unquoted investments of Php10,815 million within the plan assets every year-end to reflect the actual return on plan assets.

Auditing the valuation of the pension assets was complex due to the significant and judgmental nature of the assumptions used in the discounted cash flow model to measure the fair value of the significant unquoted equity investments included in the plan assets. These significant assumptions included revenue growth rate, direct costs, capital expenditure, discount rate and terminal growth rate as inputs.

Audit Response

We obtained an understanding of the process, assessed the design and tested controls that address the risks of material misstatement relating to the valuation of the plan assets. For example, we tested controls over management's review of the plan asset calculations, including the significant assumptions used in the discounted cash flow model.

To test the valuation of the pension assets, our audit procedures included, among others, evaluating the methodology, the significant assumptions discussed above and the underlying data used by the PLDT Group. We compared the significant assumptions discussed above to historical data, the business plans of the underlying entities, the industry and market outlook and other relevant external data. In addition, we involved our internal specialist to assist us in assessing 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. We also performed sensitivity analyses over the significant assumptions to evaluate the changes in the value of the unquoted investments that would result from changes in the assumptions.

Recoverability of goodwill and indefinite-lived intangible assets

At December 31, 2019, the Group's goodwill attributable to the Wireless and Fixed Line cash-generating units (CGUs) and indefinite-lived intangible assets for the Wireless CGU were Php61,379 million and Php4,505 million, respectively. As discussed in Notes 3 and 15 to the consolidated financial statements, goodwill and indefinite-lived intangible assets are tested for impairment at least annually at the corresponding CGUs respectively.

Auditing management's annual goodwill and indefinite-lived intangible assets impairment test was complex due to the significant judgement required to determine the fair value of the CGUs and sensitivity of the fair value estimate to the significant assumptions, such as revenue growth rate, capital expenditures, discount rate and the long-term growth rate. These assumptions were based on management's expectation about future market conditions which includes inherent uncertainty.

Audit Response

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Group's goodwill and intangible assets impairment review process, including controls over management's review of the significant assumptions described above.

To test the estimated recoverable value of the Group's reporting units, we performed audit procedures that included, among others, assessing methodologies and testing the significant assumptions discussed above and the underlying data used by the Group in its analysis. We compared the significant assumptions used by management to current industry and economic trends and evaluated whether changes to the Group's business model, product mix and other factors would affect the significant assumptions. In addition, we involved our internal specialist to assist us in assessing 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. We assessed whether there were any potential sources of contrary information,

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including historical forecast accuracy, and performed sensitivity analyses over the significant assumptions to evaluate the changes in the recoverable value that would result from changes in the assumptions.

Estimating useful lives of property and equipment

At December 31, 2019, the Group's property and equipment was Php232,134 million. As explained in Notes 3 and 9 to the consolidated financial statements, the Group reviews its estimates of useful lives annually or as and when needed if expectations differ from previous estimates due to changes in expectation of physical wear and tear, technical or commercial obsolescence and legal or other limitations on the continuing use of the assets.

Auditing the Group's estimated useful lives of property and equipment was complex and required significant judgment because the determination of the estimated useful lives considers a number of factors and assumptions including the collective assessment of industry practice, internal technical evaluation and experience with similar assets.

Audit Response

We obtained an understanding, evaluated the design and tested the operating effectiveness of internal controls over the Group's process of estimating the useful lives of property and equipment. For example, we tested controls over management's assessment which includes consideration for industry data and practice, market outlook and other relevant data. To test whether the estimated useful life of property and equipment used by management was reasonable, our audit procedures included, among others, obtaining an understanding of the Group's technology roadmap plan and strategy related to asset replacement and assessing the reasonableness by considering external sources such as telecommunication technology growth, changes in market demand and current economic and market outlooks. We assessed whether there were any potential sources of contrary information by performing benchmarking analysis on the estimated useful lives of property and equipment against other public companies within the telecommunication industry. We also performed physical inspections of property and equipment.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2019, 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, 2019, 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.

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- 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
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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. 8125270, January 7, 2020, Makati City

March 31, 2020

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2019 and 2018
(in million pesos)

	2019	2018
ASSETS		
Noncurrent Assets		
Property and equipment (Notes 9 and 22)	**232,134**	195,964
Right-of-use assets (Note 10)	**15,890**	—
Investments in associates and joint ventures (Note 11)	**53,863**	55,427
Financial assets at fair value through profit or loss (Note 12)	**3,369**	4,763
Debt instruments at amortized cost – net of current portion (Note 13)	**—**	150
Investment properties (Notes 6 and 14)	**778**	777
Goodwill and intangible assets (Note 15)	**67,825**	68,583
Deferred income tax assets – net (Note 7)	**23,623**	27,697
Derivative financial assets – net of current portion (Note 28)	**1**	140
Prepayments – net of current portion (Notes 19 and 25)	**48,933**	23,338
Financial assets at fair value through other comprehensive income – net of current portion (Notes 6, 11 and 25)	**162**	2,749
Contract assets – net of current portion (Note 5)	**750**	1,083
Other financial assets – net of current portion (Note 28)	**1,986**	2,275
Other non-financial assets – net of current portion	**136**	230
Total Noncurrent Assets	**449,450**	383,176
Current Assets		
Cash and cash equivalents (Note 16)	**24,369**	51,654
Short-term investments (Note 28)	**314**	1,165
Trade and other receivables (Note 17)	**22,436**	24,056
Inventories and supplies (Note 18)	**3,412**	2,878
Current portion of contract assets (Note 5)	**1,997**	2,185
Current portion of derivative financial assets (Note 28)	**41**	183
Current portion of debt instruments at amortized cost (Note 13)	**150**	—
Current portion of prepayments (Note 19)	**11,298**	8,380
Current portion of financial assets at fair value through other comprehensive income (Notes 6, 11 and 25)	**2,757**	1,604
Current portion of other financial assets (Notes 20 and 28)	**8,086**	7,008
Current portion of other non-financial assets	**717**	461
Total Current Assets	**75,577**	99,574
TOTAL ASSETS	**525,027**	482,750
EQUITY AND LIABILITIES		
Equity		
Non-voting serial preferred stock (Note 20)	**360**	360
Voting preferred stock (Note 20)	**150**	150
Common stock (Note 20)	**1,093**	1,093
Treasury stock (Note 20)	**(6,505)**	(6,505)
Treasury shares under employee benefit trust (Note 26)	**(394)**	(854)
Capital in excess of par value (Note 20)	**130,312**	130,526
Other equity reserves (Note 26)	**276**	697
Retained earnings (Note 20)	**18,063**	12,081
Other comprehensive loss (Note 6)	**(31,368)**	(25,190)
Total Equity Attributable to Equity Holders of PLDT (Note 28)	**111,987**	112,358
Noncontrolling interests (Note 6)	**4,303**	4,308
TOTAL EQUITY	**116,290**	116,666

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (*continued*)
As at December 31, 2019 and 2018
(in million pesos)

	2019	2018
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 21 and 28)	**172,834**	155,835
Lease liabilities – net of current portion (Note 10)	**13,100**	—
Deferred income tax liabilities (Note 7)	**2,583**	2,981
Derivative financial liabilities – net of current portion (Note 28)	**25**	—
Customers' deposits (Note 28)	**2,205**	2,194
Pension and other employee benefits (Note 26)	**8,985**	7,182
Deferred credits and other noncurrent liabilities (Note 22)	**4,557**	5,284
Total Noncurrent Liabilities	**204,289**	173,476
Current Liabilities		
Accounts payable (Note 23)	**77,845**	74,610
Accrued expenses and other current liabilities (Notes 24 and 27)	**100,815**	95,724
Current portion of interest-bearing financial liabilities (Notes 21 and 28)	**19,722**	20,441
Current portion of lease liabilities (Note 10)	**3,215**	—
Dividends payable (Note 20)	**1,584**	1,533
Current portion of derivative financial liabilities (Note 28)	**88**	80
Income tax payable	**1,179**	220
Total Current Liabilities	**204,448**	192,608
TOTAL LIABILITIES	**408,737**	366,084
TOTAL EQUITY AND LIABILITIES	**525,027**	482,750

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
For the Years Ended December 31, 2019, 2018 and 2017
(in million pesos, except earnings per common share amounts which are in pesos)

	2019	2018	2017
REVENUES			
Service revenues (Note 5)*	**161,355**	152,369	150,172
Non-service revenues (Note 5)	**7,832**	10,545	8,761
	169,187	162,914	158,933
EXPENSES			
Selling, general and administrative expenses (Note 5)	**68,230**	73,916	68,990
Depreciation and amortization (Notes 9 and 10)	**39,656**	47,240	51,915
Cost of sales and services (Note 5)	**13,429**	14,427	13,633
Asset impairment (Note 5)	**4,833**	8,065	8,258
Interconnection costs*	**3,638**	5,493	6,626
	129,786	149,141	149,422
	39,401	13,773	9,511
OTHER INCOME (EXPENSES) – NET (Note 5)	**(7,065)**	9,042	5,058
INCOME BEFORE INCOME TAX	**32,336**	22,815	14,569
PROVISION FOR INCOME TAX (Note 7)	**9,550**	3,842	1,103
NET INCOME	**22,786**	18,973	13,466
ATTRIBUTABLE TO:			
Equity holders of PLDT (Note 8)	**22,521**	18,916	13,371
Noncontrolling interests	**265**	57	95
	22,786	18,973	13,466
Earnings Per Share Attributable to Common Equity Holders of PLDT (Note 8)			
Basic	**103.97**	87.28	61.61
Diluted	**103.97**	87.28	61.61

For the years ended December 31, 2019 and 2018, the total service and non-service revenues pertains to revenue from contracts with customers.

* *Certain amounts in 2018 and 2017 were adjusted to reflect the effects of matters discussed in Note 5 – Income and Expenses – Adjustments.*
See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2019, 2018 and 2017
(in million pesos)

	2019	2018	2017
NET INCOME	**22,786**	18,973	13,466
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)			
Fair value changes of financial assets at fair value through other comprehensive income (loss) (Note 25)	**127**	(29)	—
Foreign currency translation differences of subsidiaries	**23**	117	(18)
Net transactions on cash flow hedges:	**(256)**	(271)	(376)
Net fair value losses on cash flow hedges (Note 28)	**(330)**	(286)	(411)
Income tax related to fair value adjustments charged directly to equity (Note 7)	**74**	15	35
Net gains on available-for-sale financial investments:	**—**	—	3,364
Unrealized gains from changes in fair value adjustments recognized during the year (Note 12)	**—**	—	2,826
Impairment recognized in profit or loss	**—**	—	540
Income tax related to fair value adjustments charged directly to equity (Note 7)	**—**	—	(2)
Share in the other comprehensive income of associates and joint ventures accounted for using the equity method (Note 11)	**—**	—	112
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent years	**(106)**	(183)	3,082
Revaluation increment on investment properties:	**(2)**	(2)	1
Depreciation of revaluation increment in investment properties transferred to property and equipment (Note 9)	**(3)**	(2)	(2)
Income tax related to revaluation increment charged directly to equity (Note 7)	**1**	—	(1)
Fair value adjustment to property and equipment transferred to investment properties during the year	**—**	—	4
Actuarial losses on defined benefit obligations:	**(6,074)**	(1,222)	(1,091)
Remeasurement in actuarial losses on defined benefit obligations (Note 26)	**(8,672)**	(1,788)	(1,566)
Income tax related to remeasurement adjustments (Note 7)	**2,598**	566	475
Share in the other comprehensive income of associates and joint ventures accounted for using the equity method (Note 11)	**—**	—	194
Net other comprehensive loss not to be reclassified to profit or loss in subsequent years	**(6,076)**	(1,224)	(896)
Total Other Comprehensive Income (Loss) – Net of Tax	**(6,182)**	(1,407)	2,186
TOTAL COMPREHENSIVE INCOME	**16,604**	17,566	15,652
ATTRIBUTABLE TO:			
Equity holders of PLDT	**16,343**	17,504	15,550
Noncontrolling interests	**261**	62	102
	16,604	17,566	15,652

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2019, 2018 and 2017
(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Treasury Shares under Employee Benefit Trust	Capital in Excess of Par Value	Other Equity Reserves	Retained Earnings	Other Comprehensive (Loss)	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
Balances as at January 1, 2019 (as previously stated)	**510**	**1,093**	**(6,505)**	**(854)**	**130,526**	**697**	**12,081**	**(25,190)**	**112,358**	**4,308**	**116,666**
Effect of adoption of PFRS 16 (Note 2)	**–**	**–**	**–**	**–**	**–**	**–**	**(924)**	**–**	**(924)**	**–**	**(924)**
Balances as at January 1, 2019 (as restated)	**510**	**1,093**	**(6,505)**	**(854)**	**130,526**	**697**	**11,157**	**(25,190)**	**111,434**	**4,308**	**115,742**
Treasury shares under employee benefit trust (Note 26)	**–**	**–**	**–**	**460**	**(130)**	**–**	**–**	**–**	**330**	**–**	**330**
Other equity reserves (Note 26)	**–**	**–**	**–**	**–**	**–**	**(421)**	**–**	**–**	**(421)**	**–**	**(421)**
Cash dividends (Note 20)	**–**	**–**	**–**	**–**	**–**	**–**	**(15,615)**	**–**	**(15,615)**	**(15)**	**(15,630)**
Total comprehensive income (loss):	**–**	**–**	**–**	**–**	**–**	**–**	**22,521**	**(6,178)**	**16,343**	**261**	**16,604**
Net income (Note 8)	**–**	**–**	**–**	**–**	**–**	**–**	**22,521**	**–**	**22,521**	**265**	**22,786**
Other comprehensive loss (Note 6)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,178)**	**(6,178)**	**(4)**	**(6,182)**
Distribution charges on perpetual notes (Note 20)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(236)**	**(236)**
Acquisition and dilution of noncontrolling interests	**–**	**–**	**–**	**–**	**(84)**	**–**	**–**	**–**	**(84)**	**(15)**	**(99)**
Balances as at December 31, 2019	**510**	**1,093**	**(6,505)**	**(394)**	**130,312**	**276**	**18,063**	**(31,368)**	**111,987**	**4,303**	**116,290**
Balances as at January 1, 2018 (as previously stated)	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
Treasury shares under employee benefit trust (Note 26)	–	–	–	86	–	–	–	–	86	–	86
Other equity reserves (Note 26)	–	–	–	–	–	(130)	–	–	(130)	–	(130)
Cash dividends (Note 20)	–	–	–	–	–	–	(13,887)	–	(13,887)	(15)	(13,902)
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 income (loss) (Note 6)	–	–	–	–	–	–	–	(1,412)	(1,412)	5	(1,407)
Distribution charges on perpetual notes (Note 20)	–	–	–	–	–	–	(236)	–	(236)	–	(236)
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
Treasury shares under employee benefit trust (Note 26)	–	–	–	(940)	–	–	–	–	(940)	–	(940)
Other equity reserves (Note 26)	–	–	–	–	–	827	–	–	827	–	827
Cash dividends (Note 20)	–	–	–	–	–	–	(16,479)	–	(16,479)	(66)	(16,545)
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
Perpetual notes (Note 20)	–	–	–	–	–	–	–	–	–	4,165	4,165
Distribution charges on perpetual notes (Note 20)	–	–	–	–	–	–	(177)	–	(177)	–	(177)
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**

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019, 2018 and 2017
(in million pesos)

	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**32,336**	22,815	14,569
Adjustments for:			
Depreciation and amortization (Notes 9 and 10)*	**39,656**	47,240	51,915
Interest on loans and other related items – net (Note 5)	**7,275**	6,783	7,014
Asset impairment (Note 5)	**4,833**	8,065	8,258
Equity share in net losses (earnings) of associates and joint ventures (Notes 5 and 11)	**1,535**	87	(2,906)
Accretion on lease liabilities (Notes 5 and 10)	**1,061**	—	—
Pension benefit costs (Notes 5 and 26)	**1,018**	1,855	1,607
Amortization of intangible assets (Notes 5 and 15)	**758**	892	835
Incentive plan (Notes 5 and 26)	**638**	208	827
Losses (gains) on derivative financial instruments – net (Notes 5 and 28)	**284**	(1,086)	(533)
Accretion on financial liabilities (Notes 5 and 21)	**122**	145	219
Losses (gains) on disposal of property and equipment (Note 9)	**88**	(12)	159
Impairment of investments (Note 11)	**34**	172	2,562
Foreign exchange losses (gains) – net (Notes 5 and 9)	**(424)**	771	411
Interest income (Note 5)	**(1,745)**	(1,943)	(1,412)
Gains on disposal of investments in subsidiaries – net (Note 11)	**—**	(144)	—
Gains on deconsolidation of subsidiary (Notes 5 and 11)	**—**	(12,054)	—
Gains on disposal of investment property (Note 14)	**—**	—	(80)
Gains on disposal of investments in associates – net (Note 11)	**—**	—	(6,512)
Others	**696**	(1,076)	(2,443)
Operating income before changes in assets and liabilities	**88,165**	72,718	74,490
Decrease (increase) in:			
Prepayments	**(28,898)**	(4,318)	(212)
Other financial and non-financial assets	**(198)**	—	162
Trade and other receivables	**(1,560)**	(12,175)	(10,674)
Inventories and supplies	**12**	26	(542)
Contract assets	**337**	390	—
Increase (decrease) in:			
Customers' deposits	**12**	(250)	13
Pension and other employee benefits	**(7,965)**	(5,733)	(5,841)
Other noncurrent liabilities	**(1,559)**	(11)	38
Accounts payable	**18,768**	7,729	4,622
Accrued expenses and other current liabilities	**4,375**	5,184	(1,392)
Net cash flows generated from operations	**71,489**	63,560	60,664
Income taxes paid	**(2,097)**	(2,444)	(4,550)
Net cash flows from operating activities	**69,392**	61,116	56,114

* *For 2019, this includes the depreciation or amortization of right-of-use assets.*
See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *(continued)*
For the Years Ended December 31, 2019, 2018 and 2017
(in million pesos)

	2019	2018	2017
CASH FLOWS USED IN INVESTING ACTIVITIES			
Interest received	**1,723**	1,115	1,217
Proceeds from:			
Collection of notes receivable	**1,771**	11,707	2,001
Maturity of short-term investments	**1,415**	6,102	20,254
Disposal of financial assets at fair value through profit or loss (Note 12)	**1,023**	11,643	—
Disposal of property and equipment (Note 9)	**224**	345	484
Disposal of investment properties (Note 14)	**11**	—	290
Disposal of investments in associates and joint ventures (Note 11)	**—**	1,710	14,884
Redemption of investment in debt securities	**—**	105	456
Disposal of investments available-for-sale	**—**	—	1,000
Dividends received (Note 11)	**—**	—	833
Payments for:			
Acquisition of investments in associates and joint ventures (Note 11)	**(20)**	(111)	(5,633)
Acquisition of investments in subsidiaries – net of cash acquired	**(80)**	(2,814)	(266)
Purchase of short-term investments	**(572)**	(5,992)	(18,424)
Interest capitalized to property and equipment (Notes 5 and 9)	**(1,455)**	(1,524)	(816)
Purchase of property and equipment (Note 9)	**(88,246)**	(47,247)	(36,616)
Acquisition of intangible assets (Note 15)	**—**	(21)	(137)
Purchase of investments available-for-sale	**—**	—	(76)
Net additions to right-of-use assets (Note 10)	**(145)**	—	—
Decrease (increase) in other financial and non-financial assets	**35**	(72)	(511)
Net cash flows used in investing activities	**(84,316)**	(25,054)	(21,060)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Proceeds from:			
Availments of long-term debt (Notes 21 and 29)	**37,500**	20,500	26,255
Derivative financial instruments (Notes 28 and 29)	**—**	886	218
Issuance of perpetual notes (Note 20)	**—**	—	4,165
Payments for:			
Derivative financial instruments (Notes 28 and 29)	**(50)**	—	—
Debt issuance costs (Notes 21 and 29)	**(195)**	(38)	(153)
Distribution charges on perpetual notes (Note 20)	**(236)**	(236)	(177)
Obligations under lease liabilities (Notes 10 and 29)	**(5,399)**	—	—
Interest – net of capitalized portion (Notes 5, 21 and 29)	**(7,143)**	(6,614)	(7,076)
Cash dividends (Notes 20 and 29)	**(15,592)**	(13,928)	(16,617)
Long-term debt (Notes 21 and 29)	**(20,494)**	(18,740)	(39,199)
Long-term financing for capital expenditures (Note 29)	**—**	—	(7,735)
Decrease (increase) in treasury shares under employee benefit trust	**(4)**	26	—
Net cash flows used in financing activities	**(11,613)**	(18,144)	(40,319)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(748)**	831	(552)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(27,285)**	18,749	(5,817)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (Note 16)	**51,654**	32,905	38,722
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 16)	**24,369**	51,654	32,905

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

PLDT Inc. (formerly Philippine Long Distance Telephone Company), which we refer to as PLDT or the Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, certain subsidiaries of First Pacific Company Limited, or First Pacific, and its Philippine affiliates (collectively the First Pacific Group and its Philippine affiliates), acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DOCOMO, Inc., or NTT DOCOMO, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT, and together with NTT Communications, beneficially owned approximately 20% of PLDT's outstanding common stock as at December 31, 2019. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at December 31, 2019. On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., or JGSHI, and its affiliates, or JG Summit Group. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at December 31, 2019, the JG Summit Group beneficially owned approximately 8% of PLDT's outstanding common shares.

On October 16, 2012, BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, or PLDT Beneficial Trust Fund, created pursuant to PLDT's Benefit Plan, subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement between BTFHI and PLDT dated October 15, 2012. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2019. See *Note 20 – Equity – Preferred Stock – Voting Preferred Stock* and *Note 27 – 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 26.9 million ADSs outstanding as at December 31, 2019.

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

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

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines. Information on our structure is provided in *Note 2 – Summary of Significant Accounting Policies – Basis of Consolidation*. Information on other related party relationships of the PLDT Group is provided in *Note 25 – Related Party Transactions*.

Our consolidated financial statements as at December 31, 2019 and 2018, and for the years ended December 31, 2019, 2018 and 2017 were approved and authorized for issuance by the Audit Committee on March 31, 2020, exercising the authority delegated to it by the Board of Directors on March 5, 2020.

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 financial instruments at fair value through profit or loss, or FVPL, financial instruments at fair value through other comprehensive income, or FVOCI, 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.

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

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, 2019 and 2018:

			2019		2018	
			Percentage of Ownership			
Name of Subsidiary	Place of Incorporation	Principal Business Activity	Direct	Indirect	Direct	Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	**100.0**	**—**	100.0	—
Smart Broadband, Inc., or SBI, and Subsidiary	Philippines	Internet broadband distribution services	**—**	**100.0**	—	100.0
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services	**—**	**100.0**	—	100.0
I-Contacts Corporation	Philippines	Operations support servicing business	**—**	**100.0**	—	100.0
Smart Money Holdings Corporation, or SMHC[(a)]	Cayman Islands	Investment company	**—**	**100.0**	—	100.0
Far East Capital Limited, or FECL, and Subsidiary, or FECL Group[(a)]	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	**—**	**100.0**	—	100.0
PH Communications Holdings Corporation, or PHC	Philippines	Investment company	**—**	**100.0**	—	100.0
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services	**—**	**100.0**	—	100.0
Francom Holdings, Inc., or FHI:	Philippines	Investment company	**—**	**100.0**	—	100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group[(a)]	British Virgin Islands	Content provider, mobile applications development and services	**—**	**100.0**	—	100.0
Wifun, Inc., or Wifun	Philippines	Software developer and selling of WiFi access equipment	**—**	**100.0**	—	100.0
Telesat, Inc.[(a)]	Philippines	Satellite communications services	**100.0**	**—**	100.0	—
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	**88.5**	**11.5**	88.5	11.5
Digitel Mobile Philippines, Inc., or DMPI, (a wholly-owned subsidiary of Digitel)	Philippines	Cellular mobile services	**—**	**99.6**	—	99.6
Fixed Line						
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	**100.0**	**—**	100.0	—
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	**100.0**	**—**	100.0	—
PLDT Global Corporation, or PLDT Global, and Subsidiaries	British Virgin Islands	Telecommunications services	**100.0**	**—**	100.0	—
Smart-NTT Multimedia, Inc.[(a)]	Philippines	Data and network services	**100.0**	**—**	100.0	—
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	**100.0**	**—**	100.0	—
Talas Data Intelligence, Inc., or Talas	Philippines	Business infrastructure and solutions; intelligent data processing and implementation services and data analytics insight generation	**100.0**	**—**	100.0	—
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	**100.0**	**—**	100.0	—
IP Converge Data Services, Inc., or IPCDSI, and Subsidiary, or IPCDSI Group	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	**—**	**100.0**	—	100.0
Curo Teknika, Inc., or Curo	Philippines	Managed IT outsourcing	**—**	**100.0**	—	100.0
ABM Global Solutions, Inc., or AGS, and Subsidiaries, or AGS Group	Philippines	Internet-based purchasing, IT consulting and professional services	**—**	**100.0**	—	100.0
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	**—**	**100.0**	—	95.0
netGames, Inc.[(a)]	Philippines	Gaming support services	**—**	**57.5**	—	57.5
MVP Rewards Loyalty Solutions, Inc., or MRSI[(b)]	Philippines	Full-services customer rewards and loyalty programs	**—**	**100.0**	—	100.0
Digitel:	Philippines	Telecommunications services	**99.6**	**—**	99.6	—
Digitel Information Technology Services, Inc.[(a)]	Philippines	Internet services	**—**	**99.6**	—	99.6
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	**98.0**	**—**	98.0	—
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	**75.0**	**—**	75.0	—
Pacific Global One Aviation Company, Inc., or PG1	Philippines	Air transportation business	**65.0**	**—**	65.0	—
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	2019 Percentage of Ownership Direct	2019 Indirect	2018 Direct	2018 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

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

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

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of PLDT and to the noncontrolling interests, even if this results in the noncontrolling 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 Company'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.

Extension of Smart's Congressional Franchise

On April 21, 2017, R.A. No. 10926, which effectively extended 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, Voyager Innovations Holdings Pte. Ltd., or VIH, and PLDT Online entered into a Sale and Purchase Agreement 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.

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%. On November 7, 2019, ePLDT acquired the 5% minority interest in ePDS for a consideration of Php20 million, thereby increasing its equity interest in ePDS from 95% to 100%. This transaction was eliminated in our consolidated financial statements.

Expiration of Digitel's Legislative Franchise

On February 17, 1994, the Philippine Congress granted a legislative franchise to Digitel under R.A. No. 7678 to install, operate and maintain telecommunications systems throughout the Philippines for public domestic and international telecommunications, and for other purposes. R.A. No. 7678 expired on February 17, 2019 and was not renewed due to the migration of all of its subscribers to PLDT in January 2019. Our management is currently assessing the business direction of Digitel moving forward. PLDT has committed to provide financial support to discharge its liabilities as the need arises.

Decrease in PCEV's Authorized Capital Stock and Par Value of Common Stock

On May 10, 2019 and June 25, 2019, PCEV's Board of Directors and stockholders, respectively, approved the following resolutions and amendments to the articles of incorporation of PCEV: (a) decrease in the par value of common stock; and (b) decrease in the authorized capital stock as follows:

	Prior to Amendments			After Amendments		
	Authorized Capital (Php)	Number of Shares	Par Value (Php)	Authorized Capital (Php)	Number of Shares	Par Value (Php)
	(in millions)			(in millions)		
Common Stock	12,060	1	21,000	**4,996**	**1**	**8,700**
Class I Preferred Stock	67	33	2	**67**	**33**	**2**
Class II Preferred Stock	50	50	1	**50**	**50**	**1**
Total Authorized Capital Stock	12,177	84		**5,113**	**84**	

The decrease in PCEV's authorized capital was approved by the Philippine SEC on December 19, 2019. Consequently, the partial return of capital representing their proportionate share in the decrease in par value amounting to Php6,825 million and Php4 million were paid to Smart and PCEV's minority shareholders, respectively. This transaction was eliminated in our consolidated financial statements.

Expiration of Philcom's Legislative Franchise

Effective September 15, 2019, Philcom ceased to operate as a telecommunications service provider, pursuant to the expiration of its legislative franchise, R.A. 7783. In order to facilitate continued customer service, arrangements have been made between Philcom and PLDT where PLDT would make its services available to the affected Philcom subscribers on voluntary basis. The NTC interposed no objection to the transfer of Philcom's subscribers to PLDT, subject to certain conditions. Consequently, Philcom and PLDT executed a Deed of Assignment on August 15, 2019 and September 13, 2019 wherein all property and equipment of Philcom, accounts receivable, inventories and subscribers were transferred to PLDT for a total consideration of Php1,760 million and Php319 million, respectively, after complying with the conditions imposed by NTC. PLDT has committed to provide financial support to discharge its liabilities as the need arises. This transaction was eliminated in our consolidated financial statements.

Expiration of SubicTel's Franchise

Effective January 23, 2020, SubicTel ceased to operate as a telecommunications service provider, pursuant to the expiration of its franchise issued by the Subic Bay Metropolitan Authority, or SBMA. In order to facilitate continued customer service, arrangements have been made between SubicTel and PLDT where PLDT would make its services available to the affected SubicTel subscribers on voluntary basis. The NTC interposed no objection to the transfer of SubicTel's subscribers to PLDT, subject to certain conditions. Likewise, the SBMA Board approved the issuance of Certificate of Registration to PLDT to operate within SBMA. On September 24, 2019, the PLDT Board of Directors approved the acquisition of the assets and subscribers of SubicTel for a total consideration of Php675 million. PLDT has committed to provide financial support to discharge its liabilities as the need arises. This transaction was eliminated in our consolidated financial statements.

Expiration of Maratel's Legislative Franchise

Effective April 2020, Maratel will cease to operate as a telecommunications service provider, following the expiration of its legislative franchise, R.A. 7970. In order to ensure continued customer service, Maratel will assign its assets and subscribers, or the "Maratel Subscribers", to PLDT who undertakes to offer its services to Maratel Subscribers subject to conditions as may be imposed by the NTC. The NTC, has yet to respond to Maratel's notice to transfer its subscribers to PLDT. On November 7, 2019, the PLDT Board of Directors approved the acquisition of the assets and Maratel Subscribers for a total consideration of Php442 million. PLDT has committed to provide financial support to discharge its liabilities as the need arises. This transaction was eliminated in our consolidated financial statements.

Corona Virus, or COVID-19, Outbreak

In a move to contain the COVID-19 outbreak, on March 12, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and imposed an Enhanced Community Quarantine throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended as circumstances may warrant. On March 25, 2020, Republic Act No. 11469, otherwise known as the "Bayanihan to Heal as One Act" was signed into law declaring a state of national emergency over the entire country, and the President is authorized to exercise certain powers necessary to address the COVID-19 pandemic. These measures have caused disruption to businesses and economic activities, and its impacts on businesses continue to evolve.

We consider the events surrounding the outbreak as non-adjusting subsequent events which do not impact our financial position and performance as at and for the year ended December 31, 2019. However, the outbreak could have a material impact on our 2020 financial results and even the periods thereafter. Considering the evolving nature of the outbreak, we cannot determine at this time the impact to our financial position, performance and cash flows. We will continue to monitor the situation.

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 and amended standards and interpretations starting January 1, 2019. Except for the adoption of PFRS 16, *Leases*, the adoption of these new and amended standards and interpretations did not have significant impact on our financial position or performance.

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

2. Amendments to Philippine Accounting Standard, or PAS, 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

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

4. Annual Improvements to PFRSs 2015-2017 Cycle

   - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

   - Amendments to PAS 12, *Income Taxes, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

   - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

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

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

- Whether an entity considers uncertain tax treatments separately;

- The assumptions an entity makes about the examination of tax treatments by taxation authorities;

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and

- How an entity considers changes in facts and circumstances.

The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examination. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

6. PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation to IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation to SIC-15*, Operating Leases-Incentives* and Philippine Interpretation to SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on our consolidated statement of financial position. 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, or ROU, asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the ROU 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 ROU 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. Therefore, PFRS 16 did not have an impact for leases where we are the lessor.

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

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

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

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

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

	Increase (Decrease)
	(in million pesos)
Assets:	
Right-of-use assets (Note 10)	**14,226**
Property and equipment (Notes 9 and 10)	**(245)**
Deferred income tax assets – net (Note 7)	**172**
Current portion of prepayments	**(471)**
Total Assets	**13,682**
Liabilities:	
Lease liabilities – net of current portion (Note 10)	**12,386**
Deferred credits and other noncurrent liabilities	**(50)**
Accrued expenses and other current liabilities	**(577)**
Current portion of lease liabilities (Note 10)	**2,847**
Total Liabilities	**14,606**
Net impact on equity:	
Retained earnings	**(924)**
Noncontrolling interests	**—**

Set out below are the amounts by which each financial statements line item is affected for the year ended December 31, 2019 as a result of the adoption of PFRS 16. The adoption of PFRS 16 did not have a material impact on other comprehensive income or on our investing cash flows. The first column shows amounts prepared under PFRS 16 and the second column shows what the amounts would have been had PFRS 16 not been adopted.

Consolidated income statement for the year ended December 31, 2019

	PFRS 16	**PAS 17**	**Increase (Decrease)**
		(in million pesos)	
Expenses:			
Rent (Note 5)	**1,290**	**6,571**	**(5,281)**
Depreciation (Notes 3 and 10)	**4,393**	**—**	**4,393**
Financing costs – net (Notes 5 and 10)	**1,061**	**—**	**1,061**
Net impact on profit for the year	**6,744**	**6,571**	**173**
Tax effect	**(2,023)**	**(1,971)**	**(52)**
Net impact on profit for the year – net of tax	**4,721**	**4,600**	**121**
Attributable to:			
Equity holders of PLDT	**(4,721)**	**(4,600)**	**(121)**
Noncontrolling interests	**—**	**—**	**—**

Consolidated statement of financial position as at December 31, 2019

	PFRS 16	PAS 17	Increase (Decrease)
		(in million pesos)	
Assets:			
Right-of-use assets (Note 10)	**15,890**	**—**	**15,890**
Deferred income tax assets – net (Note 7)	**23,623**	**23,228**	**395**
Prepayments – net of current portion (Note 19)	**48,933**	**49,394**	**(461)**
Current portion of prepayments (Note 19)	**11,298**	**11,308**	**(10)**
Total Assets	**99,744**	**83,930**	**15,814**
Liabilities:			
Lease liabilities – net of current portion (Notes 3 and 10)	**13,100**	**—**	**13,100**
Deferred credits and other noncurrent liabilities (Note 22)	**4,557**	**4,607**	**(50)**
Accrued expenses and other current liabilities (Note 24)	**100,815**	**100,221**	**594**
Current portion of lease liabilities (Notes 3 and 10)	**3,215**	**—**	**3,215**
Total Liabilities	**121,687**	**104,828**	**16,859**
Net impact on equity:			
Retained earnings	**(21,943)**	**(20,898)**	**(1,045)**
Noncontrolling interests	**—**	**—**	**—**

Consolidated statement of cash flows for the year ended December 31, 2019

	(in million pesos)
Net cash flows from operating activities (PAS 17):	
Operating lease payments	**(6,460)**
Net cash flows from financing activities (PFRS 16):	
Payment of principal portion of lease liabilities (Note 10)	**(5,399)**

Upon adoption of PFRS 16, we applied a single recognition and measurement approach for all leases, except for short-term leases and leases of 'low-value' assets. See Section *Leases* for the accounting policy beginning January 1, 2019.

- Leases previously classified as finance leases

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

- Leases previously accounted for as operating leases

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

We also applied the available practical expedients wherein we:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;

- Excluded the initial direct costs from the measurement of the ROU asset at the date of initial application;

- Used hindsight in determining the lease term where the contract contained options to extend or terminate the leases; and

- Elected not to separate non-lease components from lease components and accounted them as single lease component.

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

- Property and equipment of Php245 million, representing ARO asset were reclassified to ROU assets.

- ROU assets of Php14,226 million were recognized and presented separately in our consolidated statement of financial position. This includes lease assets recognized previously under finance leases of Php300 thousand that were reclassified from property and equipment.

- Deferred income tax assets – net decreased by Php172 million because of the deferred tax impact of the changes in assets and liabilities.

- Prepayments of Php471 million and accrued expenses and other current liabilities of Php577 million related to previous operating leases arising from straight-lining under PAS 17 were derecognized.

- Lease liabilities of Php15,233 million were recognized and presented separately in our consolidated statement of financial position.

- Deferred credits and other noncurrent liabilities of Php50 million were recognized for the interest portion of the lease liability.

- The net effect of these adjustments had been adjusted to retained earnings of Php924 million and noncontrolling interest of nil.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as at December 31, 2018 follows:

		(in million pesos)
Operating lease commitments as at December 31, 2018		**22,674**
Incremental borrowing rate as at January 1, 2019		**7%-9%**
Discounted operating lease commitments as at January 1, 2019		**10,571**
Less:	Commitments relating to short-term leases	**(49)**
	Commitments relating to service contracts	**(304)**
Add:	Payments in optional extension periods not recognized as at December 31, 2018	**4,994**
	Prepayments and accrued expenses (PAS 17)	**21**
Lease liabilities as at January 1, 2019		**15,233**

Due to the adoption of PFRS 16, our operating profit in 2019 improved, while our interest expense increased. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

Summary of Significant Accounting Policies

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

Business Combinations and Goodwill

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

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

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

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

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

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

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

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

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

Investments in Associates

An associate is an entity in which we have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but has no control nor joint control over those policies. The existence of significant influence is presumed to exist when we hold 20% or more, but less than 50% of the voting power of another entity. Significant influence is also exemplified when we have one or more of the following: (a) a representation on the board of directors or the equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions with the investee; (d) interchange of managerial personnel with the investee; or (e) provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The cost of the investments includes directly attributable transaction costs. The details of our investments in associates are disclosed in *Note 11 – Investments in Associates and Joint Ventures – Investments in Associates*.

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

Our share in the profits or losses of our associates is included under "Other income (expenses)" in our consolidated income statement. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and net of noncontrolling interest in the subsidiaries of the associate.

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

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

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

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

Joint Arrangements

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

- Joint operation – when we have rights to the assets, and obligations for the liabilities, relating to an arrangement, we account for each of our assets, liabilities and transactions, including our share of those held or incurred jointly, in relation to the joint operation in accordance with the PFRS applicable to the particular assets, liabilities and transactions.

- Joint venture – when we have rights only to the net assets of the arrangements, we account for our interest using the equity method, the same as our accounting for investments in associates.

The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies of the joint venture in line with our policies. The details of our investments in joint ventures are disclosed in *Note 11 – Investments in Associates and Joint Ventures – Investments in Joint Ventures*.

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

Upon loss of joint control over the joint venture, we measure and recognize our retained investment at fair value. Any difference between the carrying amount of the former joint venture upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate with no remeasurement.

Current Versus Noncurrent Classifications

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

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

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

All other liabilities are classified as noncurrent.

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

Foreign Currency Transactions and Translations

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

The functional and presentation currency of the entities under PLDT Group (except for the subsidiaries discussed below) is the Philippine Peso.

Transactions in foreign currencies are initially recorded by entities under our Group at the respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the end of the reporting period. All differences arising on settlement or translation of monetary items are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising from transactions of non-monetary items measured at fair value is treated in line with the recognition of this gain or loss on the change in fair value of the items (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

The functional currency of SMHC, FECL Group, PLDT Global and certain of its subsidiaries, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC is the U.S. Dollar; the functional currency of iCommerce Investments Pte. Ltd., or iCommerce, Chikka Pte. Ltd., or CPL, and ABM Global Solutions Pte. Ltd., or AGSPL, is the Singaporean Dollar; and the functional currency of PT Advance Business Microsystems Global Solutions, or AGS Indonesia, is the Indonesian Rupiah. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine Peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. Upon disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries is recognized in our consolidated income statement.

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

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

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

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

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

Business model

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

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

Financial assets at amortized cost

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

Our financial assets at amortized cost include debt instruments at amortized cost, cash and cash equivalents, short-term investments, trade and other receivables, and portions of other financial assets as at December 31, 2019 and 2018. See *Note 13 – Debt Instruments at Amortized Cost, Note 16 – Cash and Cash Equivalents, Note 17 – Trade and Other Receivables* and *Note 28 – 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, 2019 and 2018. See *Note 25 – Related Party Transactions* and *Note 28 – 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, 2019 and 2018. See *Note 12 – Financial Assets at FVPL* and *Note 28 – Financial Assets and Liabilities.*

Classification of financial liabilities

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

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

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

- If a host contract contains one or more embedded derivatives; or
- If a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

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

Our financial liabilities at FVPL include forward foreign exchange contracts, long-term principal only-currency swaps, interest rate swaps and liability from redemption of preferred stock as at December 31, 2019 and 2018. See *Note 28 – Financial Assets and Liabilities.*

Our other financial liabilities include interest-bearing financial liabilities, lease liabilities, customers' deposits, dividends payable, certain accounts payable and certain accrued expenses and other current liabilities and certain deferred credits and other noncurrent liabilities, (except for statutory payables) as at December 31, 2019 and 2018. See *Note 21 – Interest-bearing Financial Liabilities* and *Note 28 – Financial Assets and Liabilities.*

Reclassifications of financial instruments

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

We do not reclassify our financial assets when:

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

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

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

Impairment of Financial Assets – Beginning January 1, 2018

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 – not credit impaired

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

Stage 2: Lifetime ECL – not credit-impaired

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

Stage 3: Lifetime ECL – credit-impaired

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

Loss allowances

Loss allowances are recognized based on 12-month ECL for debt instruments 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 instruments to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

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

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

Write-off policy

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

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

Simplified approach

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

Impairment of Financial Assets – Prior to January 1, 2018

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 – Prior to January 1, 2018

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 17 – Trade and Other Receivables* and *Note 28 – 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 consolidated income statement.

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 consolidated income statement.

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 28 – 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) – net – Gains (losses) on derivative financial instruments – net" in our consolidated income statements.

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

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

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

Fair value hedges

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

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

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

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in our consolidated income statements.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. See *Note 28 – 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 28 – 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 consolidated income statement 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 22 – Deferred Credits and Other Noncurrent Liabilities*.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an amount evaluation performed by a Philippine SEC accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

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

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

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

Intangible Assets

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

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

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

The estimated useful lives used in amortizing our intangible assets are disclosed in *Note 15 – Goodwill and Intangible Assets*.

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

Internally generated intangibles are not capitalized, and the related expenditures are charged against operations in the period in which the expenditures are incurred.

Inventories and Supplies

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

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

Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that an asset may be impaired. If any indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use, or VIU. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses are recognized in our consolidated income statements.

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

The following assets have specific characteristics for impairment testing:

Property and equipment, ROU assets, and intangible assets with definite useful lives

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

Investments in associates and joint ventures

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income statements. See *Note 11 – Investments in Associates and Joint Ventures* for further disclosures relating to impairment of non-financial assets.

Goodwill

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU, or group of CGUs, is less than the carrying amount of the CGU, or group of CGUs, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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

Intangible asset with indefinite useful life

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

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

Investment in Debt Securities

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

Cash and Cash Equivalents

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

Short-term Investments

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

Fair Value Measurement

We measure financial instruments such as derivatives, financial assets at FVPL, financial assets at FVOCI and non-financial assets such as investment properties, at fair value at each reporting date. The fair values of financial instruments measured at amortized cost are disclosed in *Note 28 – Financial Assets and Liabilities*. The fair values of investment properties are disclosed in *Note 14 – Investment Properties*.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (i) in the principal market for the asset or liability; or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in our consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: (i) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities; (ii) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and (iii) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in our consolidated financial statements on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

We, in conjunction with our external valuers, also compare the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations. For the purpose of fair value disclosures, we have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue – 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, 2019, excluding the performance obligations for contracts with original expected duration of less than one year, the aggregate amount of the transaction price allocated to remaining performance obligations was Php22,864 million, of which we expect to recognize approximately 68% in 2020 and 32% in 2021 and onwards. As at December 31, 2018, excluding the performance obligations for contracts with original expected duration of less than one year, the aggregate amount of the transaction price allocated to remaining performance obligations was Php30,753 million, of which we expect to recognize approximately 63% in 2019 and 37% in 2020 and onwards.

When determining our performance obligations, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. We are a principal and record revenue on a gross basis if we control the promised goods or services before transferring them or rendering those to the customer. However, if our role is only to arrange for another entity to provide the goods or services, then we are an agent and will need to record revenue at the net amount that we retain for our agency services.

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

Our revenues are principally derived from providing the following telecommunications services: cellular voice and data services in the wireless business; and local exchange, international and national long distance, data and other network, and information and communications services in the fixed line business.

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

i. Single Performance Obligation (POB) Contracts

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

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

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

Interconnection fees and charges arising from the actual usage of airtime value or subscriptions are recorded as incurred.

Revenue from international and national long-distance calls carried via our network is generally based on rates which vary with distance and type of service (direct dial or operator-assisted, paid or collect, etc.). Revenue from both wireless and fixed line long distance calls is recognized as the service is provided. In general, non-refundable upfront fees, such as activation fees, that do not relate to the transfer of a promised good or service, are deferred and recognized as revenue throughout the estimated average length of the customer relationship, and the related incremental costs incurred are similarly deferred and recognized as expense over the same period, if such costs generate or enhance resources of the entity and are expected to be recovered.

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

ii. Bundled Contracts

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

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

Significant Financing Component

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

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

Customer Loyalty Program

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

iii. International and Domestic Long Distance Contracts

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

Variable consideration

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

iv. Others

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

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

Contract balances

Contract assets

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

Trade receivables

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

Contract liabilities and unearned revenues

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

Incremental costs to obtain contracts

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

Interest income

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

Dividend income

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

Revenue – 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

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 statements, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense in our consolidated income statements.

Retirement Benefits

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

Defined benefit pension plans

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

Retirement costs consist of the following:

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

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

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

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

The net defined benefit asset or obligation comprises the present value of the defined benefit obligation (using a discount rate based on government bonds, as explained in *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating pension benefit costs and other employee benefits*), net of the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by a long-term employee benefit fund or qualifying insurance policies and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, the published bid price and in the case of unquoted securities, the discounted cash flow using the income approach. The value of any defined benefit asset recognized is restricted to the asset ceiling which is the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. See *Note 26 – Pension and Other 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 consolidated income statement.

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 26 – Pension and Other 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 consolidated income statement.

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 26 – Pension and Other Employee Benefits – Other Long-term Employee Benefits* for more details.

Transformation Incentive Plan, or TIP

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 was implemented for the 2019 TIP Grant. The revised set-up includes a fixed number of shares that will be granted ("equity award") and the estimated fair value of the difference between the number of shares granted in the original equity grant and the equity award will be paid in cash ("cash award"). The fair value of the cash award is determined at each reporting date using the estimated fair value of the corresponding shares. Please see *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating pension benefit cost and other employee benefits*.

Leases – Beginning January 1, 2019

We assess at contract inception whether the contract is, or contains, a lease. That is, if the contract conveys right to control the use of an identified asset for a period of time in exchange for a consideration.

As a Lessee. We apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. We recognize lease liabilities to make lease payments and ROU assets representing the right to use assets to the underlying assets.

- ROU assets

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

- Lease liabilities

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

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

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

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

As a Lessor. Leases in which we do not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease term and is included in revenue in our consolidated income statements due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the bases as rental income.

Leases – Prior to January 1, 2019

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

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

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

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

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

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest income is accrued over the lease term using the EIR and lease amortization is accounted for as reduction of lease receivable.

Income Taxes

Current income tax

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

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

Deferred income tax

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

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

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward benefits of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized, except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred income tax relating to items recognized in “Other comprehensive income” account is included in our consolidated statements of comprehensive income and not in our consolidated income statements.

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

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

VAT

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

Contingencies

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

Events After the End of the Reporting Period

Post year-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 year-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 and consolidated statements of financial position.

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

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

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

Other comprehensive income comprises of income and expense, including reclassification adjustments that are not recognized in our consolidated income statement as required or permitted by PFRS.

Standards Issued But Not Yet Effective

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Business Combination, 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 will have no significant 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 will have no significant impact on our consolidated financial statements.

Deferred effectivity

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

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

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

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

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

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

Judgments, key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are consistent with those applied in the most recent annual financial statements, except for those that relate to the adoption of PFRS 16. Selected critical judgments and estimates applied in the preparation of the annual consolidated financial statements as discussed below:

Judgments

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

Revenue Recognition – 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 of generally two years). Revenue attributable to the separate performance obligations are based on the allocation of the transaction price relative to the stand-alone selling price.

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

Principal versus agent consideration

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

- We are primarily responsible for fulfilling the promise to provide the specified equipment;
- We bear inventory risk on our inventory before it has been transferred to the customer;
- We have discretion in establishing the prices for the other party's goods or services and, therefore, the benefit that we can receive from those goods or services is not limited. It is incumbent upon us to establish the price of our services to be offered to our subscribers; and
- 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 provided over the contract period of two years, revenue is recognized monthly as we provide the service because control is transferred over time. For the device which is provided at the inception of the contract, revenue is recognized at the time of delivery because control is transferred at a point in time.

Identifying methods for measuring progress of revenue recognized over time

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

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

Significant financing component

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

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

Estimation of stand-alone selling price

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

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

Financial Instruments

Evaluation of business models in managing financial instruments

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

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

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

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

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

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

PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, we 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 us, 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 us 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, we assess 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. We consider reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

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

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

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

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

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 statement amounted to Php540 million for the year ended December 31, 2017. See related discussion on *Note 12 – Financial Assets at FVPL – 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, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC, which uses the U.S. Dollar; (b) iCommerce, CPL and AGSPL, which uses the Singaporean Dollar; and (c) AGS Indonesia, which uses the Indonesian Rupiah.

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

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

Determining the lease term of contracts with renewal and terminal options – Company as a Lessee – Beginning January 1, 2019

Upon adoption of PFRS 16, we applied a single recognition and measurement approach for all leases, except for short-term leases and leases of 'low-value' assets. See Section *Leases* for the accounting policy beginning January 1, 2019.

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

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

We included the renewal period as part of the lease term for leases such as poles and leased circuits due to the significance of these assets to our operations. These leases have a non-cancellable period (i.e., one to 30 years) and there will be a significant negative effect on our provision of services if a replacement is not readily available. Furthermore, the periods covered by termination options are included as part of these lease term only when they are reasonably certain not to be exercised.

Total depreciation of ROU assets amounted to Php4,393 million for the year ended December 31, 2019. Total lease liabilities amounted to Php16,315 million as at December 31, 2019. See *Note 2 – Summary of Significant Accounting Policies, Note 5 – Income and Expenses – Selling, General and Administrative Expenses, Note 10 – Leases* and *Note 28 – Financial Assets and Liabilities.*

Leases – Prior to January 1, 2019

As a lessee, we have various lease agreements in respect of certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on PAS 17. Total lease expense amounted to Php7,321 million and Php7,016 million for the years ended December 31, 2018 and 2017, respectively. Total finance lease obligations amounted to Php514 thousand as at December 31, 2018. See *Note 2 – Summary of Significant Accounting Policies, Note 5 – Income and Expenses – Selling, General and Administrative Expenses, Note 21 – Interest-bearing Financial Liabilities – Obligations under Finance Leases* and *Note 28 – Financial Assets and Liabilities*.

Accounting for investment in Multisys Technologies Corporation, or Multisys

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

Based on our judgment, at the PLDT Group level, PGIH's investment in Multisys gives PGIH a joint control in Multisys and thus is accounted for as investment in joint venture using the equity method of accounting in accordance with PAS 28*, Investments in Associates and Joint Ventures*. See *Note 11 – Investment in Associates and Joint Ventures – Investment in Joint Ventures – Investment of PGIH in Multisys*.

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

ePLDT made various investments in PDRs issued by MediaQuest in relation to its direct interest in Satventures, Inc., or Satventures, and Hastings Holdings, Inc., or Hastings, and indirect interest in Cignal TV, Inc., or Cignal TV.

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

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

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

Assessment of loss of control over VIH

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

As a result of the subscription of the new investors in VIH, PCEV's ownership interest was diluted to 48.74% 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 an associate. See *Note 11 – Investments in Associates and Joint Ventures – Investments in Associates – Investment of PCEV in VIH.*

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

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

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

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

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

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

PCEV entered into Share Purchase Agreement with MPIC on May 30, 2016 and June 13, 2017, to sell its equity interest in Beacon for a total consideration of Php26,200 million and Php21,800 million, respectively. Upon closing of these sale transactions, MPIC settled portion of the considerations and the balances are being paid in annual installments until June 2021. MPIC agreed that for as long as: (a) PCEV owns at least 20% of the outstanding capital stock of Beacon; or (b) the purchase price has not been fully paid by MPIC, PCEV shall retain the right to vote 50% of the outstanding capital stock of Beacon. The unpaid balance from MPIC is measured at fair value using discounted cash flow valuation method, with interest income to be accreted over the term of the receivable.

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

Material partly-owned subsidiaries

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

Material associates and joint ventures

Our consolidated financial statements include additional information about associates and joint ventures that are material to us. See *Note 11 – Investments in Associates and Joint Ventures*. We 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, 2019 and 2018.

Determining Taxable Profit, Tax Bases, Unused Tax Losses, Unused Tax Credits and Tax Rates

Upon adoption of the Philippine Interpretation IFRIC 23, we assess whether we have any uncertain tax position and applies significant judgment in identifying uncertainties over our income tax treatments. We determined based on our assessment that it is probable that our income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have a significant impact on our consolidated financial statements.

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.

Leases – Estimating the incremental borrowing rate, or IBR – Beginning January 1, 2019

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

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

Our lease liabilities amounted to Php16,315 million as at December 31, 2019. See *Note 2 – Summary of Significant Accounting Policies – PFRS 16, Leases* and *Note 10 – Leases.*

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. In determining the fair value of PLDT's retained interest in VIH, we take 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. We carefully assess the accounting implications of the stipulation in the shareholders' agreements and consider whether such a transaction has been made at arm's length. See *Note 11 – Investments in Associates and Joint Ventures – Investments in Associates – Investment of PCEV in VIH.*

Impairment of non-financial assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill and intangible assets with indefinite useful life, at a minimum, such assets are subject to an impairment test annually and whenever there is an indication that such assets may be impaired. This requires an estimation of the VIU of the CGUs to which these assets are allocated. The VIU calculation requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. See *Note 15 – Goodwill and Intangible Assets – Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Life* for the key assumptions used to determine the VIU of the relevant CGUs.

Determining the recoverable amount of property and equipment, ROU assets, investments in associates and joint ventures, goodwill and 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 of future market conditions. 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 nil, Php2,122 million and Php3,913 million for the years ended December 31, 2019, 2018 and 2017, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment and Note 9 – Property and Equipment – Impairment of Certain Wireless Network Equipment and Facilities*.

The carrying values of our property and equipment, ROU assets, investments in associates and joint ventures, investment properties, goodwill and intangible assets, and prepayments are separately disclosed in *Note 9 – Property and Equipment, Note 10 – Leases, Note 11 – Investments in Associates and Joint Ventures, Note 14 – Investment Properties, Note 15 – Goodwill and Intangible Assets* and *Note 19 – Prepayments,* respectively.

Estimating useful lives of property and equipment

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

In 2019, 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 Php2,048 million, Php15,807 million and Php19,481 million for the years ended December 31, 2019, 2018 and 2017, respectively. We expect additional depreciation arising from the acceleration of estimated useful lives of the technology equipment in 2019 amounting to Php1,458 million, Php1,397 million and Php46 million in 2020, 2021 and each of the years 2022 and 2023, respectively.

In 2019, we increased the estimated useful life of certain information origination and termination equipment and central office equipment due to technology advancement allowing longer economic life of the subscriber equipment. As a result, we recognized a decrease in depreciation amounting to Php1,719 million for the year ended December 31, 2019.

The total depreciation and amortization of property and equipment amounted to Php35,263 million, Php47,240 million and Php51,915 million for the years ended December 31, 2019, 2018 and 2017, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php232,134 million and Php195,964 million as at December 31, 2019 and 2018, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information* and *Note 9 – Property and Equipment*.

Estimating useful lives of intangible assets with finite lives

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

The total amortization of intangible assets with finite lives amounted to Php758 million, Php892 million and Php835 million for the years ended December 31, 2019, 2018 and 2017, respectively. Total carrying values of intangible assets with finite lives amounted to Php1,941 million and Php2,699 million as at December 31, 2019 and 2018, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Selling, General and Administrative Expenses* and *Note 15 – Goodwill and Intangible Assets*.

Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. Based on this, management expects that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php2,294 million and Php3,227 million as at December 31, 2019 and 2018, respectively. Total consolidated provision from deferred income tax amounted to Php6,267 million and Php1,375 million for the years ended December 31, 2019 and 2018, respectively, while total consolidated benefit from deferred income tax amounted to Php2,738 million for the year ended December 31, 2017. Total consolidated recognized net deferred income tax assets amounted to Php23,623 million and Php27,697 million as at December 31, 2019 and 2018, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information* and *Note 7 – Income Taxes*.

Estimating allowance for expected credit losses – 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, debt securities and financial assets at FVOCI and advances and other noncurrent assets*

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

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

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

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

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

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

- *Incorporation of forward-looking information*

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

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

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

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

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

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

Total provision for expected credit losses for trade and other receivables amounted to Php4,071 million, Php4,192 million and Php3,438 million for the years ended December 31, 2019, 2018 and 2017, respectively. Trade and other receivables, net of allowance for expected credit losses, amounted to Php22,436 million and Php24,056 million as at December 31, 2019 and 2018, respectively. See *Note 5 – Income and Expenses* and *Note 17 – Trade and Other Receivables*.

Total provision for expected credit losses for contract assets amounted to Php291 million and Php223 million for the years ended December 31, 2019 and 2018, respectively. Contract assets, net of allowance for expected credit losses, amounted to Php2,747 million and Php3,268 million as at December 31, 2019 and 2018, respectively. See *Note 5 – Income and Expenses* and *Note 17 – Trade and Other Receivables*.

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

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

Trade receivables – Groupings for collective measurement

a. Retail subscribers;

b. Corporate subscribers;

c. Foreign administrations and domestic carriers; and

d. Dealers, agents and others.

The following credit exposures are assessed individually:

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

- The cash and cash equivalents, investment in debt securities and financial assets at FVOCI, 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 for the year ended December 31, 2017. 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* and *Note 5 – Income and Expenses*.

Estimating pension benefit costs and other employee benefits

The cost of defined benefit and present value of the pension obligation are determined using the projected unit credit method. An actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. Further, our accrued benefit cost is affected by the fair value of the plan assets. Key assumptions used to estimate fair value of the unlisted equity investments included in the plan assets consist of revenue growth rate, direct costs, capital expenditures, discount rates and terminal growth rates. See *Note 26 – Pension and Other 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 Php1,018 million, Php1,855 million and Php1,610 million for the years ended December 31, 2019, 2018 and 2017, respectively. The prepaid benefit costs amounted to Php342 million and Php393 million as at December 31, 2019 and 2018, respectively. The accrued benefit costs amounted to Php8,985 million and Php7,182 million as at December 31, 2019 and 2018, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 19 – Prepayments* and *Note 26 – Pension and Other 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 ECC of the Board approved Management's recommended modifications to the Plan, and partial equity and cash settled set-up was implemented for the 2019 TIP Grant. The revised set-up includes a fixed number of shares that will be granted ("equity award") and the estimated fair value of the difference between the number of shares granted in the original equity grant and the equity award will be paid in cash ("cash award"). The fair value of the award is determined at each reporting date using the estimated fair value of the corresponding shares.

As at March 31, 2020, a total of 757 thousand PLDT common shares have been acquired by the Trustee, of which 236 thousand, 302 thousand and 204 thousand PLDT common shares have been released to the eligible participants on March 12, 2020 for the 2019 annual grant, on March 28, 2019 for the 2018 annual grant and on April 5, 2018 for the 2017 annual grant, respectively. The cash award for the 2019 annual grant that was paid on March 12, 2020 amounted to Php654 million. The TIP is administered by the ECC of the Board. The expense accrued for the TIP amounted to Php638 million, Php208 million and Php827 million for the years ended December 31, 2019, 2018 and 2017, respectively. The accrued incentive payable, representing the cash settled set-up amounted to Php795 million as at December 31, 2019. See *Note 5 – Income and Expenses – Compensation and Employee Benefits* and *Note 26 – Pension and Other 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 Php1,767 million and Php1,656 million as at December 31, 2019 and 2018, respectively. See *Note 22 – 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 27 – 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

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

Other than those whose carrying amounts are reasonable approximations of fair values, total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2019 amounted to Php1,657 million and Php173,457 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2018 amounted to Php2,168 million and Php143,392 million, respectively. See *Note 28 – 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 1% of our consolidated fixed line subscribers; data center, cloud, cyber security services, managed information technology services and resellership through ePLDT, IPCDSI Group, AGS Group, Curo and ePDS; full service customer rewards and loyalty programs provided by MRSI; and distribution of Filipino channels and content through PGNL and its subsidiaries; and

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

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

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

EBITDA for the period is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs – net, 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, 2019, 2018 and 2017 are as follows:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
	(in million pesos, except for EBITDA margin)				
December 31, 2019					
Revenues					
External customers	**94,488**	**74,699**	**—**	**—**	**169,187**
Service revenues	**88,243**	**73,112**	**—**	**—**	**161,355**
Non-service revenues	**6,245**	**1,587**	**—**	**—**	**7,832**
Inter-segment transactions	**2,418**	**14,707**	**—**	**(17,125)**	**—**
Service revenues	**2,418**	**14,707**	**—**	**(17,125)**	**—**
Non-service revenues	**—**	**—**	**—**	**—**	**—**
Total revenues	**96,906**	**89,406**	**—**	**(17,125)**	**169,187**
Results					
Depreciation and amortization	**29,484**	**16,141**	**—**	**(5,969)**	**39,656**
Asset impairment	**1,133**	**3,699**	**1**	**—**	**4,833**
Interest income	**703**	**680**	**362**	**—**	**1,745**
Equity share in net earnings (losses) of associates and joint ventures	**—**	**568**	**(2,103)**	**—**	**(1,535)**
Financing costs – net	**6,422**	**5,078**	**—**	**(2,947)**	**8,553**
Provision for (benefit from) income tax	**4,423**	**5,341**	**(444)**	**230**	**9,550**
Net income (loss) / Segment profit (loss)	**13,101**	**11,421**	**(1,769)**	**33**	**22,786**
EBITDA	**52,789**	**33,162**	**(101)**	**(6,035)**	**79,815**
EBITDA margin	**58%**	**38%**	**—**	**—**	**49%**
Core income (loss)	**13,685**	**12,531**	**(1,151)**	**46**	**25,111**
Assets and liabilities					
Operating assets	**287,059**	**198,468**	**7,943**	**(45,929)**	**447,541**
Investments in associates and joint ventures	**10**	**73,386**	**9,897**	**(29,430)**	**53,863**
Deferred income tax assets – net	**13,102**	**11,791**	**(711)**	**(559)**	**23,623**
Total assets	**300,171**	**283,645**	**17,129**	**(75,918)**	**525,027**
Operating liabilities	**221,755**	**229,855**	**833**	**(46,289)**	**406,154**
Deferred income tax liabilities	**1,986**	**384**	**252**	**(39)**	**2,583**
Total liabilities	**223,741**	**230,239**	**1,085**	**(46,328)**	**408,737**
Other segment information					
Capital expenditures, including capitalized interest (Note 9)	**30,718**	**42,153**	**—**	**—**	**72,871**
December 31, 2018					
Revenues					
External customers	87,193	74,593	1,128	—	162,914
Service revenues	80,265	71,020	1,084	—	152,369
Non-service revenues	6,928	3,573	44	—	10,545
Inter-segment transactions	2,736	10,629	10	(13,375)	—
Service revenues	2,736	10,628	10	(13,374)	—
Non-service revenues	—	1	—	(1)	—
Total revenues	89,929	85,222	1,138	(13,375)	162,914

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
	(in million pesos, except for EBITDA margin)				
Results					
Depreciation and amortization	24,778	22,303	159	—	47,240
Asset impairment	3,319	4,746	—	—	8,065
Equity share in net earnings (losses) of associates and joint ventures	62	171	(320)	—	(87)
Interest income	719	812	536	(124)	1,943
Financing costs – net	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%	—	—	42%
Core income (loss)	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	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	91,311	66,396	1,226	—	158,933
Service revenues	86,128	62,818	1,226	—	150,172
Non-service revenues	5,183	3,578	—	—	8,761
Inter-segment transactions	1,301	11,945	13	(13,259)	—
Service revenues	1,301	11,939	13	(13,253)	—
Non-service revenues	—	6	—	(6)	—
Total revenues	92,612	78,341	1,239	(13,259)	158,933
Results					
Depreciation and amortization	36,776	15,001	138	—	51,915
Asset impairment	6,104	2,098	56	—	8,258
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 – net	2,247	5,106	214	(197)	7,370
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	42%	39%	—	—	44%
Core income (loss)	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	2,656	286	424	—	3,366
Total liabilities	156,278	196,737	14,048	(18,802)	348,261
Other segment information					
Capital expenditures, including capitalized interest (Note 9)	27,305	12,994	—	—	40,299

The following table shows the reconciliation of our consolidated net income to our consolidated EBITDA for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
		(in million pesos)	
Consolidated net income	**22,786**	18,973	13,466
Add (deduct) adjustments:			
Depreciation and amortization	**39,656**	47,240	51,915
Provision for income tax (Note 7)	**9,550**	3,842	1,103
Financing costs – net (Note 5)	**8,553**	7,067	7,370
Equity share in net losses (earnings) of associates and joint ventures (Note 11)	**1,535**	87	(2,906)
Amortization of intangible assets (Note 15)	**758**	892	835
Losses (gains) on derivative financial instruments – net (Note 28)	**284**	(1,086)	(533)
Impairment of investments (Note 11)	**34**	172	2,562
Foreign exchange losses (gains) – net (Note 5)	**(424)**	771	411
Interest income (Note 5)	**(1,745)**	(1,943)	(1,412)
Noncurrent asset impairment	**—**	2,122	3,913
Other income – net	**(1,172)**	(14,110)	(10,550)
Total adjustments	**57,029**	45,054	52,708
Consolidated EBITDA	**79,815**	64,027	66,174

The following table shows the reconciliation of our consolidated net income to our consolidated core income for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
		(in million pesos)	
Consolidated net income	**22,786**	18,973	13,466
Add (deduct) adjustments:			
Manpower rightsizing program, or MRP (Note 5)	**3,296**	1,703	—
Unrealized losses in fair value of investments	**675**	1,154	—
Losses (gains) on derivative financial instruments – net, excluding hedge costs (Note 28)	**233**	(1,135)	(724)
Impairment of investments (Note 11)	**34**	172	2,562
Core income adjustment on equity share in net losses (earnings) of associates and joint ventures	**(226)**	23	60
Net income attributable to noncontrolling interests	**(265)**	(57)	(95)
Foreign exchange losses (gains) – net (Note 5)	**(424)**	771	411
Depreciation due to shortened life of property and equipment	**—**	4,564	12,816
Noncurrent asset impairment	**—**	2,122	3,913
Investment written-off	**—**	362	—
Nonrecurring income	**—**	(1,018)	—
Net tax effect of aforementioned adjustments	**(998)**	(1,779)	(4,741)
Total adjustments	**2,325**	6,882	14,202
Consolidated core income	**25,111**	25,855	27,668

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, 2019, 2018 and 2017:

	2019		2018		2017	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Consolidated core EPS	**115.95**	**115.95**	119.39	119.39	127.79	127.79
Add (deduct) adjustments:						
Foreign exchange gains (losses) – net	**1.73**	**1.73**	(3.57)	(3.57)	(1.74)	(1.74)
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	**1.05**	**1.05**	(0.11)	(0.11)	(0.28)	(0.28)
Impairment of investments	**(0.16)**	**(0.16)**	(0.80)	(0.80)	(11.86)	(11.86)
Gains (losses) on derivative financial instruments – net, excluding hedge costs	**(0.75)**	**(0.75)**	4.08	4.08	2.34	2.34
Unrealized losses in fair value of investments	**(3.12)**	**(3.12)**	(5.34)	(5.34)	—	—
MRP	**(10.73)**	**(10.73)**	(5.52)	(5.52)	—	—
Investment written-off	**—**	**—**	(1.68)	(1.68)	—	—
Noncurrent asset impairment	**—**	**—**	(9.82)	(9.82)	(13.12)	(13.12)
Depreciation due to shortened life of property and equipment	**—**	**—**	(14.06)	(14.06)	(41.52)	(41.52)
Others	**—**	**—**	4.71	4.71	—	—
Total adjustments	**(11.98)**	**(11.98)**	(32.11)	(32.11)	(66.18)	(66.18)
Consolidated EPS attributable to common equity holders of PLDT (Note 8)	**103.97**	**103.97**	87.28	87.28	61.61	61.61

The following table presents our revenues from external customers by category of products and services for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
		(in million pesos)	
Wireless services			
Service revenues:			
Mobile	**87,823**	79,904	83,166
Home broadband	**85**	155	2,547
MVNO and others	**335**	206	415
	88,243	80,265	86,128
Non-service revenues:			
Sale of mobile handsets and broadband data modems	**6,245**	6,928	5,183
Total wireless revenues	**94,488**	87,193	91,311
Fixed line services			
Service revenues:			
Voice	**19,890**	21,148	24,303
Data	**52,787**	49,504	37,445
Miscellaneous	**435**	368	1,070
	73,112	71,020	62,818
Non-service revenues:			
Sale of computers, phone units and SIM cards	**1,193**	3,056	2,706
Point-product-sales	**394**	517	872
	1,587	3,573	3,578
Total fixed line revenues	**74,699**	74,593	66,396
Other services	—	1,128	1,226
Total revenues	**169,187**	162,914	158,933

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, 2019, 2018 and 2017.

5. **Income and Expenses**

Revenue from Contracts with Customers

Disaggregation of Revenue

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

Set out is the disaggregation of PLDT Group's revenue from contracts with customers for the years ended December 31, 2019 and 2018:

Revenue Streams	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(in million pesos)		
December 31, 2019					
Type of good or service					
Service revenue	**90,661**	**87,819**	—	**(17,125)**	**161,355**
Non-service revenue	**6,245**	**1,587**	—	—	**7,832**
Total revenue from contracts with customers	**96,906**	**89,406**	—	**(17,125)**	**169,187**
Timing of revenue recognition					
Transferred over time	**90,661**	**87,819**	—	**(17,125)**	**161,355**
Transferred at a point time	**6,245**	**1,587**	—	—	**7,832**
Total revenue from contracts with customers	**96,906**	**89,406**	—	**(17,125)**	**169,187**
December 31, 2018					
Type of good or service					
Service revenue	83,001	81,648	1,094	(13,374)	152,369
Non-service revenue	6,928	3,574	44	(1)	10,545
Total revenue from contracts with customers	89,929	85,222	1,138	(13,375)	162,914
Timing of revenue recognition					
Transferred over time	83,001	81,648	1,094	(13,374)	152,369
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	(13,375)	162,914

Contract Balances

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

	2019	2018
	(in million pesos)	
Trade and other receivables (Note 17)	**39,340**	40,559
Contract assets	**2,817**	3,399
Contract liabilities and unearned revenues (Notes 22 and 24)	**8,483**	7,182

The decrease in trade and other receivables of Php1,219 million as at December 31, 2019 was primarily due to decline in wireless postpaid subscriber base.

The decrease of Php582 million in contract assets as at December 31, 2019 is the result of fewer postpaid new connections during the year.

The increase of Php1,301 million in contract liabilities and unearned revenues as at December 31, 2019 is due to lower realized revenues.

Set out below is the movement in the allowance for expected credit losses of contracts assets for the years ended December 31, 2019 and 2018.

	2019	2018
	(in million pesos)	
Balances at beginning of the year	**131**	114
Reclassification	**(61)**	—
Provisions	—	17
Balances at end of the year	**70**	131

Changes in the contract liabilities and unearned revenues accounts for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
	(in million pesos)	
Balances at beginning of the year	**7,182**	8,541
Deferred during the year	**111,084**	102,288
Recognized as revenue during the year	**(109,783)**	(103,647)
Balances at end of the year	**8,483**	7,182

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

	2019	2018
	(in million pesos)	
Unearned revenues from prepaid contracts	**5,454**	4,059
Advance monthly service fees	**1,777**	2,386
Short-term advances for installation services	**726**	558
Leased facilities	**469**	34
Long-term advances from equipment	**57**	145
Total contract liabilities and unearned revenues	**8,483**	7,182
Contract liabilities:		
Noncurrent (Note 22)	**13**	58
Current (Note 24)	**44**	87
Unearned revenues:		
Noncurrent (Note 22)	**591**	474
Current (Note 24)	**7,835**	6,563

As at December 31, 2019, the noncurrent and current portion of contract liabilities and unearned revenues amounted to Php604 million and Php7,879 million, respectively, while as at December 31, 2018, the noncurrent and current portion of contract liabilities and unearned revenues amounted to Php532 million and Php6,650 million, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2019, 2018 and 2017 consist of the following:

	2019	2018	2017
		(in million pesos)	
Compensation and employee benefits	**24,883**	23,543	22,782
Repairs and maintenance (Notes 14, 18 and 25)	**15,337**	14,331	12,744
Professional and other contracted services (Note 25)	**12,078**	12,809	12,168
Selling and promotions (Note 25)	**5,395**	6,340	5,908
Taxes and licenses	**4,570**	4,974	3,970
Insurance and security services (Note 25)	**1,671**	1,499	1,519
Rent (Note 25)	**1,290**	7,321	7,016
Communication, training and travel (Note 25)	**1,203**	1,069	1,166
Amortization of intangible assets (Note 15)	**758**	892	835
Other expenses	**1,045**	1,138	882
Total selling, general and administrative expenses	**68,230**	73,916	68,990

Compensation and Employee Benefits

Compensation and employee benefits for the years ended December 31, 2019, 2018 and 2017 consist of the following:

	2019	2018	2017
		(in million pesos)	
Salaries and other employee benefits	**19,931**	19,777	18,598
MRP	**3,296**	1,703	1,747
Pension benefit costs (Note 26)	**1,018**	1,855	1,610
Incentive plan (Note 26)	**638**	208	827
Total compensation and employee benefits	**24,883**	23,543	22,782

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, 2019, 2018 and 2017 consist of the following:

	2019	2018	2017
		(in million pesos)	
Cost of computers, mobile handsets and broadband data modems (Note 18)	**9,402**	10,513	10,277
Cost of services (Note 18)	**3,680**	3,429	2,572
Cost of point-product-sales (Note 18)	**347**	485	784
Total cost of sales and services	**13,429**	14,427	13,633

Asset Impairment

Asset impairment for the years ended December 31, 2019, 2018 and 2017 consist of the following:

	2019	2018	2017
		(in million pesos)	
Trade and other receivables (Note 17)	**4,071**	4,192	3,438
Inventories and supplies (Note 18)	**471**	1,528	907
Contract assets	**291**	223	—
Property and equipment (Note 9)	**—**	1,958	3,913
Other assets	**—**	164	—
Total asset impairment	**4,833**	8,065	8,258

Other Income (Expenses) – Net

Other income (expenses) – net for the years ended December 31, 2019, 2018 and 2017 consist of the following:

	2019	2018	2017
		(in million pesos)	
Interest income	**1,745**	1,943	1,412
Foreign exchange gains (losses) – net (Note 9)	**424**	(771)	(411)
Gain on deconsolidation of VIH (Note 11)	**—**	12,054	—
Gains (losses) on derivative financial instruments – net (Note 28)	**(284)**	1,086	533
Equity share in net earnings (losses) of associates and joint ventures (Note 11)	**(1,535)**	(87)	2,906
Financing costs – net	**(8,553)**	(7,067)	(7,370)
Others – net (Notes 11, 12 and 14)	**1,138**	1,884	7,988
Total other income (expenses) – net	**(7,065)**	9,042	5,058

Interest Income

Interest income for the years ended December 31, 2019, 2018 and 2017 consist of the following:

	2019	2018	2017
		(in million pesos)	
Interest income on cash and cash equivalents (Note 16)	**1,022**	957	612
Interest income arising from revenue contracts with customers	**430**	340	—
Interest income on financial instruments at FVOCI	**239**	—	—
Interest income on financial instruments at amortized cost (Note 13)	**6**	6	8
Interest income – others	**48**	640	792
Total interest income	**1,745**	1,943	1,412

Financing Costs – Net

Financing costs – net for the years ended December 31, 2019, 2018 and 2017 consist of the following:

	2019	2018	2017
		(in million pesos)	
Interest on loans and other related items (Notes 21 and 28)	**8,730**	8,307	7,830
Accretion on lease liabilities (Notes 2 and 10)	**1,061**	—	—
Accretion on financial liabilities (Note 21)	**122**	145	219
Financing charges	**95**	139	137
Capitalized interest (Note 9)	**(1,455)**	(1,524)	(816)
Total financing costs – net	**8,553**	7,067	7,370

Adjustments

The 2018 and 2017 comparative information were reclassified to reflect the adjustments on transactions between our wholly-owned subsidiaries resulting to a decrease in service revenue and interconnection costs amounting to Php1,838 million in 2018 and Php993 million in 2017. The adjustments had no impact on our consolidated net income, consolidated EBITDA, consolidated EPS and our consolidated statements of financial position as at December 31, 2018 and 2017 and our consolidated statements of cash flows for the years then ended.

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, 2019, 2018 and 2017 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 (loss) of associates and joint ventures accounted for using the equity method	Fair value changes of financial instrument at FVOCI	Total other comprehensive loss attributable to equity holders of PLDT	Share of noncontrolling interests	Total other comprehensive loss – net of tax
					(in million pesos)					
Balances as at January 1, 2019	**695**	**(9)**	**(640)**	**618**	**(25,689)**	—	**(165)**	**(25,190)**	**19**	**(25,171)**
Other comprehensive income (loss)	**27**	—	**(256)**	**(2)**	**(6,074)**	—	**127**	**(6,178)**	**(4)**	**(6,182)**
Balances as at December 31, 2019	**722**	**(9)**	**(896)**	**616**	**(31,763)**	—	**(38)**	**(31,368)**	**15**	**(31,353)**
Balances as at January 1, 2018	583	4,300	(369)	620	(24,467)	182	—	(19,151)	14	(19,137)
Effect of adoption 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)**

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, 2019 and 2018 are as follows:

	2019	2018
	(in million pesos)	
Net deferred income tax assets	**23,623**	27,697
Net deferred income tax liabilities	**2,583**	2,981

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

	2019	2018
	(in million pesos)	
Net deferred income tax assets:		
Unamortized past service pension costs	**5,846**	5,252
Pension and other employee benefits	**4,886**	4,296
Lease liabilities	**4,474**	—
Customer list and trademark	**3,890**	4,670
Accumulated provision for expected credit losses	**3,806**	3,709
Unearned revenues	**2,108**	1,776
Provision for other assets	**1,661**	1,595
MCIT	**1,408**	905
Accumulated provision for inventory obsolescence and write-down	**701**	916
Unrealized foreign exchange losses	**580**	1,092
NOLCO	**432**	3,231
Fixed asset impairment/depreciation due to shortened life of property and equipment	**138**	1,870
Derivative financial instruments	**—**	(58)
ROU assets	**(4,081)**	—
Others	**(2,226)**	(1,557)
Total deferred income tax assets – net	**23,623**	27,697
Net deferred income tax liabilities:		
Intangible assets and fair value adjustment on assets acquired – net of amortization	**1,964**	2,175
Investment property	**278**	277
Unrealized foreign exchange gains	**254**	366
Undepreciated capitalized interest charges	**—**	7
Others	**87**	156
Total deferred income tax liabilities	**2,583**	2,981

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

	2019	2018
	(in million pesos)	
Net deferred income tax assets – balances at beginning of the year	**27,697**	30,466
Net deferred income tax liabilities – balances at beginning of the year	**(2,981)**	(3,366)
Net balances at beginning of the year	**24,716**	27,100
Movement charged directly to other comprehensive income	**2,673**	591
Adjustments due to adoption of PFRS 16	**(83)**	—
Provision for deferred income tax	**(6,267)**	(1,375)
Excess MCIT deducted against RCIT due	**—**	(370)
Adjustments due to adoption of PFRS 15	**—**	(1,166)
Others	**1**	(64)
Net balances at end of the year	**21,040**	24,716
Net deferred income tax assets – balances at end of the year	**23,623**	27,697
Net deferred income tax liabilities – balances at end of the year	**(2,583)**	(2,981)

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

	2019	2018
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	**18,111**	25,163
Deferred income tax assets to be recovered within 12 months	**7,759**	4,872
	25,870	30,035
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(2,078)**	(1,992)
Deferred income tax liabilities to be settled within 12 months	**(169)**	(346)
	(2,247)	(2,338)
Net deferred income tax assets	**23,623**	27,697

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

	2019	2018
	(in million pesos)	
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(2,376)**	(2,743)
Deferred income tax liabilities to be settled within 12 months	**(207)**	(238)
Net deferred income tax liabilities	**(2,583)**	(2,981)

Provision for income tax for the years ended December 31, 2019, 2018 and 2017 consist of:

	2019	2018	2017
		(in million pesos)	
Current	**3,283**	2,467	3,841
Deferred (Note 3)	**6,267**	1,375	(2,738)
	9,550	3,842	1,103

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, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
		(in million pesos)	
Provision for income tax at the applicable statutory tax rate	**9,701**	6,845	4,371
Tax effects of:			
Nondeductible expenses	**907**	1,235	784
Equity share in net losses (earnings) of associates and joint ventures	**460**	26	(872)
Loss (income) not subject to income tax	**154**	(1,827)	(301)
Difference between Optional Standard Deduction, or OSD, and itemized deductions	**(251)**	(22)	(22)
Income subject to final tax	**(599)**	(297)	(2,545)
Income subject to lower tax rate	**(1,323)**	(750)	(520)
Net movement in unrecognized deferred income tax assets and other adjustments	**501**	(1,368)	208
Actual provision for income tax	**9,550**	3,842	1,103

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, 2019 and 2018 are as follows:

	2019	2018
	(in million pesos)	
NOLCO	**3,322**	4,289
Accumulated provision for expected credit losses	**2,947**	3,144
Fixed asset impairment	**1,146**	1,148
Gain on disposal of asset	**105**	106
Unearned revenues	**95**	25
Unrealized foreign exchange losses	**45**	49
MCIT	**27**	27
Accumulated write-down of inventories to net realizable values	**11**	11
Operating lease	**1**	—
Pension and other employee benefits	**—**	13
Provisions for other assets	**(116)**	1,881
	7,583	10,693
Unrecognized deferred income tax assets	**2,294**	3,227

DMPI recognized deferred income tax assets to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Digitel's unrecognized deferred income tax assets amounted to Php1,362 million and Php1,421 million as at December 31, 2019 and 2018, respectively.

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

The breakdown of our consolidated excess MCIT and NOLCO as at December 31, 2019 are as follows:

Date Incurred	Expiry Date	MCIT	NOLCO
		(in million pesos)	
December 31, 2017	December 31, 2020	6	2,161
December 31, 2018	December 31, 2021	725	2,396
December 31, 2019	December 31, 2022	704	205
		1,435	4,762
Consolidated tax benefits		1,435	1,429
Consolidated unrecognized deferred income tax assets		(27)	(997)
Consolidated recognized deferred income tax assets		1,408	432

The excess MCIT totaling Php1,435 million as at December 31, 2019 can be deducted against future RCIT liability. The excess MCIT that was deducted against RCIT amounted to Php206 million, Php488 million and Php15 million for the years ended December 31, 2019, 2018 and 2017, respectively. The amount of expired portion of excess MCIT amounted to Php10 million, Php1 million and Php72 million for the years ended December 31, 2019, 2018 and 2017, respectively.

NOLCO totaling Php4,762 million as at December 31, 2019 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php9,530 million, Php1,094 million and Php4,241 million for the years ended December 31, 2019, 2018 and 2017, respectively. The amount of expired NOLCO amounted to Php973 million, Php1,272 million and Php354 million for the years ended December 31, 2019, 2018 and 2017, respectively.

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

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

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

8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the years ended December 31, 2019, 2018 and 2017:

	2019		2018		2017	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
			(in million pesos)			
Consolidated net income attributable to equity holders of PLDT	**22,521**	**22,521**	18,916	18,916	13,371	13,371
Dividends on preferred shares (Note 20)	**(59)**	**(59)**	(59)	(59)	(59)	(59)
Consolidated net income attributable to common equity holders of PLDT	**22,462**	**22,462**	18,857	18,857	13,312	13,312

	(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 (Note 5)	**103.97**	**103.97**	87.28	87.28	61.61	61.61

Basic EPS amounts are calculated by dividing our consolidated net income for the year 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 year.

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 year 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 year 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, 2019 and 2018 are as follows:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, aircraft, furniture and other network equipment	Information origination and termination equipment	Land and land improvements	Property under construction	Total
					(in million pesos)				
As at December 31, 2017									
Cost	207,220	119,642	209,504	27,076	58,964	17,595	3,458	50,585	694,044
Accumulated depreciation, impairment and amortization	(159,765)	(101,680)	(159,323)	(18,022)	(51,083)	(13,473)	(267)	(3,524)	(507,137)
Net book value	**47,455**	**17,962**	**50,181**	**9,054**	**7,881**	**4,122**	**3,191**	**47,061**	**186,907**
Year ended December 31, 2018									
Net book value at beginning of the year	47,455	17,962	50,181	9,054	7,881	4,122	3,191	47,061	186,907
Additions (Note 4)	1,278	565	758	120	1,158	2,107	–	52,504	58,490
Disposals/Retirements	(10)	(27)	(60)	(140)	(95)	–	–	(9)	(341)
Reclassifications (Note 14)	19	(1)	–	127	(23)	–	1,117	–	1,239
Transfers and others	10,409	8,237	37,881	265	1,465	1,176	–	(59,433)	–
Translation differences charged directly to cumulative translation adjustments	–	3	–	1	(3)	–	–	–	1
Deconsolidation of a subsidiary	–	–	(65)	(794)	(273)	–	–	–	(1,132)
Impairment losses recognized during the year (Note 5)	(299)	(292)	(858)	(480)	(29)	–	–	–	(1,958)
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	–	–	–	(2)	–	–	–	–	(2)
Depreciation and amortization	(11,381)	(10,480)	(17,499)	(2,162)	(3,382)	(2,334)	(2)	–	(47,240)
Net book value at end of the year	**47,471**	**15,967**	**70,338**	**5,989**	**6,699**	**5,071**	**4,306**	**40,123**	**195,964**
As at December 31, 2018									
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**
Year ended December 31, 2019									
Net book value at beginning of the year	**47,471**	**15,967**	**70,338**	**5,989**	**6,699**	**5,071**	**4,306**	**40,123**	**195,964**
Effect of adoption of PFRS 16 (Note 2)	**–**	**–**	**(244)**	**(1)**	**–**	**–**	**–**	**–**	**(245)**
Net book value at the beginning of the year (as restated)	**47,471**	**15,967**	**70,094**	**5,988**	**6,699**	**5,071**	**4,306**	**40,123**	**195,719**
Additions (Note 4)	**1,448**	**856**	**557**	**176**	**3,804**	**2,987**	**3**	**63,040**	**72,871**
Disposals/Retirements	**(24)**	**–**	**(99)**	**(3)**	**(109)**	**–**	**–**	**(77)**	**(312)**
Reclassifications (Note 14)	**12**	**(8)**	**(762)**	**(82)**	**15**	**1**	**–**	**(30)**	**(854)**
Transfers and others	**10,374**	**7,720**	**32,290**	**541**	**1,247**	**4,696**	**21**	**(56,889)**	**–**
Translation differences charged directly to cumulative translation adjustments	**(1)**	**(1)**	**–**	**(4)**	**2**	**–**	**–**	**–**	**(4)**
Adjustments	**–**	**–**	**–**	**(20)**	**–**	**–**	**–**	**–**	**(20)**
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	**–**	**–**	**–**	**(3)**	**–**	**–**	**–**	**–**	**(3)**
Depreciation and amortization (Note 3)	**(8,084)**	**(3,857)**	**(17,025)**	**(1,102)**	**(3,410)**	**(1,782)**	**(3)**	**–**	**(35,263)**
Net book value at end of the year	**51,196**	**20,677**	**85,055**	**5,491**	**8,248**	**10,973**	**4,327**	**46,167**	**232,134**
As at December 31, 2019									
Cost	**192,535**	**135,340**	**220,238**	**26,762**	**62,097**	**28,224**	**4,597**	**46,167**	**715,960**
Accumulated depreciation, impairment and amortization	**(141,339)**	**(114,663)**	**(135,183)**	**(21,271)**	**(53,849)**	**(17,251)**	**(270)**	**–**	**(483,826)**
Net book value	**51,196**	**20,677**	**85,055**	**5,491**	**8,248**	**10,973**	**4,327**	**46,167**	**232,134**

Interest capitalized to property and equipment that qualified as borrowing costs amounted to Php1,455 million, Php1,524 million and Php816 million for the years ended December 31, 2019, 2018 and 2017, respectively. See *Note 5 – Income and Expenses – Financing Costs – Net*. The average interest capitalization rate used was approximately 5% for each of the years ended December 31, 2019, 2018 and 2017.

Our net foreign exchange differences, which qualified as borrowing costs, amounted to nil, Php411 million and Php106 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The cost of fully depreciated property and equipment that are still being used in the Group's operations amounted to Php149,119 million and Php171,867 million as at December 31, 2019 and 2018, respectively.

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

Cable and wire facilities	5 – 15 years
Central office equipment	2 – 15 years
Cellular facilities	3 – 10 years
Buildings	25 – 50 years
Vehicles, aircraft, furniture and other network equipment	3 – 15 years
Information origination and termination equipment	3 – 7 years
Leasehold improvements	3 – 10 years or the term of the lease, whichever is shorter
Land improvements	10 years

Impairment of Certain Wireless Network Equipment and Facilities

In 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 and Estimating useful lives of Property and equipment*.

On January 28, 2020, PLDT was authorized by the Board of Directors to negotiate and enter into a contract for the sale of Smart Towers Property. The transaction is deemed subject to the confirmation of the Philippine Competition Commission, or PCC, on Non-Coverage.

10. Leases

Group as a Lessee

We have lease contracts for various items of sites, buildings, leased circuits and poles used in our operations. We considered in the lease term the non-cancellable period of the lease together with the periods covered by an option to extend and option to terminate the lease.

Our consolidated estimated useful life of ROU assets as at December 31, 2019 are estimated as follows:

Sites	1 – 30 years
International leased circuits	5 – 7 years
Poles	1 – 10 years
Domestic leased circuits	5 – 10 years
Office buildings	1 – 15 years
Co-located sites	7 years

Our consolidated rollforward analysis of this account as at December 31, 2019 are as follows:

	2019						
	Site	International Leased Circuits	Poles	Domestic Leased Circuits	Office Buildings	Co-located Sites	Total
	(in million pesos)						
Costs:							
Balances at beginning of the year (as previously stated)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Effect of adoption of PFRS 16 (Notes 2 and 29)	**8,980**	**3,779**	**607**	**551**	**298**	**11**	**14,226**
Balances at beginning of the year (as restated)	**8,980**	**3,779**	**607**	**551**	**298**	**11**	**14,226**
Additions (Note 29)	**3,506**	**562**	**100**	**489**	**413**	**2**	**5,072**
Asset retirement obligation	**1,679**	**—**	**—**	**—**	**124**	**—**	**1,803**
Modifications	**319**	**—**	**19**	**174**	**91**	**(2)**	**601**
Termination	**(72)**	**—**	**—**	**—**	**(20)**	**—**	**(92)**
Balances at end of the year	**14,412**	**4,341**	**726**	**1,214**	**906**	**11**	**21,610**
Accumulated depreciation and amortization:							
Balances at beginning of the year (as previously stated)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Effect of adoption of PFRS 16 (Note 2)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Balances at beginning of the year (as restated)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Termination	**44**	**—**	**—**	**—**	**14**	**—**	**58**
Modifications	**—**	**—**	**—**	**3**	**—**	**1**	**4**
Charges from asset retirement obligation	**(1,297)**	**—**	**—**	**—**	**(92)**	**—**	**(1,389)**
Depreciation (Notes 2 and 3)	**(2,673)**	**(834)**	**(340)**	**(186)**	**(358)**	**(2)**	**(4,393)**
Balances at end of the year	**(3,926)**	**(834)**	**(340)**	**(183)**	**(436)**	**(1)**	**(5,720)**
Net book value at end of the year (Note 2)	**10,486**	**3,507**	**386**	**1,031**	**470**	**10**	**15,890**

The following amounts are recognized in our consolidated income statement for the year ended December 31, 2019:

	(in million pesos)
Depreciation expense of ROU assets (Notes 2 and 3)	**4,393**
Interest expense on lease liabilities (Notes 2 and 5)	**1,061**
Variable lease payments (included in general and administrative expenses)	**708**
Expenses relating to short-term leases (included in general and administrative expenses)	**378**
Expenses relating to leases of low-value assets (included in general and administrative expenses)	**204**
Total amount recognized in consolidated income statement	**6,744**

Our consolidated rollforward analysis of lease liabilities as at December 31, 2019 are as follows:

	(in million pesos)
Balances at beginning of the year (as previously stated)	**—**
Effect of adoption of PFRS 16 (Notes 2 and 29)	**15,233**
Balances at beginning of the year (as restated)	**15,233**
Additions (Note 29)	**5,065**
Accretion expenses (Notes 2 and 5)	**1,061**
Lease modifications	**463**
Foreign exchange loss – net	**(12)**
Termination	**(96)**
Settlement of obligations (Note 2)	**(5,399)**
Balances at end of the year (Notes 2 and 3)	**16,315**
Less current portion of lease liabilities (Notes 2 and 28)	**3,215**
Noncurrent portion of lease liabilities (Notes 2 and 28)	**13,100**

We had total cash outflows for leases of Php5,399 million for the year ended December 31, 2019. We also had non-cash additions to ROU assets and lease liabilities of Php5,072 million and Php5,065 million, respectively, as at December 31, 2019. The future cash outflows relating to leases that have not yet commenced are disclosed in *Note 28 – Financial Assets and Liabilities*.

We have entered into several lease contracts that include automatic extension and termination options. These options are negotiated by us to provide flexibility in managing the leased-asset portfolio and align with our business needs. However, in some of these lease contracts, we did not impute the renewal period in our assessment of the lease terms of these contracts since said renewal period is not yet reasonably estimable at the time of transition or commencement date of the lease, see *Note 3 Managements Use of Accounting Judgments, Estimates and Assumptions – Determining the lease term of contracts with renewal and terminal options – Company as a Lessee – Beginning January 1, 2019.*

Group as a Lessor

We have entered into operating leases on its investment property portfolio consisting of certain office buildings and business offices. See *Note 14 – Investment Properties*. These leases have term of five years. All leases include a clause to enable upward revision of the rental charge on annual basis according to prevailing market conditions. The lessee is also required to provide a residual guarantee on the properties. Rental income recognized by us amounted to Php6 million as at December 31, 2019 and nil as at December 2018 and 2017, respectively.

Future minimum rentals receivable under non-cancellable operating leases as at December 31, 2019 are as follows:

	(in million pesos)
Within one year	10
After one year but not more than five years	—
More than five years	—
	10

11. Investments in Associates and Joint Ventures

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

	2019	2018
	(in million pesos)	
Carrying value of investments in associates:		
MediaQuest PDRs	**9,747**	9,262
VIH	**8,219**	10,487
Digitel Crossing, Inc., or DCI	**674**	591
Appcard, Inc.	**102**	122
Asia Outsourcing Beta Limited, or Beta	**35**	36
AF Payments, Inc., or AFPI	—	—
ACeS International Limited, or AIL	—	—
Asia Netcom Philippines Corp., or ANPC	—	—
	18,777	20,498
Carrying value of investments in joint ventures:		
VTI, Bow Arken and Brightshare	**32,538**	32,541
Multisys	**2,538**	2,388
Telecommunications Connectivity, Inc., or TCI	**10**	—
Philippines Internet Holding S.à.r.l., or PHIH	—	—
Beacon	—	—
	35,086	34,929
Total carrying value of investments in associates and joint ventures	**53,863**	55,427

Changes in the cost of investments for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
	(in million pesos)	
Balances at beginning of the year	**59,519**	51,487
Additions during the year	**80**	13,247
Disposals	—	(5,230)
Translation and other adjustments	**(83)**	15
Balances at end of the year	**59,516**	59,519

Changes in the accumulated impairment losses for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
	(in million pesos)	
Balances at beginning of the year	**2,509**	4,118
Additional impairment (Note 4)	**34**	172
Translation and other adjustments	—	(1,781)
Balances at end of the year	**2,543**	2,509

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

	2019	2018
	(in million pesos)	
Balances at beginning of the year	**(1,583)**	(1,239)
Equity share in net earnings (losses) of associates and joint ventures:	**(1,535)**	(87)
MediaQuest PDRs	**485**	90
Multisys	**150**	—
DCI	**83**	81
VTI, Bow Arken and Brightshare	**35**	(60)
Appcard, Inc.	**(20)**	—
VIH	**(2,268)**	(260)
AFPI	—	62
Share in the other comprehensive loss of associates and joint ventures accounted for using the equity method	—	(1)
Disposals	—	(187)
Translation and other adjustments	**8**	(69)
Balances at end of the year	**(3,110)**	(1,583)

Investments in Associates

Investment of ePLDT in MediaQuest PDRs

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

In June 2013, ePLDT's Board of Directors approved additional investments in PDRs of MediaQuest:

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest and provide ePLDT with a 40% economic interest in Satventures; and

- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings, a wholly-owned subsidiary of MediaQuest incorporated in the Philippines. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including equity interests in the three leading newspapers: The Philippine Star, Philippine Daily Inquirer, and Business World. See *Note 26 – Pension and Other 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 26 – Pension and Other 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 26 – Pension and Other 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 Php9,747 million and Php9,262 million as at December 31, 2019 and 2018, respectively. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Accounting for investment in MediaQuest through PDRs*.

The table below presents the summarized financial information of Satventures as at December 31, 2019 and 2018, and for the years ended December 31, 2019, 2018 and 2017:

	2019	2018
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**21,396**	20,712
Current assets	**3,662**	2,606
Noncurrent liabilities	**1,969**	3,297
Current liabilities	**7,859**	5,549
Equity	**15,230**	14,472
Carrying amount of interest in Satventures	**9,747**	9,262
Additional Information:		
Cash and cash equivalents	**1,534**	611
Current financial liabilities*	**7,859**	487
Noncurrent financial liabilities*	**1,969**	2,239

* *Excluding trade, other payables and provisions.*

	2019	2018	2017
		(in million pesos)	
Income Statements:			
Revenues	**7,367**	7,339	6,650
Depreciation and amortization	**920**	936	772
Interest income	**4**	8	3
Interest expense	**235**	274	249
Provision for income tax	**165**	112	71
Net income	**308**	142	4
Other comprehensive income	**—**	—	—
Total comprehensive income	**308**	142	4
Equity share in net income of Satventures	**485**	90	3

Investment of PCEV in VIH

Consolidation of the Digital Investments of Smart under PCEV

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

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

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

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

Loss of Control of PCEV over VIH

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

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

The foregoing investment in VIH is not subject to the compulsory merger notification regime under the Philippine Competition Act and its implementing Rules and Regulations. In addition, the Bangko Sentral ng Pilipinas has 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 of the foregoing, PCEV's ownership was reduced to 48.74% and retained only two out of the five Board seats in VIH, which resulted in the loss of control over VIH. Consequently, VIH was deconsolidated and the fair market value of the investment amounting to Php10,748 million was recorded as an investment in associate and PCEV recognized gain on deconsolidation amounting to Php12,054 million, which was presented as part of "Other income (expenses) – net" account in our consolidated income statement.

The summarized financial information of VIH as at and for the years ended December 31, 2019 and 2018 is shown below:

	2019	2018
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**1,184**	1,318
Current assets	**8,038**	11,152
Noncurrent liabilities	**35**	42
Current liabilities	**4,205**	2,926
Equity	**4,982**	9,502
Income Statement:[(1)]		
Revenues	**1,291**	136
Depreciation and amortization	**254**	19
Interest income	**146**	14
Benefit from income tax	**(4)**	(1)
Net loss	**(4,576)**	(535)
Other comprehensive loss	**(124)**	(2)
Total comprehensive loss	**(4,700)**	(537)
Equity share in net loss of VIH	**(2,268)**	(262)

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

The carrying value of PCEV's investment in VIH amounted to Php8,219 million and Php10,487 million as at December 31, 2019 and 2018, respectively.

Investment of Digitel in DCI and ANPC

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

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

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

Digitel provided full impairment loss on its investment in DCI and ANPC in prior years on the basis that DCI and ANPC have incurred significant recurring losses in the past. In 2011 and 2017, Digitel recorded a reversal of impairment loss amounting to Php92 million and Php201 million, respectively, following improvement in DCI's operations.

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

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

Following PLDT's acquisition of a controlling stake in Digitel, PNPI, on November 4, 2011, sent a notice to exercise its Call Right under Section 6.3 of the JVA, which provides for a Call Right exercisable by PNPI following the occurrence of a Digitel change in control. As at March 31, 2020, Digitel is ready to conclude the transfer of its investment in DCI and ANPC, subject to PNPI's ability to meet certain regulatory and valuation requirements. This investment is not classified as noncurrent asset held-for-sale at report date as the transfer is assessed as not highly probable because certain conditions have not yet been met by both Digitel and PNPI.

Investment of PGIC in Beta

On February 5, 2013, PLDT entered into a Subscription and Shareholders' Agreement with Asia Outsourcing Alpha Limited, or Alpha, wherein PLDT, through its indirect subsidiary PGIC, acquired from Alpha approximately 20% equity interest in Beta for a total cost of approximately US$40 million, which consists of preferred shares of US$39.8 million and ordinary shares of US$0.2 million. On various dates in 2013 and 2014, PGIC has bought and transferred-in a net in total of 27 ordinary shares and 9,643 preferred shares to certain employees of Beta for a total net payment of US$51 thousand. In 2014, Beta has divested its healthcare BPO business. PGIC received a total cash distribution of US$41.8 million from Beta through redemption of 35.3 million preferred shares and repayment of loan from PGIC. The equity interest of PGIC in Beta remained at 20% after the transfer with economic interest of 18.32%.

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

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

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

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

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

Investment of Smart in AFPI

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

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

In March 2019, Smart infused additional capital of Php70 million as additional subscription of preferred shares.

The summary of investments in AFPI made by Smart as at December 31, 2019 and 2018 is shown below:

	2019	2018
	(in millions)	
Common shares	**625.7**	625.7
Preferred shares	**194.3**	124.3

Smart's investment in AFPI has been fully impaired as at December 31, 2019. Share in net cumulative losses were not recognized as it 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, 2019, ACeS Philippines held a 36.99% equity interest in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia. In December 2014, AIL suffered a failure of the propulsion system on board the Garuda I Satellite, thus, AIL decided to decommission the operation of Garuda I Satellite in January 2015.

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

Share in net cumulative losses were not recognized as we do not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AIL.

Summarized financial information of individually immaterial associates

The following tables present the summarized financial information of our individually immaterial investments in associates for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
		(in million pesos)	
Income Statements:			
Revenues	**107**	104	107
Net income (loss)	**90**	(80)	59
Other comprehensive income	**—**	—	(1)
Total comprehensive income (loss)	**90**	(80)	58

We did not receive any dividends from our associates for the years ended December 31, 2019, 2018 and, 2017.

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

Investments in Joint Ventures

Investments of PLDT in VTI, Bow Arken and Brightshare

On May 30, 2016, the PLDT Board approved the Company's acquisition of 50% equity interest, including outstanding advances and assumed liabilities, in the telecommunications business of San Miguel Corporation, or SMC, with Globe acquiring the other 50% interest. On the same date, PLDT and Globe executed: (i) a Share Purchase Agreement, or 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 28 – Financial Assets and Liabilities – Commercial Commitments*.

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

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

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

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

The amount of the advances outstanding to PLDT, to cover for the assumed liabilities and working capital requirements of the acquired companies, amounted to Php13 million and Php51 million as at December 31, 2019 and 2018, 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, 2019 and 2018, and for the years ended December 31, 2019, 2018 and 2017:

	2019	2018
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**78,004**	77,261
Current assets	**3,610**	3,070
Noncurrent liabilities	**11,456**	11,193
Current liabilities	**2,831**	2,678
Equity	**67,327**	66,460
Carrying amount of interest in VTI, Bow Arken and Brightshare	**32,538**	32,541
Additional Information:		
Cash and cash equivalents	**2,590**	2,191
Current financial liabilities*	**587**	607
Noncurrent financial liabilities*	**—**	—

* *Excluding trade, other payables and provisions.*

	2019	2018	2017
		(in million pesos)	
Income Statements:			
Revenues	**3,339**	2,505	2,532
Depreciation and amortization	**1,337**	1,171	1,168
Interest income	**64**	43	28
Provision for (benefit from) income tax	**216**	113	(42)
Net income (loss)	**70**	(120)	110
Other comprehensive income	**—**	—	—
Total comprehensive income (loss)	**70**	(120)	110
Equity share in net income (loss) of VTI, Bow Arken and Brightshare	**35**	(60)	55

Notice of Transaction filed with the PCC

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

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

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

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

In the Matter of the Petition against the PCC

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

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

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

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

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

On November 7, 2017, PCC 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 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 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 received notice of the Supreme Court's Resolution dated January 30, 2018 directing PLDT and Globe to file their respective Comments to the Petition for Review on Certiorari without giving due course to the same.

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

On April 24, 2018, PCC's Motion to Expunge [Respondent PLDT's Comment on the Petition for Review on Certiorari] dated April 18, 2018 was received. On May 9, 2018, PLDT 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 received the Supreme Court's Resolution dated April 24, 2018 granting the motion for extension of PLDT and noting its Comment on the Petition for Review on Certiorari filed in compliance with the Supreme Court's Resolution dated January 30, 2018 and requiring the PCC to file a Consolidated Reply to the comments within ten days from notice. On June 20, 2018, PLDT, through counsel, received PCC's Urgent Omnibus Motion for: (1) Partial Reconsideration of the Resolution dated April 24, 2018; and (2) Additional Time dated June 11, 2018.

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

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

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

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

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

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

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

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

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

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.

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.

Investment of PGIH in Multisys

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

On December 3, 2018, PGIH completed the closing of its investment in Multisys. Out of the Php550 million total consideration for the acquisition of existing shares, PGIH paid Php523 million to the owners of Multisys. On June 3, 2019, the balance of the acquisition consideration amounting to Php27 million was fully paid. Further, PGIH invested Php800 million into Multisys as a deposit for future stock subscription pending the approval by the Philippine SEC of the capital increase of Multisys. On February 1, 2019, the Philippine SEC approved the capital increase of Multisys. The balance of Php800 million stock subscription payable is outstanding as at February 28, 2020.

PLDT has engaged an independent appraiser to determine the fair value adjustments relating to the acquisition. As at December 3, 2018, our share in the fair value of the identifiable net assets and liabilities, which includes technologies and customer relationships, amounted to Php1,357 million. Goodwill of Php1,031 million has been determined based on the final results of the independent valuation. Goodwill arising from this acquisition and carrying amount of the identifiable net assets and liabilities, including deferred tax liability, and the related amortization through equity in net earnings were retrospectively adjusted accordingly.

The carrying value of the investment in Multisys amounted to Php2,538 million and Php2,388 million, including subscription payable of Php800 million and contingent consideration of Php230 million as at December 31, 2019 and 2018, respectively.

Investment of iCommerce in PHIH

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

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

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

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

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

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

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

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

Investment of PCEV in Beacon

On March 1, 2010, PCEV, MPIC and Beacon, entered into an Omnibus Agreement, or OA, where PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon. Beacon is merely a special purpose vehicle created for the main purpose of holding and investing in Meralco using the same Meralco shares as collateral for funding such additional investment.

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

PCEV's Investment in Beacon Shares

PCEV made the following investments in Beacon:

Date	Transaction	Number of Shares	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.*

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 million pesos)
June 24, 2014	56.35	5%	235.00	13,243	1,418
April 14, 2015	112.71	10%	235.00	26,487	2,838

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

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

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

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

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

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

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

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

Sale of PCEV's Receivables from MPIC (FVOCI)

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

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

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

PCEV's remaining receivables from MPIC amounted to Php2,919 million, net of Php2 million allowance for ECL, and Php4,353 million, net of Php2 million allowance for ECL as at December 31, 2019 and 2018, respectively.

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

	2019			
	Stage 1	Stage 2	Stage 3	
	12-Month ECL	Lifetime ECL	Lifetime ECL	Total
	(in million pesos)			
Balances as at beginning of the year	**2**	**—**	**—**	**2**
Provisions	**1**	**—**	**—**	**1**
Financial assets derecognized during the year	**(1)**	**—**	**—**	**(1)**
Balances at end of the year	**2**	**—**	**—**	**2**

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

Investment of Smart in TCI

In 2019, Smart, along with Globe and Dito Telecommunity, Inc. entered into an agreement to form a joint venture that will address the requirements of Republic Act No. 11202, or the Mobile Number Portability, or MNP, Act. The newly enacted law allows mobile phone users to switch networks or change their subscription from prepaid to postpaid or vice versa, without changing their mobile numbers.

The joint venture company, TCI was incorporated in the Philippines on December 26, 2019 and registered with the Philippine SEC on January 17, 2020. The primary purpose of the joint venture is to serve as a clearing house for MNP. TCI will ensure smooth implementation of mobile number porting services. Smart subscribed Php10 million representing 33.3% equity interest in TCI, which is equivalent to 10 million shares at a subscription price of Php1.00 per share.

Summarized financial information of individually immaterial joint ventures

The following tables present the summarized financial information of our individually immaterial investments in joint ventures for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
		(in million pesos)	
Income Statements:			
Revenues	**367**	35	—
Net income	**200**	15	—
Other comprehensive income	**—**	—	—
Total comprehensive income	**200**	15	—

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

12. Financial Assets at FVPL

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

	2019	2018
	(in million pesos)	
Rocket Internet	**2,381**	3,128
iflix Limited, or iflix	**599**	844
Club shares and others	**328**	294
Phunware, Inc., or Phunware	**61**	497
Matrixx Software, Inc., or Matrixx	**—**	—
	3,369	4,763

Investment of PLDT Online in Rocket Internet

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

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

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

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

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

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

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

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

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

On December 6, 2018, Rocket Internet redeemed 1.9 million shares reducing its share capital to €153 million. PLDT Online's equity ownership in Rocket Internet remained at 1.7%

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

On October 9, 2019, Rocket Internet redeemed 1.7 million shares reducing its share capital to €151 million. PLDT Online's equity ownership in Rocket Internet remained at 1.3%

On January 30, 2020, Rocket Internet redeemed 13.5 million shares reducing its share capital to €137 million. As a result of the redemption of shares, PLDT Online's equity ownership in Rocket Internet increased from 1.3% to 1.4%.

Further details on investment in Rocket Internet for the years ended December 31, 2019, 2018 and 2017, and as at December 31, 2019 and 2018 are as follows:

	2019	2018	2017
Total market value as at beginning of the year (in million pesos)	**3,128**	12,848	10,058
Closing price per share at end of the year (in Euros)	**22.10**	20.18	20.13
Total market value as at end of the year (in million Euros)	**42**	52	213
Total market value as at end of the year (in million pesos)	**2,381**	3,128	12,848
Net gains (losses) recognized during the year (in million pesos)	**89**	(157)	2,790

	2019	2018
	(in million pesos)	
Balances at beginning of the year	**3,128**	12,848
Fair value adjustment in profit or loss	**89**	(157)
Disposal of investments	**(836)**	(9,563)
Balances at end of the year	**2,381**	3,128

As at March 30, 2020, closing price of Rocket Internet is €18.20.

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%.

In 2019, due to additional issuances of shares by iflix, PLDT Online's equity ownership in iflix was reduced from 5.3% to 4.9%.

The fair value of PLDT Online's investment amounted to Php599 million and Php844 million as at December 31, 2019 and 2018, 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.

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

The fair value amount of PLDT Capital's investment amounted to Php61 million and Php497 million as at December 31, 2019 and 2018, respectively.

Investment of PLDT Capital in Matrixx

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

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

13. Debt Instruments at Amortized Cost

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

	2019	2018
	(in million pesos)	
GT Capital Bond	**150**	150
	150	150
Less current portion (Note 28)	**150**	—
Noncurrent portion (Note 28)	**—**	150

GT Capital Bond

In February 2013, Smart purchased at par a seven-year GT Capital Bond with face value of Php150 million, which matured 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 for each of the years ended December 31, 2019, 2018 and 2017. The carrying value of this investment amounted to Php150 million as at December 31, 2019 and 2018.

Security Bank Time Deposits

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

14. Investment Properties

Changes in investment properties account for the years ended December 31, 2019 and 2018 are as follows:

	Land	**Land Improvements**	**Building**	**Total**
		(in million pesos)		
December 31, 2019				
Balances at beginning of the year	**596**	**7**	**174**	**777**
Net gains (losses) from fair value adjustments charged to profit or loss	**23**	**(6)**	**(5)**	**12**
Disposals during the year	**(11)**	—	—	**(11)**
Balances at end of the year	**608**	**1**	**169**	**778**
December 31, 2018				
Balances 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)
Balances at end of the year	**596**	**7**	**174**	**777**

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

The valuation for land was based on a market approach valuation technique using price per square meter ranging from Php30 to Php32 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 Php65 million, Php38 million and Php27 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Rental income relating to investment properties that are being leased and included as part of revenues amounted to Php6 million for the year ended December 31, 2019 and nil for each of the years ended December 31, 2018 and 2017.

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

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

15. Goodwill and Intangible Assets

Changes in goodwill and intangible assets account for the years ended December 31, 2019 and 2018 are as follows:

	Intangible Assets with Indefinite Life	Intangible Assets with Finite Life								
	Trademark	**Franchise**	**Customer List**	**Licenses**	**Spectrum**	**Others**	**Total Intangible Assets with Finite Life**	**Total Intangible Assets**	**Goodwill**	**Total Goodwill and Intangible Assets**
					(in million pesos)					
December 31, 2019										
Costs:										
Balances at beginning and end of the year	**4,505**	**3,016**	**4,726**	**1,079**	**1,205**	**775**	**10,801**	**15,306**	**62,033**	**77,339**
Accumulated amortization and impairment:										
Balances at beginning of the year	**—**	**1,334**	**3,790**	**1,051**	**1,152**	**775**	**8,102**	**8,102**	**654**	**8,756**
Amortization during the year (Notes 4 and 5)	**—**	**186**	**511**	**8**	**53**	**—**	**758**	**758**	**—**	**758**
Balances at end of the year	**—**	**1,520**	**4,301**	**1,059**	**1,205**	**775**	**8,860**	**8,860**	**654**	**9,514**
Net balances at end of the year	**4,505**	**1,496**	**425**	**20**	**—**	**—**	**1,941**	**6,446**	**61,379**	**67,825**
Estimated useful lives (in years)	**—**	**16**	**2 – 9**	**18**	**15**	**1 – 10**	**—**	**—**	**—**	**—**
Remaining useful lives (in years)	**—**	**8**	**1**	**3**	**—**	**—**	**—**	**—**	**—**	**—**
December 31, 2018										
Costs:										
Balances at beginning of the year	4,505	3,016	4,726	1,079	1,205	1,562	11,588	16,093	63,058	79,151
Additions	—	—	—	—	—	21	21	21	—	21
Disposals	—	—	—	—	—	(372)	(372)	(372)	—	(372)
Deconsolidation	—	—	—	—	—	(460)	(460)	(460)	(1,025)	(1,485)
Translation and other adjustments	—	—	—	—	—	24	24	24	—	24
Balances at end of the year	**4,505**	**3,016**	**4,726**	**1,079**	**1,205**	**775**	**10,801**	**15,306**	**62,033**	**77,339**

	Intangible Assets with Indefinite Life	Intangible Assets with Finite Life					Total Intangible Assets with Finite Life	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
	Trademark	Franchise	Customer List	Licenses	Spectrum	Others				
					(in million pesos)					
Accumulated amortization and impairment:										
Balances at beginning of the year	—	1,147	3,280	1,044	1,071	1,347	7,889	7,889	1,679	9,568
Disposals	—	—	—	—	—	(372)	(372)	(372)	—	(372)
Amortization during the year (Notes 4 and 5)	—	187	510	7	81	107	892	892	—	892
Deconsolidation	—	—	—	—	—	(331)	(331)	(331)	(1,025)	(1,356)
Translation and other adjustments	—	—	—	—	—	24	24	24	—	24
Balances at end of the year	—	**1,334**	**3,790**	**1,051**	**1,152**	**775**	**8,102**	**8,102**	**654**	**8,756**
Net balances at end of the year	**4,505**	**1,682**	**936**	**28**	**53**	—	**2,699**	**7,204**	**61,379**	**68,583**
Estimated useful lives (in years)	—	16	2 – 9	18	15	1 – 10	—	—	—	—
Remaining useful lives (in years)	—	9	1 – 2	4	1	—	—	—	—	—

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

	2019			2018		
	Wireless	**Fixed Line**	**Total**	Wireless	Fixed Line	Total
			(in million pesos)			
Trademark	**4,505**	**—**	**4,505**	4,505	—	4,505
Franchise	**1,496**	**—**	**1,496**	1,682	—	1,682
Customer list	**425**	**—**	**425**	936	—	936
Licenses	**20**	**—**	**20**	28	—	28
Spectrum	**—**	**—**	**—**	53	—	53
Total intangible assets	**6,446**	**—**	**6,446**	7,204	—	7,204
Goodwill	**56,571**	**4,808**	**61,379**	56,571	4,808	61,379
Total goodwill and intangible assets	**63,017**	**4,808**	**67,825**	63,775	4,808	68,583

Intangible Assets

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

VIH's subsidiary, PayMaya, continuously improves its 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 were deconsolidated in PCEV Group as at November 30, 2018. Thus, the related intangible assets of VIH were also deconsolidated.

The consolidated future amortization of intangible assets as at December 31, 2019 is as follows:

Year	**(in million pesos)**
2020	**619**
2021	**194**
2022	**191**
2023	**186**
2024 and onwards	**751**
	1,941

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, 2019, the PLDT Group's goodwill comprised of goodwill resulting from acquisition of PLDT's additional investment in PG1 in 2014, ePLDT's acquisition of IPCDSI in 2012, PLDT's acquisition of Digitel in 2011, ePLDT's acquisition of ePDS in 2011, Smart's acquisition of PDSI and Chikka in 2009, SBI's acquisition of Airborne Access Corporation in 2008, and Smart's acquisition of SBI in 2004.

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

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

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

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

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

The recoverable amount of the Wireless and Fixed Line CGUs have 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 8.22% for the Wireless and Fixed Line CGUs. Cash flows beyond the projection period are determined using a 2.00% 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 rate 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, 2019 and 2018.

The accumulated impairment balance as at December 31, 2019 is comprised of Php438 million from PLDT's acquisition of Digitel and Php216 million from ePLDT's acquisition of AGS.

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

16. Cash and Cash Equivalents

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

	2019	2018
	(in million pesos)	
Cash on hand and in banks (Note 28)	**6,706**	5,982
Temporary cash investments (Note 28)	**17,663**	45,672
	24,369	51,654

Cash in banks earn interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing temporary cash investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 28 – Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php1,022 million, Php957 million and Php612 million for the years ended December 31, 2019, 2018 and 2017, respectively.

17. Trade and Other Receivables

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

	2019	2018
	(in million pesos)	
Retail subscribers (Note 28)	**17,178**	19,444
Corporate subscribers (Note 28)	**13,005**	11,073
Foreign administrations (Note 28)	**1,896**	4,225
Domestic carriers (Note 28)	**889**	270
Dealers, agents and others (Note 28)	**6,372**	5,547
	39,340	40,559
Less allowance for expected credit losses	**16,904**	16,503
	22,436	24,056

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

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

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

For terms and conditions relating to related party receivables, see *Note 25 – Related Party Transactions*.

See *Note 28 – Financial Assets and Liabilities* on credit risk of trade receivables to understand how we manage and measure credit quality of trade receivables that are neither past due nor impaired.

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

	2019												
	Retail Subscribers		Corporate Subscribers		Foreign Administrations		Domestic Carriers		Dealers, Agents and Others		Total		
	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	Stage 2	Stage 3	
	Lifetime ECL		Lifetime ECL		Lifetime ECL		Lifetime ECL		Lifetime ECL		Lifetime ECL		Total
	(in million pesos)												
Balances at beginning of the year	**893**	**8,931**	**603**	**3,906**	**5**	**914**	**3**	**74**	**91**	**1,083**	**1,595**	**14,908**	**16,503**
Provisions (Note 5)	**418**	**2,725**	**211**	**661**	**(2)**	**64**	**1**	**12**	**10**	(29)	**638**	**3,433**	**4,071**
Reclassifications and reversals	**(366)**	**793**	**(80)**	**201**	**—**	**(604)**	**—**	**—**	**(3)**	**4**	**(449)**	**394**	**(55)**
Write-offs	**(12)**	**(2,683)**	**(1)**	**(895)**	**—**	**—**	**—**	**—**	**—**	**(13)**	**(13)**	**(3,591)**	**(3,604)**
Translation adjustments	**(7)**	**—**	**(1)**	**(3)**	**—**	**—**	**—**	**—**	**—**	**—**	**(8)**	**(3)**	**(11)**
Balances at end of the year	**926**	**9,766**	**732**	**3,870**	**3**	**374**	**4**	**86**	**98**	**1,045**	**1,763**	**15,141**	**16,904**

	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 million pesos)												
Balances 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
Provisions (Note 5)	20	3,109	172	820	44	(13)	2	2	9	27	247	3,945	4,192
Reclassifications and reversals	86	6	(48)	201	(46)	2	—	(3)	(5)	(146)	(13)	60	47
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
Balances at end of the year	**893**	**8,931**	**603**	**3,906**	**5**	**914**	**3**	**74**	**91**	**1,083**	**1,595**	**14,908**	**16,503**

The significant changes in the balances of trade and other receivables and contract assets are disclosed in *Note 5 – Income and Expenses*, while the information about the credit exposures are disclosed in *Note 28 – Financial Assets and Liabilities*.

18. Inventories and Supplies

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

	2019	2018
	(in million pesos)	
Terminal and cellular phone units:		
At net realizable value[(1)]	**2,358**	2,093
At cost	**3,140**	3,423
Spare parts and supplies:		
At net realizable value[(1)]	**462**	173
At cost	**1,621**	1,673
Others:		
At net realizable value[(1)]	**592**	612
At cost	**954**	994
Total inventories and supplies at the lower of cost or net realizable value	**3,412**	2,878

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

The cost of inventories and supplies recognized as expense for the years ended December 31, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
		(in million pesos)	
Cost of sales	**9,528**	10,630	10,945
Repairs and maintenance	**823**	688	716
Provisions (Note 5)	**471**	1,528	907
Selling and promotions	**138**	43	1
	10,960	12,889	12,569

Changes in the allowance for inventory obsolescence and write-down for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
	(in million pesos)	
Balances at beginning of the year	**3,212**	2,492
Provisions (Note 5)	**471**	1,528
Write-off	**(136)**	(121)
Reclassification	**(220)**	(100)
Cost of sales	**(495)**	(587)
Reversals	**(529)**	—
Balances at end of the year	**2,303**	3,212

19. Prepayments

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

	2019	2018
	(in million pesos)	
Advances to suppliers and contractors (Note 25)	**41,798**	17,703
Prepaid taxes	**13,905**	11,466
Prepaid fees and licenses	**1,335**	915
Prepaid repairs and maintenance	**458**	204
Prepaid rent	**417**	672
Prepaid benefit costs (Note 26)	**342**	393
Prepaid insurance (Note 25)	**142**	63
Prepaid selling and promotions	**24**	6
Other prepayments	**1,810**	296
	60,231	31,718
Less current portion of prepayments	**11,298**	8,380
Noncurrent portion of prepayments	**48,933**	23,338

Advances to suppliers and contractors are non-interest-bearing and are to be applied to contractors' subsequent progress billings for projects.

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 26 – Pension and Other Employee Benefits*.

20. Equity

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

	2019	2018
	(in million shares)	
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, 2019 and 2018.

Preferred Stock

Non-Voting Serial Preferred Stock

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

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

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

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

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

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

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends.

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

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

Voting Preferred Stock

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

On October 12, 2012, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, determined the following specific rights, terms and features of the Voting Preferred Stock: (a) entitled to receive cash dividends at the rate of 6.5% per annum, payable before any dividends are paid to the holders of Common Stock; (b) in the event of dissolution or liquidation or winding up of PLDT, holders will be entitled to be paid in full, or pro-rata insofar as the assets of PLDT will permit, the par value of such shares of Voting Preferred Stock and any accrued or unpaid dividends thereon before any distribution shall be made to the holders of shares of Common Stock; (c) redeemable at the option of PLDT; (d) not convertible to Common Stock or to any shares of stock of PLDT of any class; (e) voting rights at any meeting of the stockholders of PLDT for the election of directors and all other matters to be voted upon by the stockholders in any such meetings, with one vote in respect of each Voting Preferred Share; and (f) holders will have no pre-emptive right to subscribe for or purchase any shares of stock of any class, securities or warrants issued, sold or disposed by PLDT.

On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement between BTFHI and PLDT dated October 15, 2012. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2019. See *Note 1 – Corporate Information* and *Note 27 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition*.

Redemption of Preferred Stock

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

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

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

PLDT has set aside Php236 thousand (the amount required to fund the redemption price for the Series GG Shares) in addition to Php74 thousand for unclaimed dividends on Series GG Shares, or a total amount of Php310 thousand, to fund the redemption price for the Series GG Shares, or the Redemption Trust Fund for Series GG Shares, which forms an integral part of the Redemption Trust Fund previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series GG Shares. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series GG Shares or any balance thereof, in trust, for the benefit of holders of Series GG Shares, for a period of ten years from August 30, 2012, or until August 30, 2022. After the said date, any and all remaining balance in the Redemption Trust Fund for Series GG Shares shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series GG Shares shall accrue for the benefit of, and be paid from time to time, to PLDT.

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

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

On January 28, 2014, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2008, or the Series HH Shares issued in 2008, from the holders of record as of February 14, 2014 and all such shares were redeemed and retired effective May 16, 2014. In accordance with the terms and conditions of Series HH Shares issued in 2008, the holders of Series HH Shares issued in 2008 as at February 14, 2014 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 16, 2014, or the Redemption Price of Series HH Shares issued in 2008.

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

On January 26, 2016, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series II 10% Cumulative Convertible Preferred Stock, or the Series II Shares, from the holder of record as of February 10, 2016, and all such shares were redeemed and retired effective on May 11, 2016. In accordance with the terms and conditions of Series II Shares, the holders of Series II Shares as at February 10, 2016 is entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 11, 2016, or the Redemption Price of Series II Shares.

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

As at January 19, 2012, August 30, 2012, May 16, 2013, May 16, 2014 and May 11, 2016, notwithstanding that any stock certificate representing the Series A to FF Shares, Series GG Shares, Series HH Shares issued in 2007, Series HH Shares issued in 2008 and Series II Shares, respectively, were not surrendered for cancellation, the Series A to II Shares were no longer deemed outstanding and the right of the holders of such shares to receive dividends thereon ceased to accrue and all rights with respect to such shares ceased and terminated, except only the right to receive the Redemption Price of such shares, but without interest thereon.

On January 28, 2020, the Board of Directors authorized and approved, the retirement of shares of PLDT's Series JJ 10% Cumulative Convertible Preferred Stock, or SIP Shares, effective May 12, 2020. The record date for the determination of the holders of outstanding SIP Shares available for redemption was February 11, 2020.

Total amounts of Php11 million, Php8 million and Php13 million were withdrawn from the Trust Account, representing total payments on redemption for the years ended December 31, 2019, 2018 and 2017, respectively. The balance of the Trust Account of Php7,851 million and Php7,862 million were presented as part of "Current portion of other financial assets" as at December 31, 2019 and 2018, respectively, and the related redemption liability were presented as part of "Accrued expenses and other current liabilities" in our consolidated statements of financial position. See related disclosures below under Perpetual Notes, *Note 24 – Accrued Expenses and Other Current Liabilities* and *Note 28 – Financial Assets and Liabilities*.

PLDT expects to similarly redeem and retire the outstanding shares of Series 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, 2019, 2018 and 2017 are detailed as follows:

December 31, 2019

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
				(in million pesos, except per share amounts)	
Cumulative Convertible Preferred Stock					
Series JJ*	**May 9, 2019**	**May 31, 2019**	**June 28, 2019**	**1.00**	—
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	**January 29, 2019**	**February 22, 2019**	**March 15, 2019**	—	**12**
	May 9, 2019	**May 24, 2019**	**June 15, 2019**	—	**12**
	August 8, 2019	**August 27, 2019**	**September 15, 2019**	—	**13**
	November 7, 2019	**November 22, 2019**	**December 15, 2019**	—	**12**
					49
Voting Preferred Stock	**March 7, 2019**	**March 27, 2019**	**April 15, 2019**	—	**3**
	June 11, 2019	**June 28, 2019**	**July 15, 2019**	—	**2**
	September 24, 2019	**October 8, 2019**	**October 15, 2019**	—	**2**
	December 3, 2019	**December 18, 2019**	**January 15, 2020**	—	**3**
					10
Common Stock					
Regular Dividend	**March 21, 2019**	**April 4, 2019**	**April 23, 2019**	**36.00**	**7,778**
	August 8, 2019	**August 27, 2019**	**September 10, 2019**	**36.00**	**7,778**
					15,556
Charged to retained earnings					**15,615**

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

December 31, 2018

Class	Date			Amount	
	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			Amount	
	Approved	Record	Payable	Per Share	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	49.00	10,371
					16,420
Charged to retained earnings					**16,479**

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

Our dividends declared after December 31, 2019 are detailed as follows:

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
				(in million pesos, except per share amounts)	
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	**January 28, 2020**	**February 24, 2020**	**March 15, 2020**	**—**	**12**
Voting Preferred Stock	**March 5, 2020**	**March 25, 2020**	**April 15, 2020**	**—**	**3**
					15
Common Stock					
Regular Dividend	**March 5, 2020**	**March 19, 2020**	**April 3, 2020**	**39**	**8,426**
Charged to retained earnings					**8,441**

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

Perpetual Notes

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

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

On September 19, 2019, Smart issued Php4,700 million perpetual notes to DMPI under the Notes Facility Agreement dated September 16, 2019. The transaction cost amounting to Php35 million was accounted as a deduction from the perpetual notes. Smart paid distributions amounting to Php70 million as at December 31, 2019. This transaction was eliminated in our consolidated financial statements.

Proceeds from the issuance of these notes are intended to finance capital expenditures. The notes have no fixed redemption dates. However, Smart may, at its sole option, redeem the notes. In accordance with PAS 32, *Financial Instruments: Presentation,* 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.

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, 2019:

	(in million pesos)
Consolidated unappropriated retained earnings as at December 31, 2018 (as previously stated)	6,861
Effect of PAS 27*, Consolidated and Separate Financial Statements,* adjustments	25,692
Effect of adoption of PFRS 16	(136)
Parent Company's unappropriated retained earnings at beginning of the year (as restated)	32,417
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	(888)
Fair value adjustments (mark-to-market gains)	(3,440)
Parent Company's unappropriated retained earnings available for dividends as at January 1, 2019	27,566
Parent Company's net income for the year	18,381
Less: Fair value adjustment of investment property resulting to gain	(229)
Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)	(473)
	17,679
Less: Cash dividends declared during the year	
Preferred stock	(59)
Common stock	(15,556)
	(15,615)
Parent Company's unappropriated retained earnings available for dividends as at December 31, 2019	**29,630**

As at December 31, 2019, our consolidated unappropriated retained earnings amounted to Php18,063 million while the Parent Company's unappropriated retained earnings amounted to Php35,182 million. The difference of Php17,119 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, 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.

21. Interest-bearing Financial Liabilities

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

	2019	2018
	(in million pesos)	
Long-term portion of interest-bearing financial liabilities:		
Long-term debt (Notes 28 and 29)	**172,834**	155,835
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year (Notes 28 and 29)	**19,722**	20,441
	192,556	176,276

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in our financial liabilities amounted to Php491 million and Php418 million as at December 31, 2019 and 2018, respectively. See *Note 28 – Financial Assets and Liabilities*.

The following table describes all changes to unamortized debt discount for the years ended December 31, 2019 and 2018:

	2019	2018
	(in million pesos)	
Unamortized debt discount at beginning of the year	**418**	525
Additions during the year	**195**	38
Accretion during the year included as part of Financing costs – net (Note 5)	**(122)**	(145)
Unamortized debt discount at end of the year	**491**	418

Short-term Debt

In March 2020, PLDT and Smart availed short-term debt from various banks amounting to Php2,000 million each. There were no outstanding short-term debt as at December 31, 2019 and 2018.

Long-term Debt

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

Description	Interest Rates	2019 U.S. Dollar	2019 Php	2018 U.S. Dollar	2018 Php
			(in millions)		
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Exportkreditnamnden, or EKN	1.4100% in 2019 and 2018	**—**	**—**	2	103
Term Loans:					
Others	2.8850% and US$ LIBOR + 0.7900% to 1.4500% in 2019 and 2.8850% and US$ LIBOR + 0.7900% to 1.6000% in 2018	**335**	**17,029**	442	23,249
		335	**17,029**	444	23,352
Philippine Peso Debts:					
Fixed Rate Corporate Notes	5.3938% to 5.9058% in 2019 and 2018		**6,152**		15,511
Fixed Rate Retail Bonds	5.2250% to 5.2813% in 2019 and 2018		**14,965**		14,943
Term Loans:					
Unsecured Term Loans	3.9000% to 6.7339%; PHP BVAL + 0.6000% to 1.0000% and PDST-R2 + 0.5000% to 0.6000% in 2019 and 3.9000% to 6.7339%; PDST-R2/[1] PHP BVAL + 0.5000% to 1.0000% in 2018		**154,410**		122,470
			175,527		152,924
Total long-term debt (Notes 28 and 29)			**192,556**		176,276
Less portion maturing within one year (Note 28)			**19,722**		20,441
Noncurrent portion of long-term debt (Note 28)			**172,834**		155,835

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

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at December 31, 2019 are as follows:

Year	U.S. Dollar Debt U.S. Dollar	U.S. Dollar Debt Php	Php Debt Php	Total Php
		(in millions)		
2020	**210**	**10,687**	**9,148**	**19,835**
2021	**46**	**2,306**	**20,303**	**22,609**
2022	**30**	**1,543**	**15,487**	**17,030**
2023	**25**	**1,270**	**25,193**	**26,463**
2024	**25**	**1,270**	**12,555**	**13,825**
2025 and onwards	—	—	**93,285**	**93,285**
Total long-term debt (Note 28)	**336**	**17,076**	**175,971**	**193,047**

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, 2019 and 2018:

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

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

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	2019 U.S. Dollar	2019 Php	2018 U.S. Dollar	2018 Php
					U.S. Dollar (in millions)			Outstanding Amounts (in millions)			
U.S. Dollar Debts											
Other Term Loans[1]											
PLDT US$300M	January 16, 2013	Syndicate of Banks with MUFG Bank, Ltd. as Facility Agent	9 equal semi-annual installment, commencing on the date which falls 12 months after the date of the loan agreement, with final installment on January 16, 2018	Various dates in 2013	300	—	January 16, 2018	**—**	**—**	—	—
Smart US$50M	March 25, 2013	FEC	9 equal semi-annual installment, commencing six months after drawdown date, with final installment on March 23, 2018	Various dates in 2013 and 2014	32	18	March 23, 2018	**—**	**—**	—	—
Smart US$80M	May 31, 2013	China Banking Corporation, or CBC	10 equal semi-annual installment, commencing six months after drawdown date, with final installment on May 31, 2018	September 25, 2013	80	—	May 31, 2018	**—**	**—**	—	—
Smart US$120M	June 20, 2013	Mizuho Bank Ltd. and Sumitomo Mitsui Banking Corporation, or Sumitomo, with Sumitomo as Facility Agent	8 equal semi-annual installment, commencing six months after drawdown date, with final installment on June 20, 2018	September 25, 2013	120	—	June 20, 2018	**—**	**—**	—	—
Smart US$100M	March 7, 2014	MUFG Bank, Ltd.	9 equal semi-annual installment, commencing 12 months after drawdown date, with final installment on March 7, 2019	Various dates in 2014 March 2, 2015	90 10	—	March 7, 2019	**—**	**—**	11 (*)	583 (*)
Smart US$50M	May 14, 2014	Mizuho Bank Ltd.	9 equal semi-annual installment, commencing 11 months after drawdown date, with final installment on May 14, 2019	July 1, 2014	50	—	May 14, 2019	**—**	**—**	6 (*)	291 (*)
PLDT US$100M	August 5, 2014	Philippine National Bank, or PNB	Annual amortization rate of 1% of the issue price on the first-year up to the fifth-year from the initial drawdown date, with final installment on August 11, 2020	Various dates in 2014	100	—	—	**95**	**4,826**	96	5,046
PLDT US$50M	August 29, 2014	Metrobank	Annual amortization rate of 1% of the issue price payable semi-annually starting 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**	**2,426**	48	2,536
								143	**7,252**	161	8,456

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2019 U.S. Dollar	2019 Php	2018 U.S. Dollar	2018 Php
					U.S. Dollar (in millions)			(in millions)			
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	—	—	**74** (*)	**3,797** (*)	104 (*)	5,492 (*)
Smart US$200M	March 4, 2015	Mizuho Bank Ltd.	9 equal semi-annual installments commencing on the date which falls 12 months after the loan date, with final installment on March 4, 2020	Various dates in 2015	200	—	March 4, 2020	**22** (*)	**1,128** (*)	66 (*)	3,490 (*)
Smart US$100M	December 7, 2015	Mizuho Bank Ltd.	13 equal semi-annual installments commencing on the date which falls 12 months after the loan date, with final installment on December 7, 2022	Various dates in 2016	100	—	—	**46** (*)	**2,324** (*)	61 (*)	3,198 (*)
PLDT US$25M	March 22, 2016	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 30, 2023	March 30, 2016	25	—	—	**25** (*)	**1,265** (*)	25 (*)	1,307 (*)
PLDT US$25M	January 31, 2017	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 27, 2024	March 30, 2017	25	—	—	**25** (*)	**1,263** (*)	25 (*)	1,306 (*)
Smart US$140M	March 4, 2020	PNB	Quarterly amortization rates equivalent to: (a) 2.5% of the total amount drawn payable on the first interest payment date up to the 28th interest payment date; (b) 5% of the total amount drawn payable on the 29th interest payment date up to the 32nd interest payment date; and (3) 2.5% of the total amount drawn payable on the 37th interest payment date up to maturity.	—	—	—	—	—	—	—	—
								192	**9,777**	281	14,793

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

Loan Amount	Date of Loan Agreement	Facility Agent	Installments	Date of Issuance/ Drawdown	Payments Amount Php	Payments Date	Outstanding Amounts 2019 Php	Outstanding Amounts 2018 Php
					(in millions)		(in millions)	
Philippine Peso Debts								
Fixed Rate Corporate Notes[(1)]								
PLDT								
Php1,500M	July 25, 2012	Metrobank	Annual amortization rate of 1% of the issue price on the first-year up to the sixth-year from issue date and the balance payable upon maturity on July 27, 2019	July 27, 2012	1,188 282	July 29, 2013 April 29, 2019	—	282
PLDT								
Php8,800M Series A: Php4,610M; 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 2,741	June 21, 2013 September 23, 2019	**3,599**	6,340
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	**2,255**	5,828
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	1,644	September 23, 2019	**298**	1,932
PLDT								
Php1,188M	July 19, 2013	Metrobank	Annual amortization rate of 1% of the issue on the first-year up to the fifth-year from the issue date and the balance payable upon maturity on July 27, 2019	July 29, 2013	1,129	April 29, 2019	—	1,129
							6,152	15,511

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

Loan Amount	Date of Loan Agreement	Paying Agent	Terms	Date of Issuance/ Drawdown	Payments Amount Php	Payments Date	Outstanding Amounts 2019 Php	Outstanding Amounts 2018 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	—	—	**14,965** (*)	14,943 (*)

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2019 Php	Outstanding Amounts 2018 Php
					(in millions)			(in millions)	
Term Loans									
Unsecured Term Loans[1]									
PLDT									
Php2,000M	March 20, 2012	RCBC	Annual amortization rate of 1% on the fifth-year up to the ninth-year from the initial drawdown date and the balance payable upon maturity on April 12, 2022	April 12, 2012	2,000	—	—	**1,940**	1,960
PLDT									
Php200M	August 31, 2012	Manufacturers Life Insurance Co. (Phils.), Inc.	Payable in full upon maturity on October 9, 2019	October 9, 2012	200	—	April 10, 2019	—	200
PLDT									
Php1,000M	September 3, 2012	Union Bank of the Philippines, or Union Bank	Annual amortization rate of 1% on the first-year up to the sixth-year from the initial drawdown date and the balance payable upon maturity on January 13, 2020	January 11, 2013	1,000	—	January 13, 2020	**940**	950
PLDT									
Php1,000M	October 11, 2012	Philippine American Life and General Insurance Company, or Philam Life	Payable in full upon maturity on December 5, 2022	December 3, 2012	1,000	—	—	**1,000**	1,000
Smart									
Php3,000M	December 17, 2012	LBP	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on December 20, 2019	Various dates in 2012-2013	3,000	—	December 20, 2019	—	2,820
PLDT									
Php2,000M	November 13, 2013	Bank of the Philippine Islands, or BPI	Annual amortization rate of 1% on the first-year up to the sixth-year from the initial drawdown and the balance payable upon maturity on November 22, 2020	Various dates in 2013-2014	2,000	—	—	**1,880**	1,900
Smart									
Php3,000M	November 25, 2013	Metrobank	Annual amortization rate of 10% of the total amount drawn for six-years and the final installment is payable upon maturity on November 27, 2020	November 29, 2013	3,000	—	—	**1,199** (*)	1,497 (*)
								6,959	10,327

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2019 Php	2018 Php
					(in millions)			(in millions)	
Smart Php3,000M	December 3, 2013	BPI	Annual amortization rate of 1% of the total amount drawn for the first six-years and the final installment is payable upon maturity on December 10, 2020	December 10, 2013	3,000	—	—	**2,818** (*)	2,846 (*)
Smart Php3,000M	January 29, 2014	LBP	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021	February 5, 2014	3,000	—	—	**2,847** (*)	2,875 (*)
Smart Php500M	February 3, 2014	LBP	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021	February 7, 2014	500	—	—	**475**	480
Smart Php2,000M	March 26, 2014	Union Bank	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on March 29, 2021	March 28, 2014	2,000	—	—	**1,900**	1,920
PLDT Php1,500M	April 2, 2014	Philam Life	Payable in full upon maturity on April 4, 2024	April 4, 2014	1,500	—	—	**1,500**	1,500
Smart Php500M	April 2, 2014	BDO	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on April 2, 2021	April 4, 2014	500	—	—	**475**	480
PLDT Php1,000M	May 23, 2014	Philam Life	Payable in full upon maturity on May 28, 2024	May 28, 2014	1,000	—	—	**1,000**	1,000
PLDT Php1,000M	June 9, 2014	LBP	Annual amortization rate of 1% on the first-year up to the ninth-year from initial drawdown date and the balance payable upon maturity on June 13, 2024	June 13, 2014	1,000	—	—	**950**	960
PLDT Php1,500M	July 28, 2014	Union Bank	Annual amortization rate of 1% on the first-year up to the ninth-year from initial drawdown date and the balance payable upon maturity on July 31, 2024	July 31, 2014	1,500	—	—	**1,425**	1,440
PLDT Php2,000M	February 25, 2015	BPI	Annual amortization rate of 1% on the first-year up to the ninth-year from initial drawdown date and the balance payable upon maturity on March 24, 2025	March 24, 2015	2,000	—	—	**1,920**	1,940
PLDT Php3,000M	June 26, 2015	BPI	Annual amortization rate of 1% on the first-year up to the ninth-year from initial drawdown date and the balance payable upon maturity on June 30, 2025	June 30, 2015	3,000	—	—	**2,880**	2,910
								18,190	18,351

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2019 Php	Outstanding Amounts 2018 Php
					(in millions)			(in millions)	
PLDT Php5,000M	August 3, 2015	Metrobank	Annual amortization rate of 1% on the first-year up to the ninth-year from initial drawdown date and the balance payable upon maturity on September 23, 2025	Various dates in 2015	5,000	—	—	**4,800**	4,850
Smart Php5,000M	August 11, 2015	Metrobank	Annual amortization rate of 1% of the principal amount on the first-year up to the ninth-year commencing on the first-year anniversary of the initial drawdown date and the balance payable upon maturity on September 1, 2025	September 1, 2015	5,000	—	—	**4,785** (*)	4,833 (*)
Smart Php5,000M	December 11, 2015	BPI	Annual amortization rate of 1% of the principal amount on the first-year up to the ninth-year commencing on the first-year anniversary of the initial drawdown date and the balance payable upon maturity on December 21, 2025	December 21, 2015	5,000	—	—	**4,784** (*)	4,832 (*)
Smart Php5,000M	December 16, 2015	Metrobank	Annual amortization rate of 1% of the principal amount up to the tenth-year commencing on the first-year anniversary of the initial drawdown and the balance payable upon maturity on June 29, 2026	December 28, 2015	5,000	—	—	**4,784** (*)	4,831 (*)
Smart Php7,000M	December 18, 2015	CBC	Annual amortization rate of 1% of the principal amount on the third-year up to the sixth-year from the initial drawdown date, with balance payable upon maturity on December 28, 2022	December 28, 2015 and February 24, 2016	7,000	—	—	**5,593** (*)	6,289 (*)
PLDT Php3,000M	July 1, 2016	Metrobank	Annual amortization rate of 1% on the first-year up to the ninth-year from initial drawdown date and the balance payable upon maturity on February 22, 2027	February 20, 2017	3,000	—	—	**2,929** (*)	2,957 (*)
PLDT Php6,000M	July 1, 2016	Metrobank	Annual amortization rate of 1% on the first-year up to the sixth-year from initial drawdown date and the balance payable upon maturity on August 30, 2023	August 30, 2016 and November 10, 2016	6,000	—	—	**5,804** (*)	5,859 (*)
PLDT Php8,000M	July 14, 2016	Security Bank	Annual amortization rate of 1% of the total amount drawn payable semi-annually 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	—	—	**7,651** (*)	7,807 (*)
PLDT Php6,500M	September 20, 2016	BPI	Annual amortization rate of 1% on the first- year up to the sixth-year from initial drawdown date and the balance payable upon maturity on November 2, 2023	November 2, 2016 and December 19, 2016	6,500	—	—	**6,286** (*)	6,346 (*)
								47,416	48,604

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2019 Php	Outstanding Amounts 2018 Php
					(in millions)			(in millions)	
Smart Php3,000M	September 28, 2016	BDO	Annual amortization rate of 1% of the principal amount on the first-year up to the ninth-year commencing on the first-year anniversary of the initial drawdown date and the balance payable upon maturity on October 5, 2026	October 5, 2016	3,000	—	—	**2,910**	2,940
Smart Php5,400M	September 28, 2016	Union Bank	Annual amortization rate of 1% of the principal amount on the first-year up to the sixth-year commencing on the first-year anniversary of the initial drawdown date and the balance payable upon maturity on October 24, 2023	October 24, 2016 and November 21, 2016	5,400	—	—	**5,229** (*)	5,281 (*)
PLDT Php5,300M	October 14, 2016	BPI	Annual amortization rate of 1% on the first-year up to the sixth-year from initial drawdown date and the balance payable upon maturity on December 19, 2023	December 19, 2016	5,300	—	—	**5,125** (*)	5,175 (*)
Smart Php2,500M	October 27, 2016	CBC	Annual amortization rate of 10% of the amount drawn starting on the third-year up to the sixth-year, with balance payable upon maturity on December 8, 2023	December 8, 2016	2,500	—	—	**2,250**	2,500
Smart Php4,000M	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	—	—	**1,935** (*)	1,953 (*)
Smart Php1,000M	December 16, 2016	PNB	Annual amortization rate of 1% of the amount drawn starting on the first anniversary of the advance up to the ninth anniversary of the advance and the balance payable upon maturity on December 7, 2027	December 7, 2017	1,000	—	—	**980**	990
Smart Php2,000M	December 22, 2016	LBP	Annual amortization rate of 1% of the amount drawn starting on the first anniversary of the advance up to the ninth anniversary of the advance and the balance payable upon maturity on January 21, 2028	January 22, 2018	2,000	—	—	**1,980**	2,000
PLDT Php3,500M	December 23, 2016	LBP	Annual amortization rate of 1% on the first- year up to the ninth-year after the drawdown date and the balance payable upon maturity on April 5, 2027	April 5, 2017	3,500	—	—	**3,417** (*)	3,450 (*)
Smart Php1,500M	April 18, 2017	PNB	Annual amortization rate of 1% of the amount drawn starting on the first anniversary of the advance up to the sixth- year anniversary of the advance and the balance payable upon maturity on January 3, 2025	January 3, 2018	1,500	—	—	**1,485**	1,500
								25,311	25,789

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2019 Php	2018 Php
					(in millions)			(in millions)	
PLDT Php2,000M	May 24, 2017	Security Bank	Semi-annual amortization rate of Php10 million starting on October 5, 2017 and every six months thereafter with the balance payable upon maturity on April 5, 2027	May 29, 2017	2,000	—	—	**1,950**	1,970
PLDT Php3,500 M	July 5, 2017	LBP	Annual amortization rate of 1% on the first- year up to the ninth-year after the drawdown date and the balance payable upon maturity on July 12, 2027	July 10, 2017	3,500	—	—	**3,430**	3,465
PLDT Php1,500M	August 29, 2017	LBP	Annual amortization rate equivalent to 1% of the total loan payable on the first-year up to the ninth-year after the drawdown date and the balance payable upon maturity on April 3, 2028	April 2, 2018	1,500	—	—	**1,485**	1,500
Smart Php1,000M	September 28, 2017	Union Bank	Annual amortization rate of 1% of the amount drawn starting on the first-year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on February 21, 2028	February 19, 2018	1,000	—	—	**990**	1,000
PLDT Php2,000M	April 19, 2018	LBP	Annual amortization rate equivalent to 1% of the total loan payable on the first-year up to the ninth-year after the drawdown date and the balance payable upon maturity on April 25, 2028	April 25, 2018	2,000	—	—	**1,980**	2,000
PLDT Php1,000M	April 20, 2018	LBP	Annual amortization rate equivalent to 1% of the total loan payable on the first-year up to the ninth-year after the drawdown date and the balance payable upon maturity on May 3, 2028	May 3, 2018	1,000	—	—	**990**	1,000
PLDT Php2,000M	May 9, 2018	BPI	Annual amortization rate equivalent to 1% of the amount drawn starting on the first- year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on May 10, 2028	May 10, 2018	2,000	—	—	**1,980**	2,000
PLDT Php3,000M	May 9, 2018	BPI	Annual amortization rate equivalent to 1% of the amount drawn starting on the first- year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on May 10, 2028	May 10, 2018	3,000	—	August 10, 2018	**—**	—
								12,805	12,935

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2019 Php	Outstanding Amounts 2018 Php
					(in millions)			(in millions)	
Smart Php2,000M	May 25, 2018	BPI	Annual amortization rate equivalent to 1% of the amount drawn starting on the first- year anniversary of the advance up to the fifth-year anniversary of the advance and the balance payable upon maturity on May 28, 2024	May 28, 2018	2,000	—	—	**1,969** (*)	1,986 (*)
Smart Php1,500M	June 27, 2018	Development Bank of the Philippines, or DBP	Annual amortization rate equivalent to 1% of the amount drawn starting on the third-year anniversary of the advance up to the fifth-year anniversary of the advance and the balance payable upon maturity on June 28, 2024	June 28, 2018	1,500	—	—	**1,500**	1,500
Smart Php3,000M	July 31, 2018	BPI	Annual amortization rate equivalent to 1% of the amount drawn starting on the first-year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on May 10, 2028	August 10, 2018	3,000	—	—	**2,950** (*)	2,978 (*)
Smart Php5,000M	January 11, 2019	DBP	Annual amortization rate equivalent to 1% of the amount drawn starting on the third-year anniversary of the advance up to the ninth-year anniversary of the advance and the balance payable upon maturity on May 7, 2029	May 6, 2019 September 2, 2019	2,000 3,000	—	—	**4,978** (*)	—
PLDT Php8,000M	February 18, 2019	Union Bank	Annual amortization rate equivalent to 1% of the amount drawn starting on the first-year anniversary up to the ninth-year anniversary of the initial drawdown date and the balance payable upon maturity on July 11, 2029	July 11, 2019 September 6, 2019 October 1, 2019 November 5, 2019	3,000 2,000 1,000 2,000	—	—	**7,978** (*)	—
Smart Php4,000M	February 21, 2019	PNB	Annual amortization rate equivalent to 1% of the amount drawn starting on the first-year anniversary up to the seventh-year anniversary of the initial drawdown date and the balance payable upon maturity on March 11, 2027	March 11, 2019	4,000	—	—	**3,972** (*)	—
PLDT Php2,000M	April 11, 2019	Bank of China Limited, Manila Branch	Annual amortization rate equivalent to 1% of the amount of loan payable on the first-year anniversary up to the sixth-year anniversary of the initial drawdown date and the balance payable upon maturity on September 7, 2026	September 6, 2019	2,000	—	—	**1,985** (*)	—
PLDT Php2,000M	July 1, 2019	PNB	Annual amortization rate equivalent to 1% of the total amount drawn from the facility on the first-year anniversary up to the sixth-year anniversary of the initial drawdown date and the balance payable upon maturity on September 7, 2026	September 6, 2019	2,000	—	—	**1,985** (*)	—
Smart Php8,000M	September 25, 2019	CBC	Annual amortization rate equivalent to 10% of the total amount drawn starting on the third-year anniversary up to the ninth-year anniversary of the initial drawdown date and the balance payable upon maturity on October 2, 2029	October 2, 2019	8,000	—	—	**7,942** (*)	—
								35,259	6,464

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Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount Php	Cancelled Undrawn Amount Php	Paid in full on	Outstanding Amounts 2019 Php	Outstanding Amounts 2018 Php
					(in millions)			(in millions)	
Smart Php4,000M	December 9, 2019	DBP	Annual amortization rate equivalent to 1% of the total amount drawn starting on the third-year anniversary up to the ninth-year anniversary of the initial drawdown date and the balance payable upon maturity on December 12, 2029	December 12, 2019	4,000	–	–	**3,970** (*)	–
PLDT Php4,500M	December 12, 2019	BPI	Annual amortization rate equivalent to 1% of the advance on the first year up to the ninth-year anniversary of the drawdown date and the balance payable upon maturity on December 18, 2029	December 18, 2019	4,500	–	–	**4,500**	–
Smart Php3,000M	January 20, 2020	BDO	Annual amortization rate equivalent to 1% of the total amount drawn starting on the first-year anniversary up to the ninth-year anniversary of the drawdown date and the balance payable upon maturity on January 24, 2030	January 24, 2020	3,000	–	–	**–**	–
PLDT Php5,000M	January 29, 2020	BDO	Annual amortization rate equivalent to 1% of the total amount drawn starting on the first-year anniversary up to the ninth-year anniversary of the drawdown date and the balance payable upon maturity on January 31, 2030	January 31, 2020	5,000	–	–	**–**	–
PLDT Php4,000M	March 24, 2020	RCBC	Annual amortization rate equivalent to 1% of the advance starting on the first-year anniversary of the drawdown date and the balance payable upon maturity on March 27, 2028	March 26, 2020	4,000	–	–	–	–
PLDT Php2,500M	March 30, 2020	MUFG Bank, Ltd.	Amortization rate equivalent to: (1) 20% of the amount drawn payable on the 30th, 48th, 54th and 72nd month from the drawdown date; (2) 0.50% of the amount drawn payable on the 36th, 42nd, 60th and 66th month from the drawdown date; and (3) 18% of the amount drawn payable upon maturity	–	–	2,500	–	–	–
								8,470	–
								154,410	122,470

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

Compliance with Debt Covenants

PLDT's debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios tests, such as total debt to EBITDA and interest cover ratio, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

The principal factors that could negatively affect our ability to comply with these financial ratio covenants and other financial tests are depreciation of the Philippine Peso relative to the U.S. Dollar, poor operating performance of PLDT and its subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine Peso relative to the U.S. Dollar, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Of our total consolidated debts, approximately 9% and 13% were denominated in U.S. Dollars as at December 31, 2019 and 2018, respectively. Therefore, the financial ratio and other tests are expected to be negatively affected by any weakening of the Philippine Peso relative to the U.S. Dollar. See *Note 28 – Financial Assets and Liabilities – Foreign Currency Exchange Risk.*

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) making or permitting any material change in the character of its business; (b) selling, leasing, transferring or disposing of all or substantially all of its assets or any significant portion thereof other than in the ordinary course of business; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; and (e) merging or consolidating with any other company.

PLDT's debt instruments also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (f) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. Smart's loan agreements include compliance with financial tests such as Smart's consolidated debt to consolidated EBITDA, debt service coverage ratio and interest coverage ratio. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair the guarantors' ability to perform their obligations under its loan agreements.

The loan agreements with banks (foreign and local alike) and other financial institutions provide for certain restrictions and requirements with respect to, among others, maintenance of percentage of ownership of specific shareholders, incurrence of additional long-term indebtedness or guarantees and creation of property encumbrances.

As at December 31, 2019 and 2018, we were in compliance with all of our debt covenants.

Consent Solicitation Exercise of PLDT

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

On October 30, 2019, PLDT announced the early closing of the consent solicitation exercise from its original schedule of November 15, 2019 when the Company received the required consents to effect the proposed amendment. The new debt covenants is effective as at December 31, 2019.

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 nil and Php514 thousand as at December 31, 2019 and 2018, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Leases* and *Note 9 – Property and Equipment*.

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume, permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

22. Deferred Credits and Other Noncurrent Liabilities

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

	2019	2018
	(in million pesos)	
Accrual of capital expenditures under long-term financing	**2,118**	2,965
Provision for asset retirement obligations	**1,767**	1,656
Contract liabilities and unearned revenues (Note 5)	**604**	532
Others	**68**	131
	4,557	5,284

Accrual of capital expenditures under long-term financing represents expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks. See *Note 21 – Interest-bearing Financial Liabilities*.

The following table summarizes the changes to provision for asset retirement obligations for the years ended December 31, 2019 and 2018:

	2019	2018
	(in million pesos)	
Provision for asset retirement obligations at beginning of the year	**1,656**	1,630
Additional liability	**154**	161
Accretion expenses	**82**	47
Settlement of obligations and others	**(125)**	(182)
Provision for asset retirement obligations at end of the year	**1,767**	1,656

23. Accounts Payable

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

	2019	2018
	(in million pesos)	
Suppliers and contractors (Note 28)	**68,051**	69,099
Taxes (Note 27)	**1,457**	1,789
Carriers and other customers (Note 28)	**1,387**	1,815
Related parties (Notes 25 and 28)	**602**	684
Others	**6,348**	1,223
	77,845	74,610

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

In 2019, one of our major suppliers entered into Trade Financing Arrangements, or TFA, to sell a portion of its Philippine Peso receivables from the Parent Company amounting to Php1,799 million and from Smart amounting to Php3,200 million. Under the terms of the TFA, the Purchaser will have exclusive ownership of the purchased receivables and all of its rights, title and interest. The amount was reclassified from "Accounts Payable – Suppliers and contractors" to "Accounts Payable – Others" amounted to Php4,999 million for the year ended December 31, 2019.

For terms and conditions pertaining to the payables to related parties, see *Note 25 – Related Party Transactions*.

For detailed discussion on the PLDT Group's liquidity risk management processes, see *Note 28 – Financial Assets and Liabilities – Liquidity Risk*.

24. Accrued Expenses and Other Current Liabilities

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

	2019	2018
	(in million pesos)	
Accrued utilities and related expenses (Notes 25 and 28)	**60,966**	57,748
Accrued taxes and related expenses (Note 27)	**11,380**	11,885
Accrued employee benefits and other provisions (Notes 26 and 28)	**8,700**	7,980
Contract liabilities and unearned revenues (Note 5)	**7,879**	6,650
Liability from redemption of preferred shares (Notes 20 and 28)	**7,851**	7,862
Accrued interests and other related costs (Note 29)	**1,531**	1,347
Others	**2,508**	2,252
	100,815	95,724

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

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

Contract liabilities and 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.

25. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. Transactions with related parties are on an arm's length basis, similar to transactions with third parties.

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

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

	Classifications	Terms	Conditions	2019	2018
				(in million pesos)	
Indirect investment in joint ventures through PCEV:					
Meralco	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	Electricity charges – immediately upon receipt of invoice	Unsecured	**415**	518
	Accrued expenses and other current liabilities (Note 24)	Pole rental – 45 days upon receipt of billing	Unsecured	**–**	209
Meralco Industrial Engineering Services Corporation, or MIESCOR	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice	Unsecured	**3**	3
MPIC	Financial assets at FVOCI – net of current portion (Note 11)	Due on or before December 2020 for 2019 and due on December 2019 for 2018; non-interest-bearing	Unsecured	**162**	2,749
	Current portion of financial assets at FVOCI (Note 11)	Due after December 2020 for 2019 and due after December 2019 for 2018	Unsecured	**2,757**	1,604
Transactions with major stockholders, directors and officers:					
NTT Finance Corporation	Interest-bearing financial liabilities (Note 21)	Non-amortizing, payable upon maturity on March 30, 2023 and March 27, 2024	Unsecured	**2,540**	2,628
NTT World Engineering Marine Corporation	Accrued expenses and other current liabilities (Note 24)	1st month of each quarter; non-interest-bearing	Unsecured	**147**	84
NTT Communications	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**10**	20
NTT Worldwide Telecommunications Corporation	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**3**	3
NTT DOCOMO	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**6**	12
JGSHI and Subsidiaries	ROU assets (Note 10)	Upon expiration of lease	Unsecured	**168**	–
	Lease liabilities – net of current portion (Note 10)	Due after December 31, 2020	Unsecured	**154**	–
	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	Immediately upon receipt of invoice	Unsecured	**33**	13
	Current portion of lease liabilities (Note 10)	Due on or before December 31, 2020	Unsecured	**20**	–
Malayan Insurance Co., Inc. or Malayan	Prepayments (Note 19)	Immediately upon receipt of invoice	Unsecured	**19**	19
	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	Immediately upon receipt of invoice	Unsecured	**5**	6
Gotuaco del Rosario and Associates, or Gotuaco	Prepayments (Note 19)	Immediately upon receipt of invoice	Unsecured	**6**	–
	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	Immediately upon receipt of invoice	Unsecured	**1**	5
Others:					
Cignal Cable Corporation, or Cignal Cable (formerly Dakila Cable TV Corp.)	Prepayments (Note 19)	Immediately upon receipt of invoice	Unsecured	**–**	169
Various	ROU assets (Note 10)	Upon expiration/depreciation of lease	Unsecured	**232**	–
	Trade and other receivables (Note 17)	30 days upon receipt of invoice	Unsecured	**2,082**	2,094
	Lease liabilities – net of current portion (Note 10)	Due after December 31, 2020	Unsecured	**218**	–
	Accounts payable (Note 23)	30 days non-interest-bearing	Unsecured	**571**	684
	Accounts payable (Note 23)	Immediately upon receipt of billing	Unsecured	**602**	–
	Accrued expenses and other current liabilities (Note 24)	Immediately upon receipt of billing	Unsecured	**65**	9
	Current portion of lease liabilities (Note 10)	Due on or before December 31, 2020	Unsecured	**92**	–

The following table provides the summary of transactions that have been entered into with related parties for the years ended December 31, 2019, 2018 and 2017 in relation with the table above.

	Classifications	2019	2018	2017
			(in million pesos)	
Indirect investment in joint ventures through PCEV:				
Meralco	Repairs and maintenance	**2,689**	2,771	2,397
	Rent	**29**	583	298
	Depreciation and amortization	**218**	—	—
MIESCOR	Repairs and maintenance	—	33	117
	Construction-in-progress	—	33	81
Transactions with major stockholders, directors and officers:				
NTT Finance Corporation	Financing costs – net	**103**	100	56
NTT World Engineering Marine Corporation	Repairs and maintenance	**169**	17	47
NTT Communications	Professional and other contracted services	**95**	95	88
	Rent	—	5	4
NTT Worldwide Telecommunications Corporation	Selling and promotions	**5**	5	8
NTT DOCOMO	Professional and other contracted services	**70**	96	94
JGSHI and Subsidiaries	Rent	**198**	236	118
	Repairs and maintenance	**38**	111	69
	Communication, training and travel	**10**	20	2
	Miscellaneous expenses	**98**	7	—
Malayan	Insurance and security services	**295**	182	179
Gotuaco	Insurance and security services	**165**	163	126
Asia Link B.V., or ALBV	Professional and other contracted services	—	34	190
First Pacific Investment Management Limited, or FPIML	Professional and other contracted services	**156**	135	—
Others:				
TV5	Selling and promotions	**33**	409	149
Cignal Cable	Cost of services	**306**	372	514
	Selling and promotions	**82**	—	—
	Other income – net	**166**	—	—
Various	Revenues	**2,401**	2,355	2,059
	Expenses	**1,908**	1,935	1,223

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 Php2,689 million, Php2,771 million and Php2,397 million for the years ended December 31, 2019, 2018 and 2017, 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 Php415 million and Php518 million as at December 31, 2019 and 2018, respectively.

PLDT and Smart have Pole Attachment Contracts with Meralco, wherein Meralco leases its pole spaces to accommodate PLDT's and Smart's cable network facilities. Total fees under these contracts, which were presented as part of rent in our consolidated income statements, amounted to Php29 million, Php583 million and Php298 million for the years ended December 31, 2019, 2018 and 2017, respectively. Total fees under these contracts, which were presented as part of depreciation and amortization in our consolidated income statements, amounted to Php218 million for the year ended December 31, 2019 and nil for the years ended December 31, 2018 and 2017. 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 Php66 thousand and Php209 million as at December 31, 2019 and 2018, respectively.

b. Agreements between PLDT and MIESCOR

PLDT has an existing Outside and Inside Plant Contracted Services Agreement with MIESCOR, a subsidiary of Meralco, which expired on December 31, 2018. Under the agreement, MIESCOR assumes full and overall responsibility for the implementation and completion of any assigned project such as cable and civil works that are required for the provisioning and restoration of lines and recovery of existing plant.

Total fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to nil, Php96 thousand and Php3 million for the years ended December 31, 2019, 2018 and 2017, respectively. Total amounts capitalized to property and equipment amounted to nil, Php14 million and Php5 million for the years ended December 31, 2019, 2018 and 2017, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php185 thousand each as at December 31, 2019 and 2018.

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

Total fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to nil, Php33 million and Php114 million for the years ended December 31, 2019, 2018 and 2017, respectively. Total amounts capitalized to property and equipment amounted to nil, Php19 million and Php76 million for the years ended December 31, 2019, 2018 and 2017, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php3 million each as at December 31, 2019 and 2018.

c. *Transactions with Major Stockholders, Directors and Officers*

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, had a direct or indirect material interest as at December 31, 2019 and 2018, and for the years ended December 31, 2019, 2018 and 2017 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 – net in our consolidated income statements, amounted to Php51.5 million, Php50 million and Php28 million for the years ended December 31, 2019, 2018 and 2017, respectively. The amounts of US$25 million, or Php1,270 million, and US$25 million, or Php1,314 million, remained outstanding as at December 31, 2019 and 2018, respectively.

Another US$25 million term loan facility was signed with NTT Finance Corporation on January 31, 2017 to finance its capital expenditure requirements for network expansion and service improvement and/or refinancing existing indebtedness. The loan is payable upon maturity on March 27, 2024. The loan was fully drawn on March 30, 2017. Total interest under this agreement, which were presented as part of financing costs – net in our consolidated income statements, amounted to Php51.5 million, Php50 million and Php28 million for the years ended December 31, 2019, 2018 and 2017, respectively. The amount of US$25 million, or Php1,270 million, and US$25 million, or Php1,314 million, remained outstanding as at December 31, 2019 and 2018, respectively.

2. *Various Agreements with NTT Communications and/or its Affiliates*

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- *Service Agreement.* On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant. The fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php169 million, Php17 million and Php47 million for the years ended December 31, 2019, 2018 and 2017, 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 Php147 million and Php84 million as at December 31, 2019 and 2018, respectively;

- *Advisory Services Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000. The fees under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php95 million for each of the years ended December 31, 2019 and 2018, while Php88 million for the year ended December 31, 2017. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php8 million and Php16 million as at December 31, 2019 and 2018, respectively;

- *Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses. The fees under this agreement, which were presented as part of rent in our consolidated income statements, amounted to nil, Php5 million and Php4 million for the years ended December 31, 2019, 2018 and 2017, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php2 million and Php4 million as at December 31, 2019 and 2018, respectively; and

- *Arcstar Licensing Agreement and Arcstar Service Provider Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines. The fees under this agreement, which were presented as part of selling and promotions in our consolidated income statements, amounted to Php5 million for each of the years ended December 31, 2019 and 2018, while Php8 million for the year ended December 31, 2017. 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 each as at December 31, 2019 and 2018.

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 Php70 million, Php96 million and Php94 million for the years ended December 31, 2019, 2018 and 2017, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php6 million and Php12 million as at December 31, 2019 and 2018, respectively.

4. *Transactions with JGSHI and Subsidiaries*

   PLDT and certain of its subsidiaries have existing agreements with Universal Robina Corporation and Robinsons Land Corporation for office and business office rental. Total fees under these contracts, which were presented as part of rent in our consolidated income statements, amounted to Php198 million, Php236 million and Php118 million for the years ended December 31, 2019, 2018 and 2017, respectively. Under these agreements, the outstanding obligations, which were presented as part of ROU assets in our consolidated statements of financial position amounted to Php168 million and nil as at December 31, 2019, respectively, and lease liabilities in our consolidated statements of financial position, amounted to Php174 million and nil as at December 31, 2019 and 2018, respectively. Under these agreements, the outstanding obligations, which were presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php31 million and Php10 million as at December 31, 2019 and 2018, respectively.

   There were also other transactions such as communication, training and travel, repairs and maintenance and miscellaneous expenses in our consolidated income statements, amounting to Php146 million, Php138 million and Php71 million for the years ended December 31, 2019, 2018 and 2017, 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 Php2 million and Php3 million as at December 31, 2019 and 2018, 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 Php295 million, Php182 million and Php179 million for the years ended December 31, 2019, 2018 and 2017, respectively. Under this agreement, outstanding prepayments, which were presented as part of prepayments in our consolidated statements of financial position, amounted to Php19 million each as at December 31, 2019 and 2018, while 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 Php5 million and Php6 million as at December 31, 2019 and 2018, respectively.

6. *Transactions with Gotuaco*

   Gotuaco acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. Total fees under these contracts, which were presented as part of insurance and security services in our consolidated income statement, amounted to Php165 million, Php163 million and Php126 million for the years ended December 31, 2019, 2018 and 2017, respectively. Under this agreement, the outstanding prepayments, which were presented as part of prepayments in our consolidated statements of financial position, amounted to Php6 million and nil as at December 31, 2019 and 2018, respectively, while 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 Php1 million and Php5 million as at December 31, 2019 and 2018, respectively.

7. *Agreement between Smart and ALBV*

Smart had a Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group and its Philippine affiliates. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business which provides for payment of technical service fees equivalent to a rate of 0.5% of the consolidated net revenues of Smart. Effective February 1, 2014, the parties agreed to reduce the technical service fee rate from 0.5% to 0.4% of the consolidated net revenues of Smart. The agreement expired on February 23, 2018. Total service fees charged to operations under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to nil, Php34 million and Php190 million for the years ended December 31, 2019, 2018 and 2017, respectively. There were no outstanding obligations under this agreement as at December 31, 2019 and 2018.

8. *Agreement between Smart and FPIML*

On March 1, 2018, Smart entered into an Advisory Services Agreement with FPIML, a subsidiary of the First Pacific Group and its Philippine affiliates. The agreement shall be effective for a period of one-year subject to a 12-month automatic renewal unless either party notifies the other party of its intent not to renew the agreement. FPIML provides advisory and related services in connection with the operation of Smart's business of providing mobile communications services, high-speed internet connectivity, and access to digital services and content. The agreement provides that Smart shall pay monthly service fee of $250 thousand and any additional fee shall be mutually agreed upon by both parties on a monthly basis. Total professional fees under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php156 million and Php135 million for the years ended December 31, 2019 and 2018, respectively. There were no outstanding payable under this agreement as at December 31, 2019 and 2018.

9. *Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO*

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DOCOMO pursuant to the SPA dated January 31, 2006 between NTT Communications and NTT DOCOMO, the FP Parties, NTT Communications and NTT DOCOMO entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DOCOMO, including:

- certain contractual veto rights over a number of major decisions or transactions; and

- rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- *Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DOCOMO*. Each of NTT Communications and NTT DOCOMO has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.

- *Limitation on Competition*. NTT Communications, NTT DOCOMO and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DOCOMO with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.

- *Business Cooperation*. PLDT and NTT DOCOMO agreed in principle to collaborate with each other on the business development, roll-out and use of a Wireless-Code Division Multiple Access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DOCOMO.

- *Additional Rights of NTT DOCOMO*. Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:

    1. NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the Board of Directors of each PLDT and Smart;

    2. PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DOCOMO, or which NTT DOCOMO has announced publicly an intention to carry on;

    3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and

    4. PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock as at December 31, 2019 and 2018.

- *Change in Control*. Each of NTT Communications, NTT DOCOMO and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A *"Hostile Transferee"* is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DOCOMO, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed; or (e) whose intention is otherwise not *bona fide*; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DOCOMO in good faith whether such person should be considered a Hostile Transferee.

- *Termination.* If NTT Communications, NTT DOCOMO or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

d. Others

1. Agreement of PLDT and Smart with TV5

In 2010, PLDT and Smart entered into advertising placement agreements with TV5, a subsidiary of MediaQuest, which is a wholly-owned investee company of PLDT Beneficial Trust Fund for the airing and telecast of advertisements and commercials of PLDT and Smart on TV5's television network for a period of five years. The costs of telecast of each advertisement shall be applied and deducted from the placement amount only after the relevant advertisement or commercial is actually aired on TV5's television network. In June 2014, Smart and TV5 agreed to amend the liquidation schedule under the original advertising placement agreement by extending the term of expiry from 2015 to 2018. Total selling and promotions under the advertising placement agreements amounted to Php33 million, Php409 million and Php149 million for the years ended December 31, 2019, 2018 and 2017, respectively. There were no prepayments under this advertising placement agreements as at December 31, 2019 and 2018.

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

In May 2015, PLDT, Smart and DMPI entered into a four-year agreement with Cignal Cable commencing with the launch of the OTT video-on-demand service, or *iflix* service, in the Philippines on June 18, 2015. *iflix* service is provided by iFlix Sdn Bhd and Cignal Cable is the authorized reseller of the *iflix* service in the Philippines. Under the agreement, PLDT, Smart and DMPI were appointed by Cignal Cable to act as its internet service providers with an authority to resell and distribute the *iflix* service to their respective subscribers on a monthly and annual basis. The content cost recognized for the years ended December 31, 2019, 2018 and 2017 amounted to Php224 million, Php372 million and Php514 million, respectively. Under this agreement, outstanding prepayments, which were presented as part of prepayments in our consolidated statements of financial position, amounted to nil and Php169 million as at December 31, 2019 and 2018, respectively. There were no outstanding obligations under this agreement as at December 31, 2019 and 2018.

PLDT and Smart entered into a new two-year agreement with Cignal Cable to resell and distribute the *iflix* service to their respective subscribers effective June 18, 2019. The agreement stipulates that PLDT and Smart will each pay a minimum guarantee of US$1,500 thousand annually, which is committed for the Advertising Spend Guarantee. *Iflix* shall pay PLDT and Smart 30% each of the monthly marketing costs subject to a monthly cap of US$500 thousand each. The cost of services, selling and promotions, and other income – net recognized in our consolidated income statements under this agreement amounted to Php82 million, Php82 million and Php166 million, respectively, for the year ended December 31, 2019.

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 Php2,401 million, Php2,355 million and Php2,059 million for the years ended December 31, 2019, 2018 and 2017, respectively. The expenses under these services amounted to Php1,908 million, Php1,935 million and Php1,223 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The outstanding receivables of PLDT and certain of its subsidiaries, which were presented as part of ROU assets in our consolidated statement of financial position amounted to Php232 million and nil as at December 31, 2019 and 2018, respectively, and trade and other receivables in our consolidated statements of financial position amounted to Php2,082 million and Php2,094 million as at December 31, 2019 and 2018, respectively. Under these agreements, the outstanding obligations, which were presented as part of lease liabilities amounted to Php310 million and nil as at December 31, 2019 and 2018, respectively, accounts payable in our consolidated statements of financial position amounted to Php1,173 million and Php684 million as at December 31, 2019 and 2018, respectively, and accrued expenses and other current liabilities amounted to Php65 million and Php9 million as at December 31, 2019 and 2018, respectively.

See *Note 11 – Investments in Associates and Joint Ventures* – *Investment of ePLDT in MediaQuest PDRs* and *Sale of PCEV's Receivables from MPIC* for other related party transactions.

e. Material Related Party Transitions, or MRPT, Policy

On September 24, 2019, the Board of Directors approved and adopted the MRPT Policy in compliance with the Philippine SEC Memorandum Circular No. 10, Series of 2019, or the Rules on MRPT for Publicly-Listed Companies.

This MRPT Policy applies to the PLDT Group and covers related party transactions that meet the Materiality Threshold of 10% of PLDT's total consolidated assets. It defines the processes, controls and safeguards for the proper handling, including review, approval and disclosure, of such related party transactions in accordance with applicable laws and regulations.

Related party transactions involving an amount below the Materiality Threshold shall be covered by our Guidelines on the Proper Handling of 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, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
		(in million pesos)	
Short-term employee benefits	**311**	401	325
Share-based payments (Note 26)	**138**	83	—
Post-employment benefits (Note 26)	**58**	30	27
Total compensation paid to key officers of the PLDT Group	**507**	514	352

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

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

Total fees paid for board meetings and board committee meetings amounted to Php68 million, Php63 million and Php72 million for the years ended December 31, 2019, 2018 and 2017, 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.

26. Pension and Other 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, 2019, 2018 and 2017:

	2019	2018	2017
		(in million pesos)	
Changes in the present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	**20,683**	21,503	23,142
Actuarial losses (gains) on obligations – economic assumptions	**3,829**	(2,611)	(1,277)
Interest costs on benefit obligation	**1,338**	1,227	1,180
Service costs	**1,043**	1,063	1,158
Actuarial losses on obligations – experience	**570**	419	423
Actuarial losses on obligations – demographic assumptions	**4**	—	—
Actual benefits paid/settlements	**(4,558)**	(887)	(2,723)
Curtailments and others (Note 5)	**(271)**	(31)	(400)
Present value of defined benefit obligations at end of the year	**22,638**	20,683	21,503

	2019	2018	2017
		(in million pesos)	
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	**13,539**	12,534	11,960
Actual contributions	**7,598**	5,110	5,122
Interest income on plan assets	**1,360**	770	641
Return on plan assets (excluding amount included in net interest)	**(4,215)**	(3,988)	(2,466)
Actual benefits paid/settlements	**(4,558)**	(887)	(2,723)
Fair value of plan assets at end of the year	**13,724**	13,539	12,534
Unfunded status – net	**(8,914)**	(7,144)	(8,969)
Accrued benefit costs	**8,985**	7,159	8,984
Prepaid benefit costs (Note 19)	**71**	15	15
Components of net periodic benefit costs:			
Service costs	**1,043**	1,063	1,158
Interest costs – net	**(22)**	457	539
Curtailment/settlement losses (gains) and other adjustments	**(181)**	21	(341)
Net periodic benefit costs (Note 5)	**840**	1,541	1,356

Actual net losses on plan assets amounted to Php2,855 million, Php3,218 million and Php1,825 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Based on the latest actuarial valuation, our expected contribution to the defined benefit plan in 2020 will amount to Php1,589 million.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at December 31, 2019:

	(in million pesos)
2020	**644**
2021	**362**
2022	**377**
2023	**620**
2024	**1,011**
2025 to 2065	**128,008**

The average duration of the defined benefit obligation at the end of the reporting period is 8 to 19 years.

The weighted average assumptions used to determine pension benefits for the years ended December 31, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
Rate of increase in compensation	**6.0%**	6.0%	6.0%
Discount rate	**4.8%**	7.3%	5.8%

In 2019, we have changed the source of the mortality rates from the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries to the 2017 Philippine Intercompany Mortality Table developed by the Actuarial Society of the Philippines Life Insurance Committee. Both sources provide separate rates for males and females. The disability rates were based on the 1952 Disability Study of the U.S. Society of Actuaries for Period 2, Benefit 5 adjusted to suit local experience.

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, 2019, assuming if all other assumptions were held constant:

	Increase (Decrease)	
	(in million pesos)	
Discount rate	**1%**	**(2,216)**
	(1%)	**2,809**
Future salary increases	**1%**	**2,747**
	(1%)	**(2,216)**

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 year 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, 2019 and 2018:

	2019	2018
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Unquoted equity investments	**10,815**	10,707
Shares of stock	**2,077**	2,066
Corporate bonds	**145**	133
Government securities	**22**	31
Mutual funds	**9**	4
Total noncurrent financial assets	**13,068**	12,941
Current Financial Assets		
Cash and cash equivalents	**441**	499
Receivables	**8**	8
Total current financial assets	**449**	507
Total PLDT's Plan Assets	**13,517**	13,448
Subsidiaries Plan Assets	**207**	91
Total Plan Assets of Defined Benefit Pension Plans	**13,724**	13,539

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

Unquoted Equity Investments

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

	2019	2018	2019	2018
	% of Ownership		(in million pesos)	
MediaQuest	**100%**	100%	**10,050**	10,022
Tahanan Mutual Building and Loan Association, Inc., or TMBLA, (net of subscriptions payable of Php32 million)	**100%**	100%	**544**	474
BTFHI	**100%**	100%	**221**	211
Superior Multi Parañaque Homes, Inc., or SMPHI	**—**	—	**—**	—
Bancholders, Inc., or Bancholders	**—**	—	**—**	—
			10,815	10,707

Investments in MediaQuest

MediaQuest was registered with the Philippine SEC on June 29, 1999 primarily to purchase, subscribe for or otherwise acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property or every kind and description, and to pay thereof in whole or in part, in cash or by exchanging, stocks, bonds and other evidences of indebtedness or securities of this any other corporation. Its investments include common shares of stocks of various communication, broadcasting and media entities.

Investments in MediaQuest are carried at fair value. The VIU calculations were derived from cash flow projections over a period of three to five years based on the 2019 financial budgets approved by the MediaQuest's Board of Directors and calculated terminal value. Other key assumptions used in the cash flow projections include revenue growth rate, direct costs and capital expenditures. The post-tax discount rates applied to cash flow projections range from 11.3% to 11.9%. Cash flows beyond the five-year period are determined using 0% to 4.1% growth rates.

On May 8, 2012, the Board of Trustees of the PLDT Beneficial Trust Fund approved the issuance by MediaQuest of PDRs amounting to Php6 billion. The underlying shares of these PDRs are the shares of stocks of Cignal TV held by MediaQuest through Satventures (Cignal TV PDRs). On the same date, MediaQuest Board of Directors approved the investment in Cignal TV PDRs by ePLDT, which gave ePLDT a 40% economic interest in Cignal TV. In June 2012, MediaQuest received a deposit for future PDRs subscription of Php4 billion from ePLDT. Additional deposits of Php1 billion each were received on July 6, 2012 and August 9, 2012.

On January 25, 2013, the Board of Trustees of the PLDT Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php3.6 billion. The underlying shares of these additional PDRs are the shares of Satventures held by MediaQuest (Satventures PDRs), the holder of which will have a 40% economic interest in Satventures. Satventures is a wholly-owned subsidiary of MediaQuest and the investment vehicle for Cignal TV. From March to August 2013, MediaQuest received from ePLDT an amount aggregating to Php3.6 billion representing deposits for future PDRs subscription. The Satventures PDRs and Cignal TV PDRs were subsequently issued on September 27, 2013, providing ePLDT an effective 64% economic interest in Cignal TV.

Also, on January 25, 2013, the Board of Trustees of the PLDT Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php1.95 billion. The underlying shares of these additional PDRs are the shares of stocks of Hastings held by MediaQuest (Hastings PDRs). Hastings is a wholly-owned subsidiary of MediaQuest, which holds all the print-related investments of MediaQuest, including equity interests in the three leading newspapers: The Philippine Star, Philippine Daily Inquirer, and Business World. From June 2013 to October 2013, MediaQuest received from ePLDT an amount aggregating to Php1.95 billion representing deposits for future PDRs subscription.

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

On May 21, 2015, ePLDT's Board of Directors approved an additional Php800 million investment in Hastings PDRs and settlement of the Php200 million balance of the Php500 million Hastings PDR investment in 2014. Subsequently, on May 30, 2015, the Board of Trustees of the PLDT Beneficial Trust Fund and the Board of Directors of MediaQuest approved the issuance of Php3,250 million Hastings PDRs. This provided ePLDT with 70% economic interest in Hastings. In February 2018, ePLDT entered into a Deed of Assignment with the Board of Trustees of the PLDT Beneficial Trust Fund transferring the Hastings PDRs for Php1,664 million. See *Note 11 – Investments in Associates and Joint Ventures – Investment of ePLDT 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 year ended December 31, 2018 amounting to Php3,038 million was recognized in the statements of changes in net assets available for plan benefits under "Net fair value gain (loss) on investments, which is part of return on plan assets."

In 2019, the Board of Trustees of the PLDT Beneficial Trust Fund approved the additional investment in MediaQuest amounting to Php3,100 million to fund MediaQuest's investment requirements. As at December 31, 2019, MediaQuest has fully drawn the total amount of Php3,100 million. Loss on changes in fair value of the investment for the year ended December 31, 2019 amounting to Php3,072 million was recognized in the statements of changes in net assets available for plan benefits under "Net fair value gain (loss) on investments, which is part of return on plan assets."

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 Php464 million and Php394 million as at December 31, 2019 and 2018, respectively.

Investment in BTFHI

BTFHI was incorporated for the primary purpose of acquiring voting preferred shares in PLDT and while the owner, holder of possessor thereof, to exercise all the rights, powers, and privileges of ownership or any other interest therein.

On October 26, 2012, BTFHI subscribed to a total of 150 million shares of Voting Preferred Stock of PLDT at a subscription price of Php1.00 per share for a total subscription price of Php150 million. Total cash dividend income amounted to Php10 million for each of the years ended December 31, 2019, 2018 and 2017. Dividend receivables amounted to Php2 million each as at December 31, 2019 and 2018.

Investment in SMPHI

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

Investment in Bancholders

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

Shares of Stocks

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

	2019	2018
	(in million pesos)	
Common shares		
PSE	**1,161**	1,185
PLDT	**26**	30
Others	**530**	491
Preferred shares	**360**	360
	2,077	2,066

Dividends earned on PLDT common shares amounted to Php2 million for each of the years ended December 31, 2019, 2018 and 2017.

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, 2019 and 2018. 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, 2019, 2018 and 2017.

Corporate Bonds

Investment in corporate bonds includes various long-term peso and dollar denominated bonds with maturities ranging from February 2020 to May 2027 and fixed interest rates from 3.95% to 7.06% per annum. Total investment in corporate bonds amounted to Php145 million and Php133 million as at December 31, 2019 and 2018, respectively.

Government Securities

Investment in government securities includes Fixed Rate Treasury Notes bearing interest rate of 5.88% per annum and zero-rated U.S. 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 Php22 million and Php31 million as at December 31, 2019 and 2018, respectively.

Mutual Funds

Investment in mutual funds includes a local equity fund, which aims to out-perform benchmarks in various indices as part of its investment strategy. Total investment in mutual funds amounted to Php9 million and Php4 million as at December 31, 2019 and 2018, respectively.

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

	2019	2018
Investments in listed and unlisted equity securities	**96%**	95%
Temporary cash investments	**3%**	4%
Debt and fixed income securities	**1%**	1%
	100%	100%

Defined Contribution Plans

Smart's and certain of its subsidiaries' contributions to the plan are made based on the employees' years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and certain of its subsidiaries regularly monitor their compliance with R.A. 7641. As at December 31, 2019 and 2018, Smart and certain of its subsidiaries were in compliance with the requirements of R.A. 7641.

Smart and certain of its subsidiaries' actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the 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, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
		(in million pesos)	
Changes in the present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	**2,804**	2,490	2,177
Service costs	**239**	314	269
Interest costs on benefit obligation	**174**	—	113
Actuarial losses (gains) – experience	**100**	—	(6)
Actuarial losses – economic assumptions	**13**	—	29
Actual benefits paid/settlements	**(37)**	—	(92)
Curtailment and others	**(480)**	—	—
Present value of defined benefit obligations at end of the year	**2,813**	2,804	2,490
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	**3,159**	2,862	2,414
Actual contributions	**281**	297	335
Interest income on plan assets	**190**	—	131
Return on plan assets (excluding amount included in net interest)	**100**	—	74
Actual benefits paid/settlements	**(37)**	—	(92)
Others	**(609)**	—	—
Fair value of plan assets at end of the year	**3,084**	3,159	2,862
Funded status – net	**271**	355	372
Accrued benefit costs	**—**	23	13
Prepaid benefit costs (Note 19)	**271**	378	385

	2019	2018	2017
		(in million pesos)	
Components of net periodic benefit costs:			
Service costs	**239**	314	269
Curtailment/settlement gain	**(6)**	—	—
Interest income	**(16)**	—	—
Others	**(39)**	—	(18)
Net periodic benefit costs (Note 5)	**178**	314	251

Smart's net consolidated pension benefit costs amounted to Php178 million, Php314 million and Php251 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Actual net gains on plan assets amounted to Php290 million, nil and Php205 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Based on the latest actuarial valuation, Smart and certain of its subsidiaries expect to contribute the amount of approximately Php337 million to the plan in 2020.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at December 31, 2019:

	(in million pesos)
2020	**523**
2021	**101**
2022	**100**
2023	**113**
2024	**153**
2025 to 2060	**1,295**

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, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
Rate of increase in compensation	**5.0%**	7.3%	5.0%
Discount rate	**7.3%**	6.0%	5.8%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2019, assuming if all other assumptions were held constant:

	Increase (Decrease)	
		(in million pesos)
Discount rate	**(0.27%)**	**(8)**
	0.74%	**21**
Future salary increases	**0.72%**	**20**
	(0.27%)	**(8)**

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 for 50%, 30% and 20% for fixed income securities, temporary placements and equity securities, respectively.

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, 2019 and 2018:

	2019	2018
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Domestic fixed income	**1,993**	1,854
International equities	**1,114**	550
Domestic equities	**649**	333
Philippine foreign currency bonds	**516**	165
International fixed income	**142**	—
Total noncurrent financial assets	**4,414**	2,902
Current Financial Assets		
Cash and cash equivalents	**32**	891
Receivables	**2**	1
Total current financial assets	**34**	892
Total plan assets	**4,448**	3,794
Less: Employee's share, forfeitures and mandatory reserve account	**1,364**	635
Total Plan Assets of Defined Contribution Plans	**3,084**	3,159

Domestic Fixed Income

Investments in domestic fixed income include Philippine Peso denominated bonds, such as government securities and corporate debt securities, with fixed interest rates from 2.8% to 12.0% per annum. Total investments in domestic fixed income amounted to Php1,993 million and Php1,854 million as at December 31, 2019 and 2018, respectively.

International Equities

Investments in international equities include exchange traded funds, mutual funds and, unit investment trust funds managed by BlackRock Fund Advisors, State Street Global Advisors, WisdomTree Investments Advisors, Wellington Management Company, and BPI Asset Management and Trust Corporation. Total investments in international equities amounted to Php1,114 million and Php550 million as at December 31, 2019 and 2018, respectively.

Domestic Equities

Investments in domestic equities include direct equity investments in common shares listed in the PSE. These investments earn on stock price appreciation and dividend payments. Total investment in domestic equities amounted to Php649 million and Php333 million as at December 31, 2019 and 2018, respectively. This includes investment in PLDT shares with fair value of Php13 million and Php15 million as at December 31, 2019 and 2018, respectively.

Philippine Foreign Currency Bonds

Investments in Philippine foreign currency bonds include U.S. Dollar denominated fixed income instruments issued by the Philippine government and local corporations with fixed interest rates from 3.70% to 10.63% per annum. Total investment in Philippine foreign currency bonds amounted to Php516 million and Php165 million as at December 31, 2019 and 2018, respectively.

International Fixed Income

Investments in international fixed income include mutual fund invested in PIMCO GIS Global Bond Fund. Total investments in international fixed income amounted to Php142 million and nil as at December 31, 2019 and 2018, respectively.

Cash and Cash Equivalents

This pertains to the fund's excess liquidity in Philippine Peso and U.S. Dollars including investments in time deposits, money market funds and other deposit products of banks with duration or tenor less than a year.

The asset allocation of the Plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor. This considers the expected benefit cash flows to be matched with asset durations.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk.

Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the Plan Trustees invest a portion of the fund in readily tradeable and liquid investments which can be sold at any given time to fund liquidity requirements.

Price risk pertains mainly to fluctuations in market prices of equity securities listed in the PSE. In order to effectively manage price risk, the Plan Trustees continuously assess these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

The allocation of the fair value of Smart and certain of its subsidiaries pension plan assets as at December 31, 2019 and 2018 is as follows:

	2019	2018
Investments in debt and fixed income securities and others	**60%**	77%
Investments in listed and unlisted equity securities	**40%**	23%
	100%	100%

Other Long-term Employee Benefits

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

On December 11, 2018, the ECC of the Board approved Management's recommended modifications to the Plan, and partial equity and cash settled set-up was implemented for the 2019 TIP Grant. The revised set-up includes a fixed number of shares that will be granted ("equity award") and the estimated fair value of the difference between the number of shares granted in the original equity grant and the equity award will be paid in cash ("cash award"). The fair value of the award is determined at each reporting date using the estimated fair value of the corresponding shares.

As at March 31, 2020, a total of 757 thousand PLDT common shares have been acquired by the Trustee, of which 236 thousand, 302 thousand and 204 thousand PLDT common shares have been released to the eligible participants on March 12, 2020 for the 2019 annual grant, on March 28, 2019 for the 2018 annual grant and on April 5, 2018 for the 2017 annual grant, respectively. The cash award for the 2019 annual grant that was paid on March 12, 2020 amounted to Php654 million. The TIP is administered by the ECC of the Board. The expense accrued for the TIP amounted to Php638 million, Php208 million and Php827 million for the years ended December 31, 2019, 2018 and 2017, respectively. The accrued incentive payable, representing the cash settled set-up amounted to Php795 million as at December 31, 2019. 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*.

27. 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, 2019, PLDT has no contested LGU assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

Smart's Local Business and Franchise Tax Assessments

The Province of Cagayan issued a tax assessment against Smart for alleged local franchise tax. In 2011, Smart appealed the assessment to the Regional Trial Court, or RTC, of Makati on the ground that Smart cannot be held liable for local franchise tax mainly because it has no sales office within the Province of Cagayan pursuant to Section 137 of the Local Government Code (Republic Act No. 7160). The RTC issued a TRO and a writ of preliminary injunction. On April 30, 2012, the RTC rendered a decision nullifying the tax assessment. The Province of Cagayan was also directed to cease and desist from imposing local franchise taxes on Smart's gross receipts. The Province of Cagayan then appealed to the Court of Tax Appeals, or CTA. In a Decision promulgated on July 25, 2013, the CTA ruled that the franchise tax assessment is null and void for lack of legal and factual justifications. Cagayan's Motion for Reconsideration was denied. Cagayan then appealed before the CTA En Banc. The CTA En Banc issued a Decision dated December 8, 2015 affirming the nullity of the tax assessment. On January 26, 2016, the Province of Cagayan filed a Partial Motion for Reconsideration, praying among others, that the Court enter a new decision declaring as valid and legal the tax assessment issued by Province of Cagayan to Smart. The CTA En Banc then issued a Resolution dated June 22, 2016 denying the Partial Motion for Reconsideration filed by the Province of Cagayan for lack of merit. On July 31, 2016, the Decision dated December 8, 2015 became final and executory and recorded in the book of entries of judgement of the CTA.

In 2016, Cagayan issued another local franchise tax assessment against Smart covering years 2011-2015. Using the same grounds in the first case, Smart appealed the assessment with the RTC of Tuguegarao where the case is pending. The RTC then directed the parties to file their respective Memorandum within 30 days from date of receipt. Smart filed its Memorandum on November 7, 2018.

In 2015, the City of Manila issued assessments for alleged business tax deficiencies and cell sites regulatory fees and charges. Smart protested the assessments. After Manila denied the protest, Smart appealed to the RTC of the City of Manila, arguing that it is not liable for local business taxes on income realized from its telecommunications operations and that the assessments were a clear circumvention of Manila City Ordinance No. 8299 exempting Smart from the payment of local franchise tax. The assessment for regulatory fees was contested for being void, as they were made without a valid and legal basis. In the Decision promulgated on March 9, 2016, the RTC declared the local business tax and cell site regulatory fee assessments as invalid and void. The City of Manila filed a Petition for Review with the CTA seeking to reverse the Decision. Through a Decision dated December 18, 2017, the Court dismissed the Petition for lack of jurisdiction. On January 2018, Smart received a copy of the City of Manila's Motion for Reconsideration, which was denied by the CTA in a Resolution dated May 17, 2018. The City of Manila filed a Petition for Review dated June 1, 2018 before the CTA En Banc. Smart filed its Comment on October 23, 2018. Petition for review is submitted for decision pursuant to Resolution dated November 15, 2018. The Petition for Review filed by the City of Manila was denied by the Court of Tax Appeals En Banc in a Decision dated November 6, 2019. The CTA En Banc affirmed the: (1) Decision of CTA Division dated December 18, 2017, dismissing the petition of the City of Manila for lack of jurisdiction; and (2) Resolution of CTA Division dated May 17, 2018, dismissing the Motion for Reconsideration of the City of Manila for lack of merit.

Digitel's Franchise Tax Assessment and Real Property Tax Assessment

Digitel is discussing with various local government units as to settlement of its franchise tax and real property tax liabilities.

DMPI's Local Business and Real Property Taxes Assessments

In *DMPI vs. City of Cotabato*, DMPI filed a Petition in 2010 for Prohibition and Mandamus against the City of Cotabato due to their threats to close its cell sites brought about by the alleged real property tax delinquencies. The RTC denied the petition. DMPI appealed with the CTA. On December 29, 2017, the CTA dismissed DMPI's Petition for Review on the ground of lack of jurisdiction. On January 12, 2018, DMPI filed its Motion for Reconsideration. The CTA issued a resolution directing respondent City of Cotabato to file comment/opposition within 10 days and thereafter, the incident will be submitted for resolution. A Withdrawal of Counsel and Entry of Appearance were filed on May 7, 2018 and May 24, 2018, respectively. On May 7, 2018, the CTA promulgated a resolution denying DMPI's Motion for Reconsideration for lack of merit. A notice for Entry of Judgment was issued by the CTA on August 23, 2018. A dialogue between DMPI and the City of Cotabato was conducted for possible amicable settlement. On January 30, 2019, DMPI filed its Compliance, informing the CTA that it paid the real property tax amounting to Php3 million on December 20, 2018. The CTA noted DMPI's compliance in a Resolution dated February 12, 2019.

In the *DMPI vs. City Government of Malabon*, DMPI filed a Petition for Prohibition and Mandamus against the City of Malabon to prevent the auction sale of DMPI sites in its jurisdiction due to the alleged real property tax liabilities. DMPI was able to secure a TRO to defer the sale. Through a Compromise Judgment dated October 6, 2017, the RTC of Malabon approved the compromise agreement executed by the parties.

DMPI vs. City of Trece Martires

In 2010, DMPI petitioned to declare void the City of Trece Martires ordinance of imposing tower fee of Php150 thousand for each cell site every year. Application for the issuance of a preliminary injunction by DMPI is pending resolution as of date.

ACeS Philippines' Local Business and Franchise Tax Assessments

ACeS Philippines has a pending case with the Supreme Court (*ACeS Philippines Satellite Corporation vs. Commissioner of Internal Revenue* Supreme Court G.R. No. 226680) for alleged 2006 deficiency withholding tax. On July 23, 2014, the CTA Second Division affirmed the assessment of the Commissioner of Internal Revenue for deficiency basic withholding tax, surcharge plus deficiency interest and delinquency interest amounting to Php87 million. On November 18, 2014, ACeS Philippines filed a Petition for Review with the CTA En Banc. On August 16, 2016, the CTA En Banc also affirmed the assessment with finality. Hence, on October 19, 2016, ACeS Philippines filed a petition before the Supreme Court assailing the decision of the CTA. ACeS Philippines intends to file a formal request for compromise of tax liabilities before the BIR while the case is pending before the Supreme Court. On February 23, 2017 and March 15, 2017, respectively, the Company paid and filed a formal request for compromise of tax liabilities amounting to Php27 million before the BIR while the case is pending before the Supreme Court. No outstanding Letter of Authority for other years.

Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI

Since 1990 up to the present, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. Among PLDT's claims against ETPI are ETPI's alleged uncompensated bypass of PLDT's systems from July 1, 1998 to November 28, 2003; unpaid access charges from July 1, 1999 to November 28, 2003; and non-payment of applicable rates for Off-Net and On-Net traffic from January 1, 1999 to November 28, 2003 arising from ETPI's unilateral reduction of its rates for the Philippines-Hong Kong traffic stream through Hong Kong REACH-ETPI circuits. ETPI's claims against PLDT, on the other hand, involve an alleged Philippines-Hong Kong traffic shortfall for the period July 1, 1998 to November 28, 2003; unpaid share of revenues generated from PLDT's activation of additional growth circuits in the Philippines-Singapore traffic stream for the period July 1, 1999 to November 28, 2003; under reporting of ETPI share of revenues under the terms of a Compromise Agreement for the period January 1, 1999 to November 28, 2003 (which ETPI is seeking to retroact to February 6, 1990); lost revenues arising from PLDT's blocking of incoming traffic from Hong Kong from November 1, 2001 up to November 2003; and lost revenues arising from PLDT's circuit migration from January 1, 2001 up to December 31, 2001.

While the parties have entered into Compromise Agreements in the past (one in February 1990 and another in March 1999), said agreements have not put to rest the issues between them. To avoid protracted litigation and to preserve their business relationship, PLDT and ETPI agreed to submit their differences and issues to voluntary arbitration. On April 16, 2008, PLDT and ETPI signed an Arbitration Settlement Agreement and submitted their respective Statement of Claims and Answers. Subsequent to such submissions, PLDT and ETPI agreed to suspend the arbitration proceedings. ETPI's total claim against PLDT is about Php2.9 billion while PLDT's total claim against ETPI is about Php2.8 billion.

In an agreement, PLDT and Globe have agreed that they shall cause ETPI, within a reasonable time after May 30, 2016, to dismiss Civil Case No. 17694 entitled *Eastern Telecommunications Philippines, Inc. vs. Philippine Long Distance Telephone Company*, and all related or incidental proceedings (including the voluntary arbitration between ETPI and PLDT), and PLDT, in turn, simultaneously, shall withdraw its counterclaims against ETPI in the same entitled case, all with prejudice.

In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition

In *Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al. (G.R. No. 176579)* (the "Gamboa Case"), the Supreme Court held that the term 'capital' in Section 11, Article XII of the 1987 Constitution refers only to "shares of stock entitled to vote in the election of directors" and thus only to voting common shares, and not to the "total outstanding capital stock (common and non-voting preferred shares)." It directed the Philippine SEC "to apply this definition of the term 'capital' in determining the extent of allowable foreign ownership in PLDT, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law." On October 9, 2012, the Supreme Court issued a Resolution denying with finality all Motions for Reconsideration of the respondents. The Supreme Court decision became final and executory on October 18, 2012.

On May 20, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, Series of 2013 - Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly-Nationalized Activities, or MC No. 8, which provides that the required percentage of Filipino ownership shall be applied to BOTH (a) the total number of outstanding shares of stock entitled to vote in the election of directors; AND (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.

On June 10, 2013, Jose M. Roy III filed before the Supreme Court a Petition for Certiorari against the Philippine SEC, Philippine SEC Chairman and PLDT, or the Petition, claiming: (1) that MC No. 8 violates the decision of the Supreme Court in the Gamboa Case, which according to the Petitioner required that (a) the 60-40 ownership requirement be imposed on "each class of shares" and (b) Filipinos must have full beneficial ownership of 60% of the outstanding capital stock of those corporations subject to that 60-40 Filipino-foreign ownership requirement; and (2) that the PLDT Beneficial Trust Fund is not a Filipino-owned entity and consequently, the corporations owned by PLDT Beneficial Trust Fund, including BTFHI, which owns 150 million voting preferred shares in PLDT, cannot be considered a Filipino-owned corporation. PLDT and Philippine SEC sought the dismissal of the Petition.

In July 16, 2013, Wilson C. Gamboa, Jr. et. al. filed a Motion for Leave to file a Petition-in-Intervention dated July 16, 2013, which the Supreme Court granted on August 6, 2013. The Petition-in-Intervention raised identical arguments and issues as those in the Petition.

The Supreme Court, in its November 22, 2016 decision, dismissed the Petition and Petition-In-Intervention and upheld the validity of MC No. 8. In the course of discussing the Petition, the Supreme Court expressly rejected petitioners' argument that the 60% Filipino ownership requirement for public utilities must be applied to each class of shares. According to the Court, the position is "simply beyond the literal text and contemplation of Section 11, Article XII of the 1987 Constitution" and that the petitioners' suggestion would "effectively and unwarrantedly amend or change" the Court's ruling in the Gamboa Case. In categorically rejecting the petitioners' claim, the Court declared and stressed that its ruling in the Gamboa Case "did NOT make any definitive ruling that the 60% Filipino ownership requirement was intended to apply to each class of shares." On the contrary, according to the Court, "nowhere in the discussion of the term "capital" in Section 11, Article XII of the 1987 Constitution in the Gamboa Decision did the Court mention the 60% Filipino equity requirement to be applied to each class of shares."

In respect of ensuring Filipino ownership and control of public utilities, the Court noted that this is already achieved by the requirements under MC No. 8. According to the Court, "since Filipinos own at least 60% of the outstanding shares of stock entitled to vote directors, which is what the Constitution precisely requires, then the Filipino stockholders control the corporation – i.e., they dictate corporate actions and decisions…"

The Court further noted that the application of the Filipino ownership requirement as proposed by petitioners "fails to understand and appreciate the nature and features of stocks and financial instruments" and would "greatly erode" a corporation's "access to capital – which a stock corporation may need for expansion, debt relief/repayment, working capital requirement and other corporate pursuits." The Court reaffirmed that "stock corporations are allowed to create shares of different classes with varying features" and that this "is a flexibility that is granted, among others, for the corporation to attract and generate capital (funds) from both local and foreign capital markets" and that "this access to capital – which a stock corporation may need for expansion, debt relief/repayment, working capital requirement and other corporate pursuits – will be greatly eroded with further unwarranted limitations that are not articulated in the Constitution." The Court added that "the intricacies and delicate balance between debt instruments (liabilities) and equity (capital) that stock corporations need to calibrate to fund their business requirements and achieve their financial targets are better left to the judgment of their boards and officers, whose bounden duty is to steer their companies to financial stability and profitability and who are ultimately answerable to their shareholders."

The Court went on to say that "a too restrictive definition of 'capital', one that was never contemplated in the Gamboa Decision, will surely have a dampening effect on the business milieu by eroding the flexibility inherent in the issuance of preferred shares with varying terms and conditions. Consequently, the rights and prerogatives of the owners of the corporation will be unwarrantedly stymied." Accordingly, the Court said that the petitioners' "restrictive interpretation of the term "capital" would have a tremendous adverse impact on the country as a whole – and to all Filipinos."

Petitioner Jose M. Roy III filed a Motion for Reconsideration of the Supreme Court Decision dated November 22, 2016. On April 18, 2017, the Supreme Court denied with finality Petitioner's Motion for Reconsideration. On August 5, 2017, PLDT received a copy of the Entry of Judgment.

Department of Labor and Employment, or DOLE, Compliance Order, or Order, to PLDT

The CA issued a Decision in this case on July 31, 2018.

In a series of orders including a Compliance Order issued by the DOLE Regional Office on July 3, 2017, which was partly affirmed by DOLE Secretary Silvestre Bello, III, or DOLE Secretary, in his resolutions dated January 10, 2018 and April 24, 2018, the DOLE had previously ordered PLDT to regularize 7,344 workers from 38 of PLDT's third party service contractors. PLDT questioned these "regularization orders" before the CA, which led to the July 31, 2018 Decision.

In sum, the CA: (i) granted PLDT's prayer for an injunction against the regularization orders; (ii) set aside the regularization orders insofar as they declared that there was labor-only contracting of the following functions: (a) janitorial services, messengerial and clerical services; (b) information technology, or IT, firms and services; (c) IT support services, both hardware and software, and applications development; (d) back office support and office operations; (e) business process outsourcing or call centers; (f) sales; and (g) medical, dental engineering and other professional services; and (iii) remanded to the DOLE for further proceedings, the matters of: (a) determining which contractors, and which individuals deployed by these contractors, are performing installation, repair and maintenance of PLDT lines; and (b) properly computing monetary awards for benefits such as unpaid overtime or 13th month pay, which in the regularization orders amounted to Php51.8 million.

The CA agreed with PLDT's contention that the DOLE Secretary's regularization order was "tainted with grave abuse of discretion" because it did not meet the "substantial evidence" standards set out by the Supreme Court in landmark jurisprudence. The Court also said that the DOLE's appreciation of evidence leaned in favor of the contractor workers, and that the DOLE Secretary had "lost sight" of distinctions involving the labor law concepts of "control over means and methods," and "control over results."

On August 20, 2018, PLDT filed a motion seeking a partial reconsideration of that part of the CA decision, which ordered a remand to the Office of the Regional Director of the DOLE-National Capital Region of the matter of the regularization of individuals performing installation, repair and maintenance, or IRM, services. In its motion, PLDT argued that the fact-finding process contemplated by the Court's remand order is actually not part of the visitorial power of the DOLE (i.e., the evidence that will need to be assessed cannot be gleaned by in the 'normal course' of a labor inspection) and is therefore, outside the jurisdiction of the DOLE Secretary.

PLDT also questioned that part of the CA ruling which seems to conclude that all IRM jobs are "regular." It argued that the law recognizes that some work of this nature can be project-based or seasonal in nature. Instead of the DOLE, PLDT suggested that the National Labor Relations Commission – a tribunal with better fact-finding powers – take over from the DOLE to determine whether the jobs are in fact IRM, and if so, whether they are "regular" or can be considered project-based or seasonal.

Both adverse parties, the PLDT rank-and-file labor union *Manggagawa sa Komunikasyon ng Pilipinas,* or MKP, and the DOLE filed Motions for Reconsideration.

On February 14, 2019, the CA issued a Resolution denying all Motions for Reconsideration and upheld its July 31, 2018 Decision. After filing a Motion for Extension of Time on March 7, 2019, PLDT filed on April 5, 2019 a Petition for Review with the Supreme Court, questioning only one aspect of the CA decision i.e. its order remanding to the DOLE the determination of which jobs fall within the scope of "installation, repair and maintenance," without however a qualification as to the "project" or "seasonal" nature of those engagements. The Supreme Court has consolidated PLDT's Petition with the separate Petitions for Review filed by the DOLE and MKP. The consolidated case remains pending with the Supreme Court as of the date of the report.

Attys. Baquiran and Tecson vs. NTC, et al.

This is a Petition for Mandamus filed on October 23, 2018 by Attys. Joseph Lemuel Baligod Baquiran and Ferdinand C. Tecson against the Respondents NTC, the PCC, Liberty, BellTel, Globe, PLDT and Smart. Briefly, the case involves the 700 MHz frequency, among others, or Subject Frequencies, that was originally assigned to Liberty and which eventually became subject of the Co-Use Agreement between Globe, on the one hand, and PLDT and Smart, on the other.

The Petition prayed that: (a) a Temporary Restraining Order, or TRO, /Writ of Preliminary Injunction, or WPI, be issued to enjoin and restrain Globe, PLDT and Smart from utilizing and monopolizing the Subject Frequencies and the NTC from bidding out or awarding the frequencies returned by PLDT, Smart and Globe; (b) the NTC's conditional assignment of the Subject Frequencies be declared unconstitutional, illegal and void; (c) alternatively, Liberty and its successors-in-interest be divested of the Subject Frequencies and the same be reverted to the State; (d) Liberty be declared to have transgressed Section 11 (1), Article XVI of the Constitution; (e) Liberty and its parent company be declared to have contravened paragraph 2 of Section 10, Article XII of the 1987 Constitution; (f) Liberty's assignment of the Subject Frequencies to BellTel be declared illegal and void; (g) the Co-Use Agreement be declared invalid; (h) the NTC be found to have unlawfully neglected the performance of its positive duties; (i) the PCC be found to have unlawfully neglected the performance of its positive duties; (j) a Writ of Mandamus be issued commanding the NTC to revoke the Co-Use Agreement, recall the Subject Frequencies in favor of the State, and make the same available to the best qualified telecommunication players; (k) a Writ of Mandamus be issued commanding the PCC to conduct a full review of PLDT's and Globe's acquisition of all issued and outstanding shares of Vega Telecom; (l) an Investigation of NTC be ordered for possible violation of Section 3 (e) of R.A. 3019 and other applicable laws; and (m) the said TRO/WPI be made permanent.

Essentially, petitioners contend that the NTC's assignments of the Subject Frequencies of Liberty were void for failing to comply with Section 4 (c) of R.A. 7925 which essentially states that "the radio frequency spectrum is a scarce public resource xxx." Even assuming the assignments were valid, Liberty should be deemed divested of the same by operation of law (with the Subject Frequencies reverted to the State), considering that it underutilized or never utilized the Subject Frequencies in violation of the terms and conditions of the assignment. Assuming further that the NTC's assignments of the Subject Frequencies were valid and that Liberty was not divested of the same by operation of law, still, Liberty did not validly assign the Subject Frequencies to BellTel because of the absence of Congressional approval. Petitioners conclude that since the assignments of the Subject Frequencies from the NTC to Liberty, and from Liberty to BellTel, were all illegal and void, it follows that the Subject Frequencies could not serve as the object of the Co-Use Agreement between PLDT, Smart and Globe.

On November 23, 2018, PLDT filed an Entry of Appearance on behalf of PLDT and Smart. On January 17, 2019, PLDT and Smart filed their Comment. Essentially, the Comment raised the following arguments: *first*, that the requisites for judicial review and for a mandamus petition are lacking; *second*, that there was no need for Liberty to obtain prior Congressional approval before it assigned the Subject Frequencies to BellTel; and *third*, that the Co-Use Agreement is valid and approved by the NTC, and did not violate the Constitution or any laws.

On January 15, 2019, PLDT received a copy of BellTel's Comment/Opposition dated January 10, 2019. On February 12, 2019, PLDT received a copy of Globe Telecom, Inc.'s, or Globe's Comment/Opposition dated January 21, 2019. In a Resolution dated March 19, 2019, the Supreme Court noted the aforesaid filings. As at the date of the report, however, PLDT has not received any pleadings from the OSG on behalf of the public respondents.

On June 18, 2019, the Supreme Court issued a Resolution consolidating this case with G.R. No. 230798 (Philippine Competition Commission vs. CA [Twelfth Division] and PLDT; Globe, intervenor) and G.R. No. 234969 (Philippine Competition Commission vs. PLDT and Globe). The consolidated cases were assigned to the Court in charge of G.R. No. 230798, the case with the lowest docket number.

Other disclosures required by PAS 37*, Provisions, Contingent Liabilities and Contingent Assets*, were not provided as it may prejudice our position in on-going claims, litigations and assessments. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Provision for legal contingencies and tax assessments*.

28. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables, cash and short-term deposits. Our principal financial liabilities, other than derivatives, comprise of bank loans, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, interest rate swaps and forward foreign exchange contracts and options to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies – Financial Instruments*.

The following table sets forth our consolidated financial assets and financial liabilities as at December 31, 2019 and 2018:

	Financial instruments at amortized cost	Financial instruments at FVPL	Financial instruments at FVOCI	Total financial instruments
		(in million pesos)		
Assets as at December 31, 2019				
Noncurrent:				
Financial assets at fair value through profit or loss	—	3,369	—	3,369
Derivative financial assets – net of current portion	—	1	—	1
Financial assets at fair value through other comprehensive income – net of current portion	—	—	162	162
Other financial assets – net of current portion	1,986	—	—	1,986
Current:				
Cash and cash equivalents	24,369	—	—	24,369
Short-term investments	314	—	—	314
Trade and other receivables	22,436	—	—	22,436
Current portion of derivative financial assets	—	41	—	41
Current portion of debt instruments at amortized cost	150	—	—	150
Current portion of financial assets at fair value through other comprehensive income	—	—	2,757	2,757
Current portion of other financial assets	1,220	6,866	—	8,086
Total assets	50,475	10,277	2,919	63,671
Liabilities as at December 31, 2019				
Noncurrent:				
Interest-bearing financial liabilities – net of current portion	172,834	—	—	172,834
Lease liabilities – net of current portion	13,100	—	—	13,100
Derivative financial liabilities – net of current portion	—	25	—	25
Customers' deposits	2,205	—	—	2,205
Deferred credits and other noncurrent liabilities	2,179	—	—	2,179
Current:				
Accounts payable	76,384	—	—	76,384
Accrued expenses and other current liabilities	73,303	7,851	—	81,154
Current portion of interest-bearing financial liabilities	19,722	—	—	19,722
Current portion of lease liabilities	3,215	—	—	3,215
Dividends payable	1,584	—	—	1,584
Current portion of derivative financial liabilities	—	88	—	88
Total liabilities	364,526	7,964	—	372,490
Net assets (liabilities)	(314,051)	2,313	2,919	(308,819)

	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)**

The following table sets forth our consolidated offsetting of financial assets and liabilities recognized as at December 31, 2019 and 2018:

	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set-off in the consolidated statements of financial position	Net amount presented in the consolidated statements of financial position
		(in million pesos)	
December 31, 2019			
Current Financial Assets			
Trade and other receivables			
Foreign administrations	**5,857**	**4,338**	**1,519**
Domestic carriers	**1,018**	**219**	**799**
Total	**6,875**	**4,557**	**2,318**
Current Financial Liabilities			
Accounts payable			
Suppliers and contractors	**68,121**	**70**	**68,051**
Carriers and other customers	**11,437**	**3,706**	**7,731**
Total	**79,558**	**3,776**	**75,782**
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**

There are no financial instruments subject to an enforceable master netting arrangement as at December 31, 2019 and 2018.

The following table sets forth our consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at December 31, 2019 and 2018 other than those whose carrying amounts are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	2019	2018	**2019**	2018
		(in million pesos)		
Noncurrent Financial Assets				
Debt instruments at amortized cost – net of current portion	**—**	150	**—**	148
Other financial assets – net of current portion	**1,986**	2,275	**1,657**	2,020
Total	**1,986**	2,425	**1,657**	2,168
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities:				
Long-term debt – net of current portion	**172,834**	155,835	**169,965**	139,504
Customers' deposits	**2,205**	2,194	**1,539**	1,305
Deferred credits and other noncurrent liabilities	**2,179**	3,088	**1,953**	2,583
Total	**177,218**	161,117	**173,457**	143,392

Below is the list of our consolidated financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as required for our complete sets of consolidated financial statements as at December 31, 2019 and 2018. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

	2019				2018			
	Level 1[(1)]	**Level 2[(2)]**	**Level 3[(3)]**	**Total**	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]	Total
				(in million pesos)				
Noncurrent Financial Assets								
Listed equity securities								
Financial assets at FVPL	**2,442**	**304**	**623**	**3,369**	3,625	154	984	4,763
Derivative financial assets – net of current portion	**—**	**1**	**—**	**1**	—	140	—	140
Financial assets at FVOCI – net of current portion	**—**	**162**	**—**	**162**	—	2,749	—	2,749
Current Financial Assets								
Current portion of derivative financial assets	**—**	**41**	**—**	**41**	—	183	—	183
Current portion of FVOCI	**—**	**2,757**	**—**	**2,757**	—	1,604	—	1,604
Current portion of other financial assets	**—**	**6,866**	**—**	**6,866**	—	6,833	—	6,833
Total	**2,442**	**10,131**	**623**	**13,196**	3,625	11,663	984	16,272
Noncurrent Financial Liabilities								
Derivative financial liabilities – net of current portion	**—**	**25**	**—**	**25**	—	—	—	—
Current Financial Liabilities								
Accrued expenses and other current liabilities	**—**	**7,851**	**—**	**7,851**	—	7,862	—	7,862
Current portion of derivative financial liabilities	**—**	**88**	**—**	**88**	—	80	—	80
Total	**—**	**7,964**	**—**	**7,964**	—	7,942	—	7,942

(1) *Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.*
(2) *Fair values determined using inputs other than quoted market prices that are either directly or indirectly observable for the assets or liabilities.*
(3) *Fair values determined using discounted values of future cash flows for the assets or liabilities.*

As at December 31, 2019 and 2018, there were no transfers into and out of Level 3 fair value measurements.

As at December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Long-term financial assets and liabilities:

Fair value is based on the following:

Type	Fair Value Assumptions	Fair Value Hierarchy
Noncurrent portion of advances and other noncurrent assets	Estimated fair value is based on the discounted values of future cash flows using the applicable zero-coupon rates plus counterparties' credit spread.	Level 3
Fixed Rate Loans: U.S. Dollar notes	Quoted market price.	Level 1
Investment in debt securities	Fair values were determined using quoted prices. For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.	Level 1 Level 3
Other loans in all other currencies	Estimated fair value is based on the discounted value of future cash flows using the applicable Commercial Interest Reference Rate and BVAL rates for similar types of loans plus PLDT's credit spread.[(1)]	Level 3
Variable Rate Loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.	Level 2

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

Derivative Financial Instruments

Forward foreign exchange contracts, foreign currency swaps and interest rate swaps: The fair values were computed as the present value of estimated future cash flows using market U.S. Dollar and Philippine Peso interest rates as at valuation date.

The valuation techniques considered various inputs including the credit quality of counterparties.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, trade and other receivables, accounts payable, accrued expenses and other current liabilities and dividends payable approximate their carrying values as at the end of the reporting period.

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period.

As at December 31, 2019 and 2018, we have taken into account the counterparties' credit risks and our own non-performance risk 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, 2019 and 2018:

							2019		2018	
	Original Notional Amount	**Trade Date**	**Underlying Transaction in U.S. Dollar**	**Termination Date**	**Weighted Average Hedge Cost**	**Weighted Average Foreign Exchange Rate**	**Notional Amount**	**Net Mark-to-market Gains (Losses) in Php**	Notional Amount	Net Mark-to-market Gains (Losses) in Php
	(in millions)		(in millions)					(in millions)		
Transactions not designated as hedges:										
PLDT										
Forward foreign exchange contracts	US$114	Various dates in 2017 and 2018	U.S. Dollar Liabilities	Various dates in 2018	—	Php51.68	**—**	**—**	—	—
	US$22	Various dates in 2019	U.S. Dollar Liabilities	Various dates in January 2020 to April 2020	—	Php51.48	**US$22**	**(12)**	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	**—**	**—**	—	—
	EUR5	Various dates in July and August 2019	EUR Assets	January 2020	—	Php58.65	**EUR5**	**8**	—	—
Foreign exchange options	EUR36 [a]	Various dates in 2018	EUR Assets	Various dates in November and December 2018	—	EUR1.161 EUR1.185	**—**	**—**	—	—
								(4)		(22)

	Original Notional Amount	Trade Date	Underlying Transaction in U.S. Dollar	Termination Date	Weighted Average Hedge Cost	Weighted Average Foreign Exchange Rate	2019 Notional Amount	2019 Net Mark-to-market Gains (Losses) in Php	2018 Notional Amount	2018 Net Mark-to-market Gains (Losses) in Php
	(in millions)		(in millions)					(in millions)		
Smart										
Forward foreign exchange contracts	US$120	Various dates in 2017 and 2018	U.S. Dollar Liabilities	Various dates in 2018	—	Php52.13	**—**	**—**	—	—
	US$144	Various dates in 2018 and 2019	U.S. Dollar Liabilities	Various dates in 2019	—	Php52.73	**—**	**—**	US$54	(38)
	US$41	Various dates in 2019	U.S. Dollar Liabilities	Various dates in 2020	—	Php51.44	**US$41**	**(22)**	—	—
	US$16	Various dates in January and March 2020	U.S. Dollar Liabilities	Various dates in March and May 2020	—	Php50.79	**—**	**—**	—	—
Foreign exchange options[(b)]	US$4	Various dates in 2017 and 2018	U.S. Dollar Liabilities	Various dates in 2018	—	Php50.64 Php51.58 Php52.48	**—**	**—**	—	—
PCEV										
Forward foreign exchange contracts	US$22	Various dates in 2019	U.S. Dollar Cash Conversion	Various dates in 2019	—	Php52.24	**—**	**—**		—
								(22)		(38)
Transactions designated as hedges:										
PLDT										
Interest rate swaps[(c)]	US$240	Various dates in 2013 and 2015	300 Term Loan	January 16, 2018	2.17%	—	**—**	**—**	—	—
	US$100	August 2014	100 PNB	August 11, 2020	3.46%	—	**US$95**	**(6)**	US$96	55
	US$50	September 2014	50 Metrobank	September 2, 2020	3.47%	—	**US$48**	**(5)**	US$48	25
	US$150	April and June 2015	200 Term Loan	February 25, 2022	2.70%	—	**US$56**	**2**	US$79	66
Long-term currency swaps[(d)]	US$140	October 2015 to June 2016	300 Term Loan	January 16, 2018	2.20%	Php46.67	**—**	**—**	—	—
	US$4	January 2017	100 PNB	August 11, 2020	1.01%	Php49.79	**US$1**	**1**	US$2	7
	US$6	April and June 2017	200 MUFG Bank, Ltd.	August 26, 2019	1.63%	Php49.51	**—**	**—**	US$3	9
	US$2	January 2018	200 MUFG Bank, Ltd.	August 26, 2019	1.59%	Php49.86	**—**	**—**	US$1	3
	US$6	February 2018	200 MUFG Bank, Ltd.	February 26, 2020	1.82%	Php51.27	**US$1**	**(2)**	US$5	6
	US$22	November 2018 to June 2019	200 MUFG Bank, Ltd.	February 25, 2022	2.28%	Php52.08	**US$17**	**(30)**	US$11	17
								(40)		188
Smart										
Interest rate swaps[(e)]	US$110	Various dates in 2013 and 2014	120 Term Loan	June 20, 2018	2.22%	—	**—**	**—**	—	—
	US$85	Various dates in 2014 and 2015	100 Bank of Tokyo	March 7, 2019	2.23%	—	**—**	**—**	US$10	3
	US$50	October 2, 2014	50 Mizuho	May 14, 2019	2.58%	—	**—**	**—**	US$5	2
	US$200	Various dates in 2015	200 Mizuho	March 4, 2020	2.10%	—	**US$22**	**4**	US$67	52
	US$30	February 2016	100 Mizuho	December 7, 2021	2.03%	—	**US$12**	**5**	US$18	24
Long-term currency swaps[(f)]	US$100	Various dates in 2015	200 Mizuho	March 5, 2018	2.21%	Php46.66	**—**	**—**	—	—
	US$45	Various dates in 2016	100 Mizuho	December 7, 2018	1.93%	Php46.55	**—**	**—**	—	—
	US$11	Various dates in 2017	80 CBC	May 31, 2018	1.28%	Php49.66	**—**	**—**	—	—
	US$18	Various dates in 2017, 2018 and 2019	100 Mizuho	December 7, 2020	1.77%	Php50.98	**US$9**	**(3)**	US$16	28
	US$13	Various dates in 2018 and 2019	200 Mizuho	March 4, 2020	2.06%	Php51.93	**US$4**	**(6)**	US$9	6
	US$6	February 2019	2015 Mizuho US$100M	December 7, 2021	2.22%	Php51.83	**US$4**	**(5)**	—	—
								(5)		115
								(71)		243

(a) If the EUR to U.S. Dollar spot exchange rate on the fixing date settles below €1.161, PLDT will sell the EUR at €1.161. However, if on the fixing date, the exchange rate settles between the €1.161 and €1.185, there will be no settlement by PLDT, and if the exchange rate is above €1.185, PLDT will sell the EUR at €1.185.

(b) If the Philippine Peso to U.S. Dollar spot exchange rate on the maturity date settles between Php51.58 to Php52.48, Smart will purchase the U.S. Dollar at Php51.58. However, if on maturity, the exchange rate settles above Php52.48, Smart will purchase the U.S. Dollar at Php51.58 plus the excess above Php52.48, and if the exchange rate is lower than Php51.58, Smart will purchase the U.S. Dollar at the prevailing Philippine Peso to U.S. Dollar spot exchange rate, subject to a floor of Php50.64.

(c) PLDT's interest rate swap agreements outstanding as at December 31, 2019 and 2018 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market loss amounting to Php11 million and mark-to-market gain amounting to Php129 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2019 and 2018, respectively. Interest accrual on the interest rate swaps amounting to Php2 million and Php17 million were recorded as at December 31, 2019 and 2018, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the years ended December 31, 2019 and 2018.

(d) PLDT's long-term principal only-currency swap agreements outstanding as at December 31, 2019 and 2018 were designated as cash flow hedges, wherein effective portion of the movements in the fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market loss amounting to Php23 million and mark-to-market gain amounting to Php45 million were recognized in our consolidated statement of other comprehensive income as at December 31, 2019 and 2018, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php7 million and Php3 million were recognized as at December 31, 2019 and 2018, respectively. The amounts recognized as other comprehensive income are transferred to profit or loss when the hedged loan is revalued for changes in the foreign exchange rate. The hedge cost portion of the movements in the fair value amounting to Php2 million and Php1 million were recognized in our consolidated income statements for the years ended December 31, 2019 and 2018, respectively.

(e) Smart's interest rate swap agreements outstanding as at December 31, 2019 and 2018 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market gains amounting to Php6 million and Php63 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2019 and 2018, respectively. Reduction on interest arising from the interest rate swaps amounted to Php3 million and Php18 million as at December 31, 2019 and 2018, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the years ended December 31, 2019 and 2018.

(f) Smart's long-term principal only-currency swap agreements outstanding as at December 31, 2019 and 2018 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market loss amounting to Php12 million and mark-to-market gain amounting to Php50 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2019 and 2018, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php2 million and Php16 million were recognized as at December 31, 2019 and 2018, respectively. The amounts recognized as other comprehensive income are transferred to profit or loss when the hedged loan is revalued for changes in the foreign exchange rate. The hedge cost portions of the movements in the fair value amounting to Php1 million and Php2 million were recognized in our consolidated income statements for the years ended December 31, 2019 and 2018, respectively.

	2019	2018
	(in million pesos)	
Presented as:		
Noncurrent assets	**1**	140
Current assets	**41**	183
Noncurrent liabilities (Note 29)	**(25)**	—
Current liabilities (Note 29)	**(88)**	(80)
Net assets (liabilities)	**(71)**	243

Movements of our consolidated mark-to-market gains (losses) for the years ended December 31, 2019 and 2018 are summarized as follows:

	2019	2018
	(in million pesos)	
Net mark-to-market gains at beginning of the year	**243**	237
Effective portion recognized in the profit or loss for the cash flow hedges	**14**	27
Gains (losses) on derivative financial instruments (Note 4)	**(233)**	1,135
Net fair value losses on cash flow hedges charged to other comprehensive income	**(330)**	(286)
Settlements, interest expense and others	**235**	(870)
Net mark-to-market gains (losses) at end of the year	**(71)**	243

Our consolidated analysis of gains (losses) on derivative financial instruments for the years ended December 31, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
		(in million pesos)	
Gains (losses) on derivative financial instruments (Note 4)	**(233)**	1,135	724
Hedge costs	**(51)**	(49)	(191)
Net gains (losses) on derivative financial instruments (Notes 4 and 5)	**(284)**	1,086	533

Financial Risk Management Objectives and Policies

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks, which are summarized below. We also monitor the market price risk arising from all financial instruments.

Liquidity Risk

Our exposure to liquidity risk refers to the risk that our financial requirements, working capital requirements and planned capital expenditures will not be met.

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-term and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates and managed funds. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

Our cash position remains sufficient to support our planned capital expenditure requirements and service our debt and financing obligations; however, we may be required to finance a portion of our future capital expenditures from external financing sources. We have cash and cash equivalents, and short-term investments amounting to Php24,369 million and Php314 million, respectively, as at December 31, 2019, which we can use to meet our short-term liquidity needs. See *Note 16 – Cash and Cash Equivalents.*

The following table summarizes the maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at December 31, 2019 and 2018:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
		(in million pesos)			
December 31, 2019					
Financial instruments at amortized cost:	***60,971***	***58,687***	***1,768***	***338***	***178***
Other financial assets	**3,504**	**1,220**	**1,768**	**338**	**178**
Debt instruments at amortized cost	**150**	**150**	**—**	**—**	**—**
Temporary cash investments	**17,663**	**17,663**	**—**	**—**	**—**
Short-term investments	**314**	**314**	**—**	**—**	**—**
Retail subscribers	**17,178**	**17,178**	**—**	**—**	**—**
Corporate subscribers	**13,005**	**13,005**	**—**	**—**	**—**
Foreign administrations	**1,896**	**1,896**	**—**	**—**	**—**
Domestic carriers	**889**	**889**	**—**	**—**	**—**
Dealers, agents and others	**6,372**	**6,372**	**—**	**—**	**—**
Financial instruments at FVPL:	***10,235***	***6,866***	**—**	**—**	***3,369***
Financial assets at fair value through profit or loss	**3,369**	**—**	**—**	**—**	**3,369**
Other financial assets	**6,866**	**6,866**	**—**	**—**	**—**
Financial instruments at FVOCI:	***2,919***	***2,757***	***162***	**—**	**—**
Financial assets at fair value through other comprehensive income	**2,919**	**2,757**	**162**	**—**	**—**
Total	**74,125**	**68,310**	**1,930**	**338**	**3,547**
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	—	—
Temporary cash investments	45,672	45,672	—	—	—
Short-term investments	1,165	1,165	—	—	—
Retail subscribers	19,444	19,444	—	—	—
Corporate subscribers	11,073	11,073	—	—	—
Foreign administrations	4,225	4,225	—	—	—
Domestic carriers	270	270	—	—	—
Dealers, agents and others	5,547	5,547	—	—	—
Financial instruments at FVPL:	*11,596*	*6,833*	—	—	*4,763*
Financial assets at fair value through profit or loss	4,763	—	—	—	4,763
Other financial assets	6,833	6,833	—	—	—
Financial instruments at FVOCI:	*4,353*	*1,604*	*2,749*	—	—
Financial assets at fair value through other comprehensive income	4,353	1,604	2,749	—	—
Total	**106,181**	**95,963**	**4,939**	**349**	**4,930**

The following table summarizes the maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at December 31, 2019 and 2018:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in million pesos)				
December 31, 2019					
Debt[(1)]:	***243,226***	***19,014***	***66,052***	***54,146***	***104,014***
Principal	**193,047**	**15,221**	**44,253**	**40,288**	**93,285**
Interest	**50,179**	**3,793**	**21,799**	**13,858**	**10,729**
Lease obligations	***25,465***	***10,458***	***6,879***	***4,401***	***3,727***
Various trade and other obligations:	***153,255***	***148,839***	***2,405***	***38***	***1,973***
Suppliers and contractors	**70,169**	**68,051**	**2,118**	**—**	**—**
Utilities and related expenses	**51,875**	**51,843**	**32**	**—**	**—**
Employee benefits	**8,673**	**8,673**	**—**	**—**	**—**
Liability from redemption of preferred shares	**7,851**	**7,851**	**—**	**—**	**—**
Customers' deposits	**2,205**	**—**	**194**	**38**	**1,973**
Dividends	**1,584**	**1,584**	**—**	**—**	**—**
Carriers and other customers	**1,387**	**1,387**	**—**	**—**	**—**
Others	**9,511**	**9,450**	**61**	**—**	**—**
Total contractual obligations	**421,946**	**178,311**	**75,336**	**58,585**	**109,714**
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*
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**

[(1)] *Consists of long-term debt, including current portion; gross of unamortized debt discount and debt issuance costs.*

Debt

See *Note 21 – Interest-bearing Financial Liabilities – Long-term Debt* for a detailed discussion of our debt.

Our consolidated future minimum lease commitments payable with non-cancellable leases as at December 31, 2019 and 2018 are as follows:

	2019	2018
	(in million pesos)	
Within one year	**10,480**	12,867
After one year but not more than five years	**11,258**	6,542
More than five years	**3,727**	3,265
Total	**25,465**	22,674

Various Trade and Other Obligations

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits and other related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php153,255 million and Php145,892 million as at December 31, 2019 and 2018, respectively. See *Note 23 – Accounts Payable* and *Note 24 – Accrued Expenses and Other Current Liabilities*.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to nil and Php20 million as at December 31, 2019 and 2018, respectively. These commitments will expire within one year. See *Note 11 – Investments in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare*.

Collateral

We have not made any pledges as collateral with respect to our financial liabilities as at December 31, 2019 and 2018.

Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine Peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency denominated financial assets and liabilities. While a certain percentage of our revenues are either linked to or denominated in U.S. Dollars, a substantial portion of our capital expenditures, a portion of our indebtedness and related interest expense and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. Dollars. As such, a strengthening or weakening of the Philippine Peso against the U.S. Dollar will decrease or increase in Philippine Peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. Dollar-linked and U.S. Dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine Peso to U.S. Dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. Further details of the risk management strategy is recognized in our hedge designation documentation. We use forward foreign exchange purchase contracts, currency swap contracts and currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated financial liabilities. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized in our consolidated other comprehensive income until the hedged transaction affects our consolidated income statement or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the year.

The impact of the hedging instruments on our consolidated statements of financial position as at December 31, 2019 and 2018 are as follows:

	Notional Amount (U.S. Dollar)	Carrying Amount (Php)	Line item in our Consolidated Statements of Financial Position
	(in million pesos)		
December 31, 2019			
Long-term currency swaps	**37**	**1**	Derivative financial assets – net of current portion
	—	**3**	Current portion of derivative financial assets
	—	**(24)**	Derivative financial liabilities – net of current portion
	—	**(24)**	Current portion of derivative financial liabilities
December 31, 2018			
Long-term currency swaps	46	83	Derivative financial assets – net of current portion
	—	13	Current portion of derivative financial assets

The impact of the hedged items on our consolidated statements of financial position as at December 31, 2019 and 2018 are as follows:

	2019		2018	
	Cash flow hedge reserve	**Cost of hedging reserve**	Cash flow hedge reserve	Cost of hedging reserve
	(in million pesos)			
PLDT:				
US$300M Term Loan	**(273)**	**—**	(273)	4
US$100M PNB	**(11)**	**—**	(7)	—
US$200M MUFG Bank, Ltd.	**(48)**	**8**	(3)	—
	(332)	**8**	(283)	4
Smart:				
US$200M Mizuho	**(12)**	**5**	7	3
US$100M Mizuho	**(22)**	**12**	43	13
	(34)	**17**	50	16

The effect of the cash flow hedge on our consolidated income statements and statements of other comprehensive income as at December 31, 2019 and 2018 are as follows:

	Total hedging loss recognized in OCI	**Line item in our Consolidated Income Statements**
	(in million pesos)	
December 31, 2019		
Long-term currency swaps	**(366)**	Other comprehensive loss
December 31, 2018		
Long-term currency swaps	(234)	Other comprehensive loss

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine Peso equivalents as at December 31, 2019 and 2018:

	2019		2018	
	U.S. Dollar	**Php(1)**	U.S. Dollar	Php(2)
	(in millions)			
Noncurrent Financial Assets				
Derivative financial assets – net of current portion	**—**	**1**	3	140
Other financial assets – net of current portion	**—**	**13**	—	12
Total noncurrent financial assets	**—**	**14**	3	152
Current Financial Assets				
Cash and cash equivalents	**122**	**6,181**	717	37,688
Short-term investments	**6**	**285**	22	1,138
Trade and other receivables – net	**777**	**39,472**	261	13,741
Current portion of derivative financial assets	**1**	**41**	3	183
Current portion of other financial assets	**—**	**11**	—	11
Total current financial assets	**906**	**45,990**	1,003	52,761
Total Financial Assets	**906**	**46,004**	1,006	52,913
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	**126**	**6,389**	336	17,668
Derivative financial liabilities – net of current portion	**—**	**25**	—	—
Other noncurrent liabilities	**—**	**15**	—	12
Total noncurrent financial liabilities	**126**	**6,429**	336	17,680
Current Financial Liabilities				
Accounts payable	**676**	**34,325**	415	21,797
Accrued expenses and other current liabilities	**208**	**10,555**	170	8,961
Current portion of interest-bearing financial liabilities	**210**	**10,687**	110	5,780
Current portion of derivative financial liabilities	**2**	**88**	2	80
Total current financial liabilities	**1,096**	**55,655**	697	36,618
Total Financial Liabilities	**1,222**	**62,084**	1,033	54,298

(1) *The exchange rate used to convert the U.S. Dollar amounts into Philippine Peso was Php50.80 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, 2019.*

(2) *The exchange rate used to convert the U.S. Dollar amounts into Philippine Peso was Php52.56 to US$1.00, the Philippine Peso-U.S. Dollar exchange rate as quoted through the Bankers Association of the Philippines as at December 31, 2018.*

As at March 30, 2020, the Philippine Peso-U.S. Dollar exchange rate was Php51.04 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have increased in Philippine Peso terms by Php76 million as at December 31, 2019.

Approximately 9% and 13% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. Dollars as at December 31, 2019 and 2018, respectively. Our consolidated foreign currency-denominated debt decreased to Php17,029 million as at December 31, 2019 from Php23,352 million as at December 31, 2018. See *Note 21 – Interest-bearing Financial Liabilities*. The aggregate notional amount of our consolidated outstanding long-term principal only-currency swap contracts were US$36 million and US$47 million as at December 31, 2019 and 2018, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 8% (or 8%, net of our consolidated U.S. Dollar cash balances allocated for debt) and 12% (or 8%, net of our consolidated U.S. Dollar cash balances allocated for debt) as at December 31, 2019 and 2018, respectively.

Approximately 15% and 16% of our consolidated revenues were denominated in U.S. Dollars and/or were linked to U.S. Dollars for the years ended December 31, 2019 and 2018, respectively. Approximately 11% and 8% of our consolidated expenses were denominated in U.S. Dollars and/or linked to the U.S. Dollar for the years ended December 31, 2019 and 2018, respectively. In this respect, the higher weighted average exchange rate of the Philippine Peso against the U.S. Dollar increased our revenues and expenses, and consequently, affects our cash flow from operations in Philippine Peso terms. In view of the anticipated continued decline in dollar-denominated/dollar-linked revenues, which provide a natural hedge against our foreign currency exposure, we are progressively refinancing our dollar-denominated debts in Philippine Pesos.

The Philippine Peso appreciated by 3.35% against the U.S. Dollar to Php50.80 to US$1.00 as at December 31, 2019 from Php52.56 to US$1.00 as at December 31, 2018. As a result of our consolidated foreign exchange movements, as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange gain of Php408 million for the years ended December 31, 2019, while we recognized net consolidated foreign exchange losses of Php771 million and Php411 million for the years ended December 31, 2018 and 2017, respectively.

Management conducted a survey among our banks to determine the outlook of the Philippine Peso-U.S. Dollar exchange rate until March 31, 2020. Our outlook is that the Philippine Peso-U.S. Dollar exchange rate may weaken/strengthen by 0.59% as compared to the exchange rate of Php50.80 to US$1.00 as at December 31, 2019. If the Philippine Peso-U.S. Dollar exchange rate had weakened/strengthened by 0.59% as at December 31, 2019, with all other variables held constant, consolidated profit after tax for the year 2019 and stockholders' equity as at year end 2019 would have been approximately Php62 million and Php58 million, respectively, lower/higher, mainly as a result of consolidated foreign exchange gains and losses on conversion of U.S. Dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates.

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. We enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. Further details of the risk management strategy is recognized in our hedge designation documentation. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our debt obligations and not for trading purposes.

The impact of the hedging instruments on our consolidated statements of financial position as at December 31, 2019 and 2018 are as follows:

	Notional Amount (U.S. Dollar)	**Carrying Amount (Php)**	**Line item in our Consolidated Statements of Financial Position**
	(in million pesos)		
December 31, 2019			
Interest rate swaps	**233**	**1**	Derivative financial assets – net of current portion
	—	**31**	Current portion of derivative financial assets
	—	**(1)**	Derivative financial liabilities – net of current portion
	—	**(31)**	Current portion of derivative financial liabilities
	233	**—**	
December 31, 2018			
Interest rate swaps	323	57	Derivative financial assets – net of current portion
	—	170	Current portion of derivative financial assets
	323	**227**	

The impact of the hedged items on our consolidated statements of financial position as at December 31, 2019 and 2018 are as follows:

	2019		2018	
	Cash flow hedge reserve	**Cost of hedging reserve**	Cash flow hedge reserve	Cost of hedging reserve
		(in million pesos)		
PLDT:				
US$100M PNB	**(6)**	—	50	—
US$50M MBTC	**(4)**	—	24	—
US$200M MUFG Bank, Ltd.	**(1)**	—	55	—
	(11)	—	129	—
Smart:				
2014 BTMU US$100M	**(1)**	—	(6)	—
2014 Mizuho US$50M	**(1)**	—	(2)	—
2015 Mizuho US$200M	**(36)**	—	(11)	—
2015 Mizuho US$100M	**(19)**	—	—	—
2013 Sumitomo US$120M	—	—	(3)	—
	(57)	—	(22)	—

The effect of the cash flow hedge on our consolidated income statements and statements of other comprehensive income as at December 31, 2019 and 2018 are as follows:

	Total hedging gain (loss) recognized in OCI	**Line item in our Consolidated Income Statements**
	(in million pesos)	
December 31, 2019		
Interest rate swaps	**(68)**	Other comprehensive loss
December 31, 2018		
Interest rate swaps	179	Other comprehensive gain

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at December 31, 2019 and 2018. Financial instruments that are not subject to interest rate risk were not included in the table.

As at December 31, 2019

	In U.S. Dollars							Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php			In U.S. Dollar	In Php
									(in millions)		
Assets:											
Debt Instruments at Amortized Cost											
Philippine Peso	3	—	—	—	—	3	150	—	150	3	150
Interest rate	4.8371%	—	—	—	—	—	—	—	—	—	—
Cash in Bank											
U.S. Dollar	31	—	—	—	—	31	1,586	—	1,586	31	1,586
Interest rate	0.0100% to 1.0000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	83	—	—	—	—	83	4,228	—	4,228	83	4,228
Interest rate	0.0500% to 1.2500%	—	—	—	—	—	—	—	—	—	—
Other Currencies	2	—	—	—	—	2	92	—	92	2	92
Interest rate	0.1000% to 0.5000%	—	—	—	—	—	—	—	—	—	—
Temporary Cash Investments											
U.S. Dollar	72	—	—	—	—	72	3,645	—	3,645	72	3,645
Interest rate	0.7000% to 4.7500%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	276	—	—	—	—	276	14,018	—	14,018	276	14,018
Interest rate	0.1250% to 5.0000%	—	—	—	—	—	—	—	—	—	—
Short-term Investments											
Philippine Peso	1	—	—	—	—	1	29	—	29	1	29
Interest rate	1.5000% to 3.0000%	—	—	—	—	—	—	—	—	—	—
Other Currencies	6	—	—	—	—	6	285	—	285	6	285
Interest rate	0.0000%	—	—	—	—	—	—	—	—	—	—
	474	—	—	—	—	474	24,033	—	24,033	474	24,033
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Fixed Loans	—	15	4	—	—	19	952	—	952	19	945
Interest rate	—	2.8850%	2.8850%	—	—	—	—	—	—	—	—
Philippine Peso	42	376	302	673	1,697	3,090	156,996	408	156,588	3,024	153,644
Interest rate	4.4850% to 5.5000%	3.9000% to 6.7339%	3.9000% to 6.7339%	3.9000% to 6.7339%	4.2500% to 6.7339%	—	—	—	—	—	—
Variable Rate											
U.S. Dollar Loans	165	76	26	50	—	317	16,124	47	16,077	317	16,123
Interest rate	0.7900% to 1.4500% over LIBOR	0.7900% to 0.9500% over LIBOR	0.7900% to 0.9500% over LIBOR	1.0500% over LIBOR	—	—	—	—	—	—	—
Philippine Peso	93	69	3	70	139	374	18,975	36	18,939	374	18,975
Interest rate	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	0.6000% over PHP BVAL	—	—	—	—	—	—
	300	536	335	793	1,836	3,800	193,047	491	192,556	3,734	189,687

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											
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	0.0500% 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%	—	—	—	—	—	—	—	—	—	—
Short-term Investments											
U.S. Dollar	22	—	—	—	—	22	1,138	—	1,138	22	1,138
Interest rate	2.5000% to 3.0000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	1	—	—	—	—	1	27	—	27	1	27
Interest rate	3.5000%	—	—	—	—	—	—	—	—	—	—
	979	**3**	**—**	**—**	**—**	**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 Rates replaced PDST Reference Rates (PDST-R1 and PDST-R2).*

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the particular instrument.

Approximately 18% and 21% of our consolidated debts were variable rate debts as at December 31, 2019 and 2018, respectively. Our consolidated variable rate debt decreased to Php35,098 million as at December 31, 2019 from Php36,575 million as at December 31, 2018. Considering the aggregate notional amount of our consolidated outstanding long-term interest rate swap contracts of US$233 million and US$323 million as at December 31, 2019 and 2018, respectively, approximately 88% and 89% of our consolidated debts were fixed as at December 31, 2019 and 2018, 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, 2020. Our outlook is that the U.S. Dollar and Philippine Peso interest rates may both move 5 basis points, or bps, higher/lower each, as compared to levels as at December 31, 2019. If the U.S. Dollar interest rates had been 5 bps higher/lower as compared to market levels as at December 31, 2019, with all other variables held constant, consolidated profit after tax for the year 2019 and stockholders' equity as at year end 2019 would have been approximately Php74 thousand and Php1.9 million, respectively, lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If the Philippine Peso interest rates had been 5 bps higher/lower as compared to market levels as at December 31, 2019, with all other variables held constant, consolidated profit after tax for the year 2019 and stockholders' equity as at year end 2019 would have been approximately Php74 thousand and Php327 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 at December 31, 2019 and 2018 are as follows:

	2019	2018
	(in million pesos)	
Financial assets at fair value through profit or loss (Note 12)	**3,369**	4,763
Derivative financial assets – net of current portion	**1**	140
Current portion of derivative financial assets	**41**	183
Total	**3,411**	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, 2019 and 2018. The maximum exposure is shown gross before both the effect of mitigation through use of master netting and collateral arrangements. The extent to which collateral and other credit enhancements mitigate the maximum exposure to credit risk is described in the footnotes to the table.

For financial assets recognized on our consolidated statements of financial position, the gross exposure to credit risk equal their carrying amount.

	2019			
	Stage 1 12-Month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	(in million pesos)			
High grade	**29,241**	**9,228**	—	**38,469**
Standard grade	**1,710**	**6,224**	—	**7,934**
Substandard grade	**7**	**6,984**	—	**6,991**
Default	**298**	**1,763**	**15,141**	**17,202**
Gross carrying amount	**31,256**	**24,199**	**15,141**	**70,596**
Less allowance	**298**	**1,763**	**15,141**	**17,202**
Carrying amount	**30,958**	**22,436**	—	**53,394**

	2018			
	Stage 1 12-Month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	(in million pesos)			
High grade	58,299	8,776	—	67,075
Standard grade	1,470	7,881	—	9,351
Substandard grade	3	7,399	—	7,402
Default	236	1,595	14,908	16,739
Gross carrying amount	60,008	25,651	14,908	100,567
Less allowance	236	1,595	14,908	16,739
Carrying amount	**59,772**	**24,056**	**—**	**83,828**

Maximum exposure to credit risk after collateral held or other credit enhancements

Collateral held as security for financial assets depends on the nature of the instrument. Debt investment securities are generally unsecured. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are regularly updated according to internal lending policies and regulatory guidelines. Generally, collateral is not held over loans and advances to us except for reverse repurchase agreements. Collateral usually is not held against investment securities, and no such collateral was held as at December 31, 2019 and 2018.

Our policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by us during the year.

We have not identified significant risk concentrations arising from the nature, type or location of collateral and other credit enhancements held against our credit exposures.

An analysis of the maximum exposure to credit risk for the components of our consolidated statements of financial position, including derivative financial instruments as at December 31, 2019 and 2018:

	2019		
	Gross Maximum Exposure	**Collateral and Other Credit Enhancements***	**Net Maximum Exposure**
		(in million pesos)	
Financial instruments at amortized cost:			
Other financial assets	**3,206**	**—**	**3,206**
Debt instruments at amortized cost	**150**	**—**	**150**
Cash and cash equivalents	**24,369**	**184**	**24,185**
Short-term investments	**314**	**—**	**314**
Retail subscribers	**6,486**	**46**	**6,440**
Corporate subscribers	**8,403**	**331**	**8,072**
Foreign administrations	**1,519**	**—**	**1,519**
Domestic carriers	**799**	**—**	**799**
Dealers, agents and others	**5,229**	**—**	**5,229**
Financial instruments at FVPL:			
Financial assets at FVPL	**3,369**	**—**	**3,369**
Other financial assets	**6,866**	**—**	**6,866**
Interest rate swap	**31**	**—**	**31**
Forward foreign exchange contracts	**8**	**—**	**8**
Currency swap	**2**	**—**	**2**
Long-term currency swap	**1**	**—**	**1**
Financial instruments at FVOCI:			
Financial assets at FVOCI	**2,919**	**—**	**2,919**
Total	**63,671**	**561**	**63,110**

* *Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2019.*

	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:			
Financial assets at FVPL	4,763	—	4,763
Other financial assets	6,833	—	6,833
Interest rate swap	227	—	227
Long-term currency swap	83	—	83
Currency swap	13	—	13
Financial instruments at FVOCI:			
Financial assets at FVOCI:	4,353	—	4,353
Total	**95,747**	**516**	**95,231**

* *Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2018.*

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at December 31, 2019 and 2018:

	Total	Neither past due nor credit impaired		Past due but not credit impaired	Impaired
		Class A[(1)]	Class B[(2)]		
	(in million pesos)				
December 31, 2019					
Financial instruments at amortized cost:	***67,677***	***35,550***	***7,934***	***6,991***	***17,202***
Other financial assets	**3,504**	**1,747**	**1,452**	**7**	**298**
Debt instruments at amortized cost	**150**	**150**	**—**	**—**	**—**
Cash and cash equivalents	**24,369**	**24,111**	**258**	**—**	**—**
Short-term investments	**314**	**314**	**—**	**—**	**—**
Retail subscribers	**17,178**	**3,280**	**1,634**	**1,572**	**10,692**
Corporate subscribers	**13,005**	**3,652**	**2,041**	**2,710**	**4,602**
Foreign administrations	**1,896**	**460**	**414**	**645**	**377**
Domestic carriers	**889**	**374**	**40**	**385**	**90**
Dealers, agents and others	**6,372**	**1,462**	**2,095**	**1,672**	**1,143**
Financial instruments at FVPL:	***10,277***	***10,160***	***117***	**—**	**—**
Financial assets at FVPL	**3,369**	**3,252**	**117**	**—**	**—**
Other financial assets	**6,866**	**6,866**	**—**	**—**	**—**
Interest rate swap	**31**	**31**	**—**	**—**	**—**
Forward foreign exchange contracts	**8**	**8**	**—**	**—**	**—**
Currency swap	**2**	**2**	**—**	**—**	**—**
Long-term currency swap	**1**	**1**	**—**	**—**	**—**
Financial instruments at FVOCI:	***2,919***	***2,919***	**—**	**—**	**—**
Financial assets at FVOCI:	**2,919**	**2,919**	**—**	**—**	**—**
Total	**80,873**	**48,629**	**8,051**	**6,991**	**17,202**

(1) *This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.*

(2) *This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.*

	Total	Neither past due nor credit impaired		Past due but not credit impaired	Impaired
		Class A[(1)]	Class B[(2)]		
	(in million pesos)				
December 31, 2018					
Financial instruments at amortized cost:	*96,214*	*62,722*	*9,351*	*7,402*	*16,739*
Other financial assets	2,686	1,221	1,226	3	236
Debt instruments at amortized cost	150	150	—	—	—
Cash and cash equivalents	51,654	51,410	244	—	—
Short-term investments	1,165	1,165	—	—	—
Retail subscribers	19,444	4,125	3,577	1,918	9,824
Corporate subscribers	11,073	2,806	1,519	2,239	4,509
Foreign administrations	4,225	593	850	1,863	919
Domestic carriers	270	29	49	115	77
Dealers, agents and others	5,547	1,223	1,886	1,264	1,174
Financial instruments at FVPL:	*11,919*	*11,806*	*113*	—	—
Financial assets at FVPL	4,763	4,650	113	—	—
Other financial assets	6,833	6,833	—	—	—
Interest rate swap	227	227	—	—	—
Long-term currency swap	83	83	—	—	—
Currency swap	13	13	—	—	—
Financial instruments at FVOCI:	*4,353*	*4,353*	—	—	—
Financial assets at FVOCI:	4,353	4,353	—	—	—
Total	**112,486**	**78,881**	**9,464**	**7,402**	**16,739**

(1) *This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.*

(2) *This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.*

The aging analysis of past due but not impaired class of financial assets as at December 31, 2019 and 2018 are as follows:

	Total	Neither past due nor credit impaired	Past due but not credit impaired 1-60 days	61-90 days	Over 91 days	Impaired
			(in million pesos)			
December 31, 2019						
Financial instruments at amortized cost:	*67,677*	*43,484*	*2,006*	*1,247*	*3,738*	*17,202*
Other financial assets	3,504	3,199	—	—	7	298
Debt instruments at amortized cost	150	150	—	—	—	—
Cash and cash equivalents	24,369	24,369	—	—	—	—
Short-term investments	314	314	—	—	—	—
Retail subscribers	17,178	4,914	994	150	428	10,692
Corporate subscribers	13,005	5,693	720	770	1,220	4,602
Foreign administrations	1,896	874	41	26	578	377
Domestic carriers	889	414	102	240	43	90
Dealers, agents and others	6,372	3,557	149	61	1,462	1,143
Financial instruments at FVPL:	*10,277*	*10,277*	—	—	—	—
Financial assets at FVPL	3,369	3,369	—	—	—	—
Other financial assets	6,866	6,866	—	—	—	—
Interest rate swap	31	31	—	—	—	—
Forward foreign exchange contracts	8	8	—	—	—	—
Currency swap	2	2	—	—	—	—
Long-term currency swap	1	1	—	—	—	—
Financial instruments at FVOCI:	*2,919*	*2,919*	—	—	—	—
Financial assets at FVOCI:	2,919	2,919	—	—	—	—
Total	80,873	56,680	2,006	1,247	3,738	17,202
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*	—	—	—	—
Financial assets at FVPL	4,763	4,763	—	—	—	—
Other financial assets	6,833	6,833	—	—	—	—
Interest rate swap	227	227	—	—		
Long-term currency swap	83	83	—	—	—	—
Currency swap	13	13	—	—	—	—
Financial instruments at FVOCI:	*4,353*	*4,353*	—	—	—	—
Financial assets at FVOCI:	4,353	4,353	—	—	—	—
Total	112,486	88,345	3,262	398	3,742	16,739

Capital Management Risk

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. On August 5, 2014, the PLDT Board of Directors approved an amendment to our dividend policy, increasing the dividend payout rate to 75% from 70% of our core EPS as regular dividends, although we amended our dividend policy to reduce the regular dividend payout to 60% of core EPS in 2016. In declaring dividends, we take into consideration the interest of our shareholders, as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs.

However, in view of our elevated capital expenditures to build-out a robust, superior network to support the continued growth of data traffic, plans to invest in new adjacent businesses that will complement the current business and provide future sources of profits and dividends, and management of our cash and gearing levels, the PLDT Board of Directors approved on August 2, 2016, the amendment of our dividend policy, reducing the regular dividend payout to 60% of core EPS. As part of the dividend policy, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

No changes were made in our objectives, policies or processes for managing capital during the years ended December 31, 2019, 2018 and 2017.

29. Notes to the Statement of Cash Flows

The following table shows the changes in liabilities arising from financing activities for the years ended December 31, 2019, 2018 and 2017:

	January 1, 2019	**Cash flows**	**Foreign exchange movement**	**Others**	**December 31, 2019**
			(in million pesos)		
Interest-bearing financial liabilities (Note 21)	**176,276**	**16,811**	**(653)**	**122**	**192,556**
Lease liabilities (Note 10)	**15,233**	**(5,399)**	**—**	**6,481**	**16,315**
Derivative financial liabilities	**80**	**(50)**	**—**	**83**	**113**
Accrued interests and other related costs (Note 24)	**1,347**	**(7,143)**	**—**	**7,327**	**1,531**
Dividends (Note 20)	**1,533**	**(15,592)**	**—**	**15,643**	**1,584**
	194,469	**(11,373)**	**(653)**	**29,656**	**212,099**

	January 1, 2018	**Cash flows**	**Foreign exchange movement**	**Others**	**December 31, 2018**
			(in million pesos)		
Interest-bearing financial liabilities (Note 21)	172,611	1,722	1,723	220	176,276
Derivative financial liabilities	149	886	—	(955)	80
Accrued interests and other related costs (Note 24)	1,176	(6,614)	—	6,785	1,347
Dividends	1,575	(13,928)	—	13,886	1,533
	175,511	**(17,934)**	**1,723**	**19,936**	**179,236**

	January 1, 2017	**Cash flows**	**Foreign exchange movement**	**Others**	**December 31, 2017**
			(in million pesos)		
Interest-bearing financial liabilities	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 (Note 24)	1,412	(7,076)	—	6,840	1,176
Dividends (Note 20)	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 recognition and accretion of lease liabilities, effect of accrued but not yet paid interest on interest-bearing loans and borrowings and accrual of dividends that were not yet paid at the end of the period.

Non-cash Investing Activities

The following table shows our significant non-cash investing activities and corresponding transaction amounts for the year ended December 31, 2019:

	(in million pesos)
Initial recognition of ROU assets (Notes 2 and 10)	**14,226**
Additions to ROU assets (Note 10)	**5,072**

Non-cash Financing Activities

The following table shows our significant non-cash financing activities and corresponding transaction amounts for the year ended December 31, 2019:

	(in million pesos)
Initial recognition of lease liabilities (Notes 2 and 10)	**15,233**
Additions to lease liabilities (Note 10)	**5,065**

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
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, 2019 and 2018, and each of the three years in the period ended December 31, 2019 included in this Form 17-A and have issued our report thereon dated March 31, 2020. 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 the Revised Securities Regulation Code Rule 68, 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

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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 31, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel

Marydith C. Miguel
Partner
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February 26, 2018, valid until February 25, 2021
PTR No. 8125270, January 7, 2020, Makati City

March 31, 2020

PLDT INC. AND SUBSIDIARIES
Schedule A. Financial Assets
December 31, 2019

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	Php2,746	Php–	Php–
Others	various	623	N/A	–
		Php3,369	**N/A**	**Php–**

PLDT INC. AND SUBSIDIARIES

Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements
December 31, 2019

	December 31, 2018	Additions	Collections	December 31, 2019
		(in millions)		
ACeS Philippines Cellular Corporation	Php –	Php –	Php –	Php –
BayanTrade	2	5	(5)	2
Bonifacio Communications Corporation	5	308	(311)	2
Chikka Phils. Inc.,	1	–	(1)	–
CruzTelco (SBI-CC3)	–	–	–	–
Curo Teknika, Inc.	3	9	(11)	1
Datelco Global Communications, Inc.	–	–	–	–
Digital Telecommunications Phils., Inc.	25,260	2,203	(2,663)	24,800
Digitel Mobile Philippines, Inc.	–	14	–	14
eInnovations Holdings	–	–	–	–
ePay Investments Pte. Ltd.	–	–	–	–
ePDS, Inc.	6	3	(3)	6
ePLDT, Inc.	419	279	(283)	415
iCommerce Pte. Ltd.	1	–	(1)	–
I-Contacts Corporation	7	20	(25)	2
IP Converge Data Services, Inc.	3	73	(63)	13
Mabuhay Satellite Corporation	–	–	–	–
PLDT-Maratel, Inc.	74	38	(2)	110
Metro Kidapawan Telephone Corporation	–	2	(2)	–
Netgames, Inc.	–	–	–	–
Pacific Global One Aviation Co., Inc.	682	47	(1)	728
PayMaya Philippines, Inc.	–	–	–	–
PGNL Canada	–	–	–	–
PGNL (ROHQ) Phils.	89	24	–	113
PGNL US	–	–	–	–
Philcom Corporation	1,956	(1,891)	(7)	58
PLDT Inc.	1,256	4,986	(4,121)	2,121
Pilipinas Global Network Limited	–	–	–	–
PLDT (HK) Limited	5	–	–	5
PLDT (SG) Pte Ltd	–	–	–	–
PLDT SG Retail Service Pte Ltd.	–	–	–	–
PLDT (UK) Limited	–	–	–	–
PLDT (US) Limited	48	96	(100)	44
PLDT 1528 Unlimited	1	–	–	1
PLDT Capital Pte Ltd	–	–	–	–
PLDT-ClarkTel	47	(18)	(1)	28
PLDT Digital Investments Pte. Ltd.	77	157	(140)	94
PLDT Global (Phils.) Corporation	472	508	(292)	688
PLDT Global Corporation	684	532	(28)	1,188
PLDT Global Investments Holdings Inc	500	–	(500)	–
PLDT Malaysia Sdn Bhd	–	–	–	–
PLDT Online Investments Pte. Ltd	–	–	–	–
Primeworld Digital Systems, Inc.	–	–	–	–
Rack I.T. Data Center, Inc.	–	–	–	–
SmartBroadband, Inc.	3,433	301	(3,733)	1
Smart Communications, Inc.	12,269	8,611	(9,327)	11,553
PLDT Subic Telecom, Inc.	37	(15)	(7)	15
Talas Data Intelligence, Inc.	41	–	(41)	–
Voyager Innovations, Inc.	–	–	–	–
Wifun, Inc.	–	–	–	–
Wolfpac Mobile Inc.	–	–	–	–
	Php47,378	Php16,292	(Php21,668)	Php42,002

All receivables eliminated during the consolidation of financial statements are classified as current. There were no receivables written off during the year.

PLDT INC. AND SUBSIDIARIES
Schedule D. Interest-bearing Financial Liabilities
December 31, 2019

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:					
Others:					
BTMU US$200M	Php3,797	Php1,524	(Php9)	Php2,286	(Php4)
Mizuho Corporate Bank Ltd. (Mizuho) $200M	1,128	1,129	(1)	–	–
Philippine National Bank (PNB) US$100M	4,826	4,826	–	–	–
Mizuho US$100M	2,324	782	(11)	1,563	(10)
Metropolitan Bank & Trust Company (Metrobank)	2,426	2,426	–	–	–
NTT Finance Corporation US$25M	1,265	–	(1)	1,270	(4)
NTT Finance Corporation US$25M (2017)	1,263	–	(2)	1,270	(5)
	17,029	**10,687**	**(24)**	**6,389**	**(23)**
Philippine Peso Debts:					
Corporate Notes:					
PLDT Fixed Rate Corporate Notes (2012) Php8.8B	3,599	39	–	3,560	–
PLDT Fixed Rate Corporate Notes (2012) Php6.2B	2,255	24	–	2,231	–
PLDT Fixed Rate Corporate Notes (2013) Php2.055B	298	3	–	295	–
	6,152	**66**	**–**	**6,086**	**–**
Fixed Rate Retail Bonds:					
Php15B Fixed Rate Retail Bonds	14,965	–	(24)	15,000	(11)
	14,965	**–**	**(24)**	**15,000**	**(11)**

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)			
Term Loans:					
Unsecured Term Loans:					
Rizal Commercial Banking Corporation Php2B	Php1,940	Php20	Php–	Php1,920	Php–
Union Bank of the Philippines (Unionbank) Php1B	940	940	–	–	–
Philippine American Life and General Insurance (Philam Life) Php1B	1,000	–	–	1,000	–
Bank of the Philippine Islands (BPI) Php2B	1,880	1,880	–	–	–
Metrobank Php3B	1,199	1,200	(1)	–	–
BPI Php3B	2,818	2,820	(2)	–	–
Landbank Php3B	2,847	30	(3)	2,820	–
Landbank Php500M	475	5	–	470	–
Unionbank Php2B	1,900	20	–	1,880	–
Philam Life Php1.5B	1,500	–	–	1,500	–
BDO Unibank, Inc. (BDO) 500M	475	5	–	470	–
Philam Life Php1B	1,000		–	1,000	–
Landbank Php1B	950	10	–	940	–
Unionbank Php1.5B	1,425	15	–	1,410	–
BPI Php2B	1,920	20	–	1,900	–
BPI Php3B	2,880	30	–	2,850	–
Metrobank Php5B	4,800	50	–	4,750	–
Metrobank Php5B	4,785	50	(2)	4,750	(13)
BPI Php5B	4,784	50	(2)	4,750	(14)
Metrobank Php5B	4,784	50	(2)	4,750	(14)
Chinabank Php7B	5,593	700	(4)	4,900	(3)
Metrobank Php6B	5,804	60	(4)	5,760	(12)
BPI Php6.5B	6,286	65	(4)	6,240	(15)
BDO Php3B	2,910	30	–	2,880	–
BPI Php5.3B	5,125	53	(4)	5,088	(12)
Chinabank Php2.5B	2,250	250	–	2,000	–
Metrobank Php3B	2,929	30	(1)	2,910	(10)
Security Bank Corporation (Security Bank) Php8B	7,651	160	(4)	7,520	(25)
Landbank Php3.5B	3,417	35	(2)	3,395	(11)
Security Bank Php2B	1,950	20	–	1,930	–
Landbank Php3.5B	3,430	35	–	3,395	–
Security Bank Php2B	1,935	20	(2)	1,930	(13)
PNB Php1B	980	10	–	970	–
PNB Php1.5B	1,485	15	–	1,470	–
Landbank Php2B	1,980	20	–	1,960	–
Unionbank Php1B	990	10	–	980	–
BPI Php2B	1,969	20	(2)	1,960	(9)
Development Bank of the Philippines Php1.5B	1,500	–	–	1,500	–
BPI Php3B	2,950	30	(2)	2,940	(18)
Landbank Php1.5B	1,485	15	–	1,470	–
Landbank Php2B	1,980	20	–	1,960	–
Landbank Php1B	990	10	–	980	–
BPI Php2B	1,980	20	–	1,960	–
PNB Php4B	3,972	40	(4)	3,960	(24)
DBP Php5B	4,978	–	(2)	5,000	(20)
Chinabank Php8B	7,942	–	(7)	8,000	(51)
DBP Php4B	3,970	–	(2)	4,000	(28)
UBP Php8B	7,978	80	(2)	7,920	(20)
Bank of China (BOC) Php2B	1,985	20	(2)	1,980	(13)
PNB Php2B	1,985	20	(2)	1,980	(13)
BPI Php4.5B	4,500	45	–	4,455	–
UBP Php5.4B	5,229	54	(3)	5,184	(6)
	154,410	**9,082**	**(65)**	**145,737**	**(344)**
Total Debt	**Php192,556**	**Php19,835**	**(Php113)**	**Php173,21**	**(Php378)**

PLDT INC.

Schedule E. Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)
December 31, 2019

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)	Php1,265	Php–	(Php1)	Php1,270	(Php4)
NTT Finance Corporation US$25M (2017)	1,263	–	(2)	1,270	(5)

PLDT INC.

Schedule G. Capital Stock
December 31, 2019

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 Executive Officers[1]	Others
			(in millions)			
Preferred Stock	538	450	–	450	–	–
Non-Voting Preferred Stock (Php10 par value)	388	300	–	300	–	–
Cumulative Convertible Series II to JJ	88	–[2]		–	–	–
Cumulative Nonconvertible Series IV	300	300[3]		300[3]	–	–
Voting Preferred Stock(Php1 par value)	150	150		150	–	–
Common Stock (Php5 par value)	234	216	–	99[4]	1	116

(1) Consists of 1,335,510 common shares directly and indirectly owned by directors and executive officers as at March 31, 2020.

(2) On June 8, 2015, the Company issued 870 shares of Series JJ 10% Cumulative Convertible Preferred Stock, which are currently outstanding. On January 28, 2020 the Board of Directors approved the redemption of PLDT's Series JJ 10% Cumulative Convertible Preferred Stock which were issued in the year 2014, effective May 12, 2020. In April 2011, the Company issued 370 shares of Series II 10% Cumulative Convertible Preferred Stock, all of which were redeemed by May 11, 2016.

(3) Includes 300,000,000 shares subscribed for Php3,000,000,000, of which Php360,000,000 has been paid.

(4) 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.

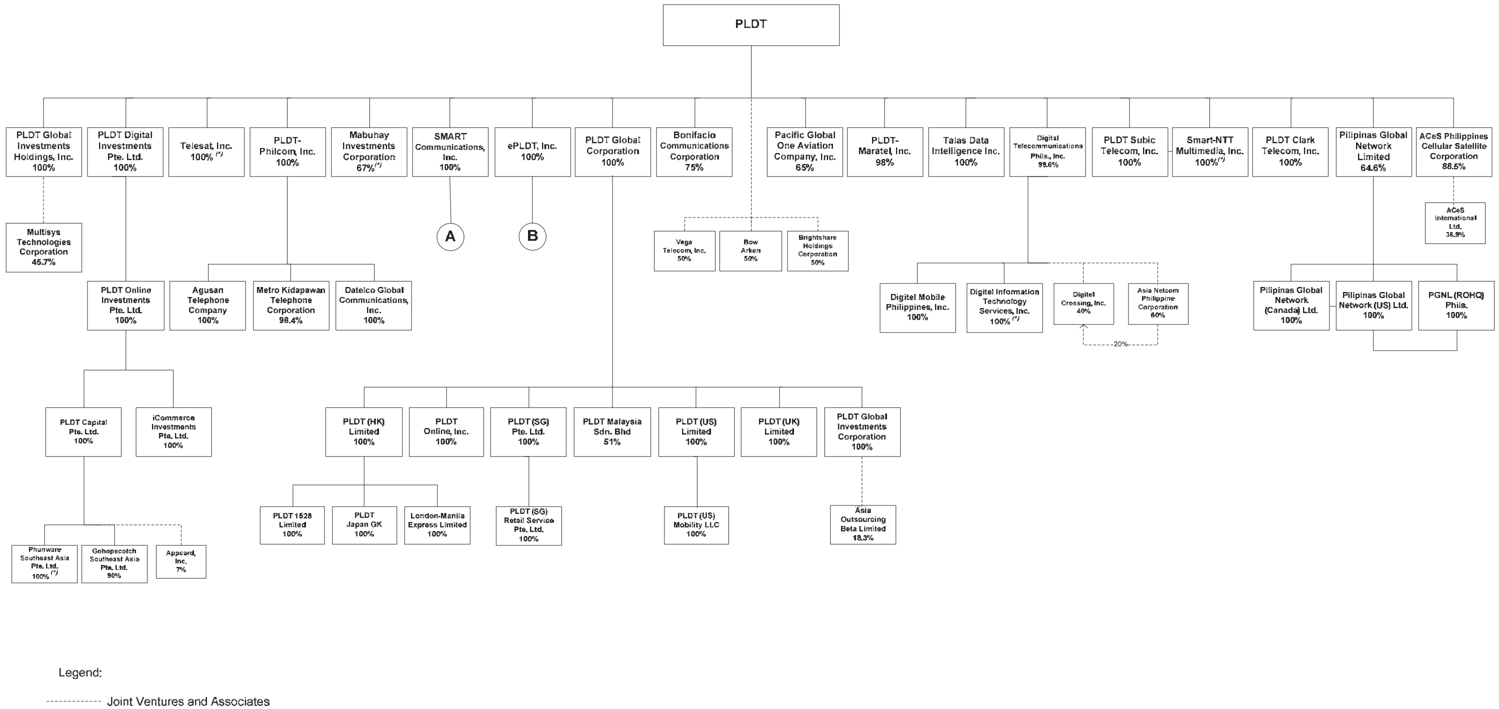
PLDT INC.

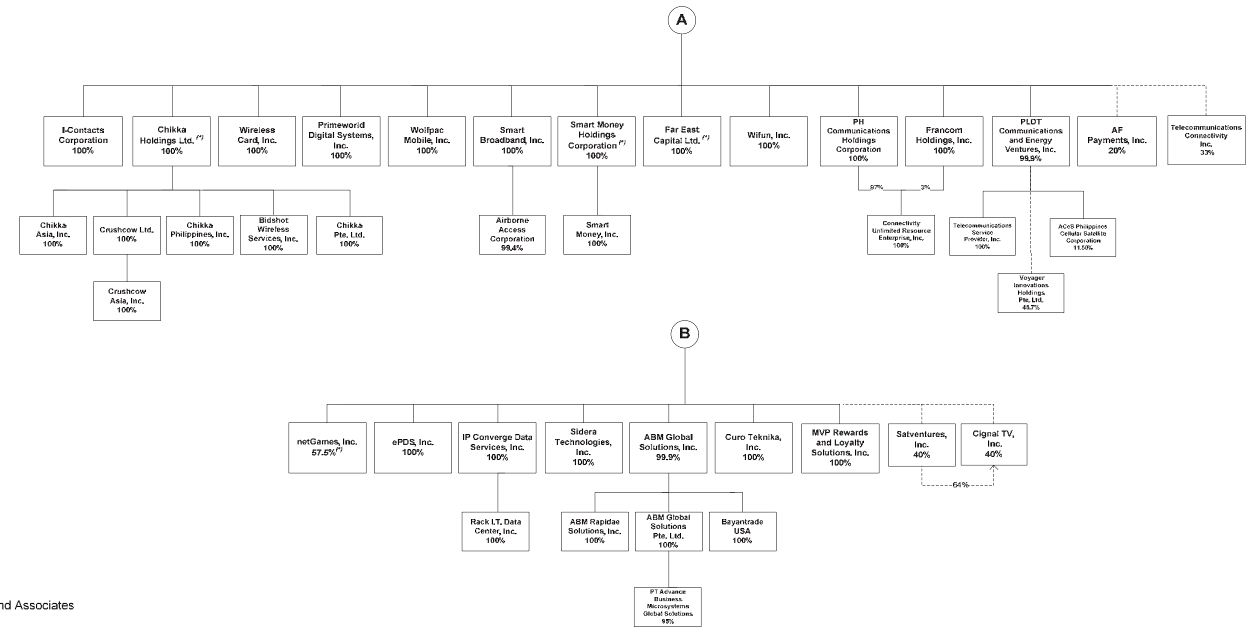
Schedule H. Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2019

	(in millions)
Consolidated unappropriated retained earnings as at December 31, 2018 (as previously stated)	Php6,861
Effect of PAS 27, *Consolidated and Separate Financial Statements*, adjustments	25,692
Effect of adoption of PFRS 16	(136)
Parent Company's unappropriated retained earnings at beginning of the year (as restated)	32,417
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	(888)
Fair value adjustments (market-to-market gains)	(3,440)
Parent Company's unappropriated retained earnings available for dividends as at January 1, 2019	27,566
Parent Company's net income for the year	18,381
Less: Fair value adjustment of investment property resulting to gain	(229)
Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)	(473)
	17,679
Less: Cash dividends declared during the year	
Preferred stock	(59)
Common stock	(15,556)
	(15,615)
Parent Company's unappropriated retained earnings available for dividends as at December 31, 2019	**Php29,630**

As at December 31, 2019, our consolidated unappropriated retained earnings amounted to Php18,063 million while the Parent Company's unappropriated retained earnings amounted to Php35,182 million. The difference of Php17,119 million pertains to the effect of PAS 27 in our investments in subsidiaries, associates and joint ventures accounted for under equity method.

PLDT INC.
Schedule I. Map of the Relationships of the Companies within the Group
December 31, 2019





Legend:
------------ Joint Ventures and Associates

(*) *Ceased commercial operations.*

PLDT INC.

Schedule J. Financial Soundness Indicators
December 31, 2019 and 2018

	December 31,	
	2019	**2018**
Current Ratio(1)	0.37:1.0	0.52:1.0
Acid Test Ratio(2)	0.23:1.0	0.40:1.0
Solvency Ratio(3)	0.35:1.0	0.43:1.0
Net Debt to Equity Ratio(4)	1.50:1.0	1.10:1.0
Net Debt to EBITDA Ratio(5)	2.10:1.0	1.93:1.0
Total Debt to EBITDA Ratio(6)	2.41:1.0	2.75:1.0
Asset to Equity Ratio(7)	4.69:1.0	4.30:1.0
Interest Coverage Ratio(8)	4.63:1.0	4.19:1.0
Profit Margin(9)	13%	12%
Return on Assets(10)	5%	4%
Return on Equity(11)	20%	17%
EBITDA Margin(12)	49%	42%

(1) Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)

(2) Acid test ratio is measured as total of cash and cash equivalent, short-term investments and trade and other receivables divided by total current liabilities.

(3) Solvency ratio is measured as adding back non-cash expenses to the net income after tax divided by total debt (long-term debt, including current portion.)

(4) 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.

(5) 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.

(6) Total Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion) divided by EBITDA for the year.

(7) Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of PLDT.

(8) Interest coverage ratio is measured by EBIT, or earnings before interest and taxes for the year, divided by total financing cost for the year.

(9) Profit margin is derived by dividing net income for the year with total revenues for the year.

(10) Return on assets is measured as net income for the year divided by average total assets.

(11) Return on Equity is measured as net income for the year divided by average total equity attributable to equity holders of PLDT.

(12) 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.

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REGISTRAR AND TRANSFER AGENT

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