

PLDT Inc.
Form 6-K
May 11, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

OF THE SECURITIES EXCHANGE ACT OF 1934

May 11, 2018

PLDT INC.

(Translation of registrant's name into English)

Ramon Cojuangco Building

Makati Avenue, Makati City

Philippines

(Address of registrant's principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.
Form 20-F Form 40-F

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T
Rule 101 (b) (1): Yes No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T
Rule 101 (b) (7): Yes No

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby
furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.
Yes No

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

PLDT
PLDT INC.
(Registrant)

By: /s/ Ma.
Lourdes C.
Rausa-Chan

Name: Ma. Lourdes
C.
Rausa-Chan
Title: Corporate
Secretary

Date: 05/11/2018

SEC Number PW-55
File Number

PLDT Inc.

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)

(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

March 31, 2018

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

May 11, 2018

Securities & Exchange Commission

Secretariat Building, PICC Complex

Roxas Boulevard, Pasay City

Attention: Mr. Vicente Graciano P. Felizmenio, Jr.
Director – Markets and Securities Regulations Dept.

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1.1.1.2, we submit herewith two (2) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements for the three (3) months ended March 31, 2018.

Very truly yours,

/s/ Ma. Lourdes C. Rausa-Chan
MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

SEC
Registration
Number
PW-55

Company Name

PLDT INC.

Principal Office (No./Street/Barangay/City/Town/Province)

RAMON COJ UANGCO BUILDING
MAYA AVE. MAKATI CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-Q	MSRD	

COMPANY INFORMATION

Company's Email Address: jacabal@pldt.com.ph
Company's Telephone Number/s: (02) 816-8534
Mobile Number:

No. of Stockholders Annual Meeting Fiscal Year

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11,693 Month/Day Month/Day

as at March 31, 2018 Every 2nd Tuesday in June December 31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
June Cheryl A. Cabal-Revilla	jacabal@pldt.com.ph	(02) 816-8534	

Contact
Person's
Address
11/F
Ramon
Cojuangco
Bldg.
Makati
Ave.,
Makati
City

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17

OF THE SECURITIES REGULATION CODE (“SRC”) AND

SRC 17 (2) (b) THEREUNDER

1. For the quarterly period ended March 31, 2018
2. SEC Identification Number PW-55
3. BIR Tax Identification No. 000-488-793
4. PLDT Inc.
Exact name of registrant as specified in its charter
5. Republic of the Philippines
Province,
country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. Ramon Cojuangco Building, Makati Avenue, Makati City 0721

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Address of registrant's principal office Postal Code

8. (632) 816-8556
Registrant's telephone number, including area code

9. Not Applicable
Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value	216,055,775 shares as at March 31, 2018

11. Are any or all of these securities listed on the Philippine Stock Exchange?

Yes [X] No []

12. Check whether the registrant

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of

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the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports):

Yes [X] No []

(b) has been subject to such filing requirements for the past 90 days.

Yes [X] No []

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at March 31, 2018 (unaudited) and December 31, 2017 (audited) and for the three months ended March 31, 2018 and 2017 (unaudited) and related notes (pages F-1 to F-151) are filed as part of this report on Form 17-Q.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

In the following discussion and analysis of our financial condition and results of operations, unless the context indicates or otherwise requires, references to “we,” “us,” “our” or “PLDT Group” mean PLDT Inc. and its consolidated subsidiaries, and references to “PLDT” mean PLDT Inc., not including its consolidated subsidiaries (please see Note 2 – Summary of Significant Accounting Policies to the accompanying unaudited consolidated financial statements for the list of these subsidiaries, including a description of their respective principal business activities and PLDT’s direct and/or indirect equity interest).

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our unaudited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, or PFRS, which is virtually converged with International Financial Reporting Standards as issued by the International Accounting Standards Board. PFRS differs in certain significant respects from generally accepted accounting principles, or GAAP, in the U.S.

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php52.25 to US\$1.00, the exchange rate as at March 31, 2018 quoted through the Philippine Dealing System.

Some information in this report may contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. 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 generally are identified by forward-looking words such as “believe,” “plan,” “anticipate,” “continue,” “estimate,” “expect,” “may,” “will” or other similar

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. When considering forward-looking statements, you should keep in mind the description of risks and other cautionary statements in this report. You should also keep in mind that any forward-looking statement made by us in this report 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 have no duty to, and do not intend to, update or revise the statements in this report after the date hereof. 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.

Financial Highlights and Key Performance Indicators

	Three months ended March 31,		Increase	
	2018	2017	Amount	%
(amounts in million Php, except for EBITDA margin, earnings per common share)				
Consolidated Income Statement				
Revenues	40,507	39,188	1,319	3
Expenses	33,561	30,476	3,085	10
Other income (expenses)	1,889	(1,456)	3,345	230
Income before income tax	8,835	7,256	1,579	22
Net income	6,924	4,969	1,955	39
Core income	6,003	5,329	674	13
EBITDA	16,533	16,467	66	—
EBITDA margin ⁽¹⁾	44	%	44	%
Reported earnings per common share:				
Basic	31.87	22.84	9.03	40
Diluted	31.87	22.84	9.03	40
Core earnings per common share ⁽²⁾ :				
Basic	27.72	24.60	3.12	13
Diluted	27.72	24.60	3.12	13

	March 31,		December 31,		Increase	
	2018	2017	2017	2018	(Decrease)	Amount %
(amounts in million Php, except for net debt to equity ratio)						
Consolidated Statements of Financial Position						
Total assets	467,655	459,444	8,211	2		
Property and equipment	184,455	186,907	(2,452)	(1)		
Cash and cash equivalents and short-term investments	37,920	33,979	3,941	12		
Total equity attributable to equity holders of PLDT	109,070	106,842	2,228	2		
Long-term debt, including current portion	172,239	172,611	(372)	—		
Net debt ⁽³⁾ to equity ratio	1.23x	1.30x	—	—		

	Three months ended		Increase	
	March 31,	2017	(Decrease)	%
	2018		Amount	
(amounts in million Php, except for operational data)				
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	16,316	15,131	1,185	8
Net cash used in investing activities	(16,161)	(9,681)	(6,480)	(67)
Payment for purchase of property and equipment	12,944	1,770	11,174	631
Net cash used in financing activities	(4,692)	(12,756)	8,064	63

Operational Data				
Number of mobile subscribers	58,117,819	63,142,478	(5,024,659)	(8)
Prepaid ⁽⁴⁾	55,666,020	60,421,068	(4,755,048)	(8)
Postpaid	2,451,799	2,721,410	(269,611)	(10)
Number of broadband subscribers	1,995,900	1,770,805	225,095	13
Fixed Line broadband	1,772,836	1,506,578	266,258	18
Fixed Wireless broadband	223,064	264,227	(41,163)	(16)
Number of fixed line subscribers	2,707,079	2,487,601	219,478	9
Number of employees:	17,814	17,885	(71)	—
Fixed Line	10,843	10,667	176	2
LEC	6,853	7,263	(410)	(6)
Others	3,990	3,404	586	17
Wireless	6,971	7,218	(247)	(3)

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

⁽²⁾Core earnings per common share, or EPS, for the period is measured as core income divided by the weighted average number of outstanding common shares for the period.

⁽³⁾Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt, including current portion).

⁽⁴⁾Beginning 2Q2017, the prepaid subscriber base excludes subscribers who did not reload within 90 days vis-à-vis 120 days previous cut-off.

		Weighted average Month end rates during the year
Exchange Rates – per US\$ rates		
March 31, 2018	52.25	51.45
December 31, 2017	49.96	50.41
March 31, 2017	50.22	50.01
December 31, 2016	49.77	47.48

Performance Indicators

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

EBITDA

EBITDA for the period is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income – net. EBITDA is monitored by management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. EBITDA is presented also as a supplemental disclosure because our management believes that it is widely used by investors in their analysis of the performance of PLDT and to assist them in their comparison of PLDT's performance with that of other companies in the technology, media and telecommunications sector. We also present EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Companies in the technology, media and telecommunications sector have historically reported EBITDA as a supplement to financial measures in accordance with PFRS. EBITDA should not be considered as an alternative to net income as an indicator of our performance, as an alternative to cash flows from operating activities, as a measure of liquidity or as an alternative to any other measure determined in accordance with PFRS. Unlike net income, EBITDA does not include depreciation and amortization, and financing costs and, therefore, does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using EBITDA as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax, net income, cash flows from operations and cash flow data. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in EBITDA. Our calculation of EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

Core Income

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. The core income results are monitored by management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by management as a basis of determining the level of dividend payouts to shareholders and basis of 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 income before income tax, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and other non-recurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

Overview

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:

• **Wireless** — mobile telecommunications services provided by Smart Communications, Inc., or Smart, and Digitel Mobile Philippines, Inc., or DMPI, our mobile service providers; Voyager Innovations, Inc., or Voyager, and certain subsidiaries, our mobile applications and digital platforms developers and mobile financial services provider; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; and certain subsidiaries of PLDT Global Corporation, or PLDT Global, our mobile virtual network operations, or MVNO, provider;

• **Fixed Line** — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. or Philcom, and its subsidiaries, or Philcom Group, PLDT-Maratel, Inc., Bonifacio Communications Corporation, PLDT Global and certain subsidiaries and Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, big data, managed security services, managed IT services and resellership provided by ePLDT, Inc., or ePLDT, IP Converge Data Services, Inc., or IPCDSI, and subsidiary, or IPCDSI Group, ABM Global Solutions, Inc., or AGS, and its subsidiaries, or AGS Group, Curo Teknika, Inc. and ePDS, Inc., or ePDS; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation provided by Talas Data Intelligence, Inc., or Talas; distribution of Filipino channels and content by Pilipinas Global Network Limited and its subsidiaries; and

• **Others** — PLDT Communications and Energy Ventures, Inc., or PCEV, PLDT Global Investment Holdings, Inc., Mabuhay Investments Corporation, PLDT Global Investments Corporation, or PGIC, PLDT Digital Investments Pte. Ltd., or PLDT Digital, and its subsidiaries, our investment companies.

As at March 31, 2018, our chief operating decision maker, or our Management Committee, views our business activities in three business units: Wireless, Fixed Line and Others.

Management's Financial Review

In addition to consolidated net income, we use EBITDA and core income to assess our operating performance. The reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the three months ended March 31, 2018 and 2017 are set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the three months ended March 31, 2018 and 2017:

	2018	2017
	(amounts in million Php)	
Consolidated EBITDA	16,533	16,467
Add (deduct) adjustments:		
Depreciation and amortization	(9,373)	(7,550)
Provision for income tax	(1,911)	(2,287)

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Financing costs – net	(1,698)	(1,900)
Foreign exchange losses – net	(1,142)	(397)
Amortization of intangible assets	(214)	(205)
Impairment of investments	(60)	(339)
Equity share in net earnings of associates and joint ventures	74	193
Interest income	477	309
Gains on derivative financial instruments – net	530	282
Other income – net	3,708	396
Total adjustments	(9,609)	(11,498)
Consolidated net income	6,924	4,969

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the three months ended March 31, 2018 and 2017:

	2018	2017
	(amounts in million Php)	
Consolidated core income	6,003	5,329
Add (deduct) adjustments:		
Gain on investment valuation	3,350	—
Gains on derivative financial instruments – net, excluding hedge costs	546	386
Net income attributable to noncontrolling interests	24	18
Core income adjustment on equity share in net		
losses of associates and joint ventures	(12)	19
Impairment of investments	(60)	(339)
Foreign exchange losses – net	(1,142)	(397)
Depreciation due to shortened life of property and equipment	(2,392)	—
Net tax effect of aforementioned adjustments	607	(47)
Total adjustments	921	(360)
Consolidated net income	6,924	4,969

Results of Operations

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

In 2017, we changed the presentation of our expenses by combining certain line items to simplify our reporting while maintaining the same level of information.

	Inter-segment				Consolidated
	Wireless	Fixed Line	Others	Transactions	
	(amounts in million Php, except for EBITDA margin)				
For the three months ended March 31, 2018					
Revenues	22,904	20,457	—	(2,854)	40,507
Expenses	21,235	15,558	8	(3,240)	33,561
Other income (expenses)	(539)	(60)	2,824	(336)	1,889
Income before income tax	1,130	4,839	2,816	50	8,835

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Provision for income tax	474	1,308	114	15	1,911
Net income /Segment profit	656	3,531	2,702	35	6,924
EBITDA	7,926	8,229	(8)	386	16,533
EBITDA margin ⁽¹⁾	38 %	42 %	—	—	44 %
Core income	2,551	3,351	66	35	6,003

For the three months ended March 31, 2017

Revenues	23,162	19,049	—	(3,023)	39,188
Expenses	19,488	14,372	18	(3,402)	30,476
Other expenses	(363)	(293)	(421)	(379)	(1,456)
Income (loss) before income tax	3,311	4,384	(439)	—	7,256
Provision for income tax	1,081	1,175	31	—	2,287
Net income (loss)/Segment profit (loss)	2,230	3,209	(470)	—	4,969
EBITDA	8,309	7,797	(18)	379	16,467
EBITDA margin ⁽¹⁾	37 %	43 %	—	—	44 %
Core income	2,298	2,856	175	—	5,329

Increase (Decrease)

Revenues	(258)	1,408	—	169	1,319
Expenses	1,747	1,186	(10)	162	3,085
Other income (expenses)	(176)	233	3,245	43	3,345
Income before income tax	(2,181)	455	3,255	50	1,579
Provision for income tax	(607)	133	83	15	(376)
Net income/Segment profit	(1,574)	322	3,172	35	1,955
EBITDA	(383)	432	10	7	66
Core income	253	495	(109)	35	674

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

In the first quarter of 2018, we adopted PFRS 15 using the modified retrospective approach. i.e. contracts that are not completed by January 1, 2018 are accounted as if they were recognized in accordance with the new standard from the very beginning. The cumulative effect arising from the transition was recognized as an adjustment to the opening balance of the equity.

The following is the impact of PFRS 15 adoption in our profit and loss for the three months ended March 31, 2018:

	PFRS 15 Impact			
	PAS 18	Wireless	Fixed Line	PFRS 15
	(amounts in million Php)			
Service revenues	38,614	(873)	4	37,745
Non-service revenues	2,099	617	46	2,762
Other income - interest income	404	72	1	477
Income before tax	8,968	(184)	51	8,835
Provision for income tax	1,974	(78)	15	1,911
Net income (loss)	6,994	(106)	36	6,924
EBITDA	16,739	(256)	50	16,533
EBITDA Margin	43 %	—	—	44 %
Core income	6,073	(106)	36	6,003

On a Consolidated Basis

Revenues

We reported consolidated revenues of Php40,507 million for the three months ended March 31, 2018, an increase of Php1,319 million, or 3%, as compared with Php39,188 million in the same period in 2017, primarily due to higher revenues from data services in our fixed line business, partially offset by lower revenues from mobile and home broadband services in our wireless business.

The following table shows the breakdown of our consolidated revenues by services for the three months ended March 31, 2018 and 2017:

	Wireless	Fixed Line	Inter-segment Transactions	Consolidated
	(amounts in million Php)			
For the three months ended March 31, 2018				
Service Revenues				
Wireless	20,926		(773)	20,153
Mobile	20,040		(315)	19,725
Home broadband	433		(385)	48
Digital platforms and mobile financial services	301		(4)	297
MVNO and others	152		(69)	83
Fixed Line		19,672	(2,080)	17,592
Voice		7,083	(508)	6,575
Data		12,137	(1,399)	10,738
Home broadband		5,551	(66)	5,485
Corporate data and ICT		6,586	(1,333)	5,253
Miscellaneous		452	(173)	279
Total Service Revenues	20,926	19,672	(2,853)	37,745
Non-Service Revenues				
Sale of computers, phone units and mobile handsets	1,978	629	(1)	2,606
Point-product sales	—	156	—	156
Total Non-Service Revenues	1,978	785	(1)	2,762
Total Revenues	22,904	20,457	(2,854)	40,507
For the three months ended March 31, 2017				
Service Revenues				
Wireless	22,475		(330)	22,145
Mobile	21,387		(318)	21,069
Home broadband	655		(3)	652
Digital platforms and mobile financial services	318		(9)	309
MVNO and others	115		—	115
Fixed Line		18,249	(2,693)	15,556
Voice		7,220	(908)	6,312
Data		10,574	(1,549)	9,025
Home broadband		4,134	(60)	4,074
Corporate data and ICT		6,440	(1,489)	4,951
Miscellaneous		455	(236)	219
Total Service Revenues	22,475	18,249	(3,023)	37,701
Non-Service Revenues				

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Sale of computers, phone units and mobile handsets	687	589	—	1,276
Point-product sales	—	211	—	211
Total Non-Service Revenues	687	800	—	1,487
Total Revenues	23,162	19,049	(3,023)	39,188

The following table shows the breakdown of our consolidated revenues by business segment for the three months ended March 31, 2018 and 2017:

	2018	%	2017	%	Change	
	(amounts in million Php)				Amount	%
Wireless	22,904	57	23,162	59	(258)	(1)
Fixed line	20,457	50	19,049	49	1,408	7
Inter-segment transactions	(2,854)	(7)	(3,023)	(8)	169	6
Consolidated	40,507	100	39,188	100	1,319	3

Expenses

Consolidated expenses increased by Php3,085 million, or 10%, to Php33,561 million for the three months ended March 31, 2018 from Php30,476 million in the same period in 2017, primarily due to higher depreciation and amortization, and cost of sales and services in our wireless business, and higher selling, general and administrative expenses, and provisions in our fixed line business.

The following table shows the breakdown of our consolidated expenses by business segment for the three months ended March 31, 2018 and 2017:

	2018	%	2017	%	Change	
	(amounts in million Php)					
Wireless	21,235	63	19,488	64	1,747	9
Fixed line	15,558	46	14,372	47	1,186	8
Others	8	—	18	—	(10)	(56)
Inter-segment transactions	(3,240)	(9)	(3,402)	(11)	162	5
Consolidated	33,561	100	30,476	100	3,085	10

Other Income (Expenses)

Consolidated other income amounted to Php1,889 million for the three months ended March 31, 2018, a change of Php3,345 million as against other expenses of Php1,456 million in the same period in 2017, primarily due to gain on valuation of Rocket Internet investment, partially offset by higher net foreign exchange losses in our wireless and other businesses.

The following table shows the breakdown of our consolidated other income (expenses) by business segment for the three months ended March 31, 2018 and 2017:

	2018	2017	Change	
	(amounts in million Php)			
Wireless	(539)	(363)	(176)	(48)
Fixed line	(60)	(293)	233	80
Others	2,824	(421)	3,245	771
Inter-segment transactions	(336)	(379)	43	11
Consolidated	1,889	(1,456)	3,345	230

Net Income (Loss)

Consolidated net income increased by Php1,955 million, or 39%, to Php6,924 million for the three months ended March 31, 2018, from Php4,969 million in the same period in 2017, primarily due to Php3,172 million increase in net income from our other business, partially offset by Php1,574 million decrease in net income from our wireless segment. Our consolidated basic and diluted EPS increased to Php31.87 for the three months ended March 31, 2018 from Php22.84 in the same period in 2017. Our weighted average number of outstanding common shares was approximately 216.06 million in each of the first three months of 2018 and 2017.

The following table shows the breakdown of our consolidated net income by business segment for the three months ended March 31, 2018 and 2017:

	2018	%	2017	%	Change	
	(amounts in million Php)				Amount	%
Wireless	656	9	2,230	45	(1,574)	(71)
Fixed line	3,531	51	3,209	65	322	10
Others	2,702	39	(470)	(10)	3,172	675
Inter-segment transactions	35	1	—	—	35	—
Consolidated	6,924	100	4,969	100	1,955	39

EBITDA

Our consolidated EBITDA amounted to Php16,533 million for the three months ended March 31, 2018, an increase of Php66 million as compared with Php16,467 million in the same period in 2017, primarily due to improved EBITDA in our fixed line business, partially offset by lower EBITDA in our wireless business.

The following table shows the breakdown of our consolidated EBITDA by business segment for the three months ended March 31, 2018 and 2017:

	2018	%	2017	%	Change	
	(amounts in million Php)				Amount	%
Wireless	7,926	48	8,309	51	(383)	(5)
Fixed line	8,229	50	7,797	47	432	6
Others	(8)	—	(18)	—	10	56
Inter-segment transactions	386	2	379	2	7	2
Consolidated	16,533	100	16,467	100	66	—

Core Income

Our consolidated core income amounted to Php6,003 million for the three months ended March 31, 2018, an increase of Php674 million, or 13%, as compared with Php5,329 million in the same period in 2017, primarily due to higher core income from our fixed line and wireless segments. Our consolidated basic and diluted core EPS increased to Php27.72 for the three months ended March 31, 2018 from Php24.60 in the same period in 2017.

The following table shows the breakdown of our consolidated core income by business segment for the three months ended March 31, 2018 and 2017:

	2018	%	2017	%	Change	
	(amounts in million Php)				Amount	%
Wireless	2,551	42	2,298	43	253	11
Fixed line	3,351	56	2,856	54	495	17
Others	66	1	175	3	(109)	(62)
Inter-segment transactions	35	1	—	—	35	—
Consolidated	6,003	100	5,329	100	674	13

On a Business Segment Basis

Wireless

Revenues

We generated revenues of Php22,904 million from our wireless business for the three months ended March 31, 2018, a decrease of Php258 million, or 1%, from Php23,162 million in the same period in 2017.

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The following table summarizes our total revenues from our wireless business for the three months ended March 31, 2018 and 2017 by service:

	2018	%	2017	%	Increase (Decrease) Amount %	
	(amounts in million Php)					
Service Revenues:						
Mobile	20,040	87	21,387	92	(1,347)	(6)
Home broadband	433	2	655	3	(222)	(34)
Digital platforms and mobile financial services	301	1	318	1	(17)	(5)
MVNO and others ⁽¹⁾	152	1	115	1	37	32
Total Wireless Service Revenues	20,926	91	22,475	97	(1,549)	(7)
Non-Service Revenues:						
Sale of mobile handsets and broadband data modems	1,978	9	687	3	1,291	188
Total Wireless Revenues	22,904	100	23,162	100	(258)	(1)

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

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Service Revenues

Our wireless service revenues for the three months ended March 31, 2018 decreased by Php1,549 million, or 7%, to Php20,926 million as compared with Php22,475 million in the same period in 2017, mainly as a result of lower revenues from mobile and home broadband services. As a percentage of our total wireless revenues, service revenues accounted for 91% and 97% for the three months ended March 31, 2018 and 2017, respectively.

Mobile Services

Our mobile service revenues amounted to Php20,040 million for the three months ended March 31, 2018, a decrease of Php1,347 million, or 6%, from Php21,387 million in the same period in 2017. Mobile service revenues accounted for 96% and 95% of our wireless service revenues for the three months ended March 31, 2018 and 2017, respectively.

	2018	%	2017	%	Increase (Decrease) Amount	%
	(amounts in million Php)					
Mobile Services:						
Voice	6,953	35	7,835	37	(882)	(11)
SMS	5,919	30	6,912	32	(993)	(14)
Data	6,673	33	6,308	29	365	6
Inbound roaming and others ⁽¹⁾	495	2	332	2	163	49
Total	20,040	100	21,387	100	(1,347)	(6)

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

Voice Services

Mobile revenues from our voice services, which include all voice traffic, decreased by Php882 million, or 11%, to Php6,953 million for the three months ended March 31, 2018 from Php7,835 million in the same period in 2017, mainly on account of lower domestic and international voice revenues due to subscribers' shift to digital lifestyle with access to alternative calling options and other over-the-top, or OTT, services, and the impact of adoption of PFRS 15. Mobile voice services accounted for 35% and 37% of our mobile service revenues for the three months ended March 31, 2018 and 2017, respectively.

Domestic voice service revenues decreased by Php363 million, or 6%, to Php5,666 million for the three months ended March 31, 2018 from Php6,029 million in the same period in 2017, due to lower domestic outbound and inbound voice service revenues.

International voice service revenues decreased by Php519 million, or 29%, to Php1,287 million for the three months ended March 31, 2018 from Php1,806 million in the same period in 2017, primarily due to lower international inbound and outbound voice service revenues as a result of lower international voice traffic, partially offset by the effect of higher weighted average rate of the Philippine peso relative to the U.S. dollar.

SMS Services

Mobile revenues from our SMS services, which include all SMS-related services and value-added services, or VAS, decreased by Php993 million, or 14%, to Php5,919 million for the three months ended March 31, 2018 from Php6,912 million in the same period in 2017 mainly due to declining SMS volumes as a result of alternative text messaging options, such as OTT services and social media, and the impact of adoption of PFRS 15. Mobile SMS services accounted for 30% and 32% of our mobile service revenues for the three months ended March 31, 2018 and 2017, respectively.

Data Services

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php365 million, or 6%, to Php6,673 million for the three months ended March 31, 2018 from Php6,308 million in the same period in 2017 as a result of continuous network improvement, enhanced data offers and increased mobile internet usage, partially offset by lower revenues from mobile broadband and the impact of adoption of PFRS 15.

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

	2018	%	2017	%	Increase (Decrease) Amount	%
(amounts in million Php)						
Data Services:						
Mobile internet ⁽¹⁾	5,375	80	4,612	73	763	17
Mobile broadband	1,260	19	1,655	26	(395)	(24)
Other data	38	1	41	1	(3)	(7)
Total	6,673	100	6,308	100	365	6

⁽¹⁾Includes revenues from web-based services, net of discounts and content provider costs.

Mobile internet

Mobile internet service revenues increased by Php763 million, or 17%, to Php5,375 million for the three months ended March 31, 2018 from Php4,612 million in the same period in 2017 as a result of the increase in smartphone ownership and greater data adoption among our subscriber base leading to the increase in mobile internet browsing and prevalent use of mobile apps, social networking sites and other OTT services. Mobile internet services accounted for 27% and 22% of our mobile service revenues for the three months ended March 31, 2018 and 2017, respectively.

Mobile broadband

Mobile broadband revenues amounted to Php1,260 million for the three months ended March 31, 2018, a decrease of Php395 million, or 24%, from Php1,655 million in the same period in 2017, primarily due to a decrease in the number of subscribers using dongles as they move to smartphone usage and fixed DSL/Fiber subscription. Mobile broadband services accounted for 6% and 8% of our mobile service revenues for the three months ended March 31, 2018 and 2017, respectively.

Other data

Revenues from our other data services, which include domestic leased lines and share in revenue from PLDT WeRoam, decreased by Php3 million, or 7%, to Php38 million for the three months ended March 31, 2018 from Php41 million in the same period in 2017.

Inbound Roaming and Others

Mobile revenues from inbound roaming and other services increased by Php163 million, or 49%, to Php495 million for the three months ended March 31, 2018 from Php332 million in the same period in 2017.

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

	2018	2017	Increase (Decrease)	
	(amounts in million Php)			
			Amount	%
Mobile service revenues	20,040	21,387	(1,347)	(6)
By service type				
Prepaid	14,712	15,135	(423)	(3)
Postpaid	4,833	5,920	(1,087)	(18)
Inbound roaming and others	495	332	163	49

Prepaid Revenues

Revenues generated from our mobile prepaid services amounted to Php14,712 million for the three months ended March 31, 2018, a decrease of Php423 million, or 3%, as compared with Php15,135 million in the same period in 2017. Mobile prepaid service revenues accounted for 73% and 71% of mobile service revenues for the three months ended March 31, 2018 and 2017, respectively. The decrease in revenues from our mobile prepaid services was primarily driven by a lower mobile prepaid subscriber base resulting in lower voice and SMS revenues, partially offset by the sustained growth in mobile internet revenues.

Postpaid Revenues

Revenues generated from mobile postpaid service amounted to Php4,833 million for the three months ended March 31, 2018, a decrease of Php1,087 million, or 18%, as compared with Php5,920 million in the same period in 2017, and accounted for 24% and 28% of mobile service revenues for the three months ended March 31, 2018 and 2017, respectively. The decrease in our mobile postpaid service revenues was primarily due to a lower postpaid subscriber base and the impact of adoption of PFRS 15.

Subscriber Base, ARPU and Churn Rates

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

	2018	2017	Increase (Decrease) Amount	%
Mobile subscriber base				
Smart ⁽¹⁾	21,601,011	23,299,171	(1,698,160)	(7)
Postpaid	1,402,046	1,365,709	36,337	3
Prepaid ⁽²⁾	20,198,965	21,933,462	(1,734,497)	(8)
TNT	29,231,950	30,401,174	(1,169,224)	(4)
Sun ⁽¹⁾	7,284,858	9,442,133	(2,157,275)	(23)
Postpaid	1,049,753	1,355,701	(305,948)	(23)
Prepaid ⁽²⁾	6,235,105	8,086,432	(1,851,327)	(23)
Total mobile subscribers	58,117,819	63,142,478	(5,024,659)	(8)

⁽¹⁾Includes mobile broadband subscribers.

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

The average monthly churn rate for Smart Prepaid subscribers for the three months ended March 31, 2018 and 2017 were 6.8% and 5.3%, respectively, while the average monthly churn rate for TNT subscribers were 6.2% and 5.7% for the three months ended March 31, 2018 and 2017, respectively. The average monthly churn rate for Sun Prepaid subscribers were 6.0% and 7.7% for the three months ended March 31, 2018 and 2017, respectively.

The average monthly churn rate for Smart Postpaid subscribers were 2.0% and 2.4% for the three months ended March 31, 2018 and 2017, respectively, and 3.9% and 3.3% for three months ended March 31, 2018 and 2017, respectively, for Sun Postpaid subscribers.

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

Gross ⁽¹⁾		Increase (Decrease) Amount%	Net ⁽²⁾		Increase (Decrease) Amount%
2018	2017		2018	2017	

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(amounts in Php)

Prepaid								
Smart	124	114	10	9	112	104	8	8
TNT	80	77	3	4	73	71	2	3
Sun	88	84	4	5	80	78	2	3
Postpaid								
Smart	819	1,001	(182)	(18)	809	965	(156)	(16)
Sun	384	416	(32)	(8)	382	413	(31)	(8)

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

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

Home Broadband

Revenues from our Home Broadband services decreased by Php222 million, or 34%, to Php433 million for the three months ended March 31, 2018 from Php655 million in the same period in 2017, mainly due to the transfer of Ultra and WiMAX businesses to PLDT.

Digital Platforms and Mobile Financial Services

Revenues from digital platforms and mobile financial services, as reported by Voyager, decreased by Php17 million, or 5%, to Php301 million for the three months ended March 31, 2018 from Php318 million in the same period in 2017.

MVNO and Others

Revenues from our MVNO and other services increased by Php37 million, or 32%, to Php152 million for the three months ended March 31, 2018 from Php115 million in the same period in 2017, primarily due to revenue share from Shops.Work Unplugged, or SWUP, partially offset by lower revenue contribution from MVNOs of PLDT Global.

Non-Service Revenues

Our wireless non-service revenues consist of sales of mobile handsets, mobile broadband data modems, tablets and accessories. Our wireless non-service revenues increased by Php1,291 million, or 188%, to Php1,978 million for the three months ended March 31, 2018 from Php687 million in the same period in 2017, primarily due to higher revenues from postpaid mobile handsets and the impact of adoption of PFRS 15, partly offset by the decline in revenues from prepaid mobile handsets and broadband data modems attributable to lower average price per unit.

Expenses

Expenses associated with our wireless business amounted to Php21,235 million for the three months ended March 31, 2018, an increase of Php1,747 million, or 9%, from Php19,488 million in the same period in 2017. A significant portion of the increase was mainly attributable to higher depreciation and amortization, cost of sales and services, and provisions, partially offset by lower interconnection costs, and selling, general and administrative expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 93% and 84% for the three months ended March 31, 2018 and 2017, respectively.

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

	2018	%	2017	%	Increase (Decrease) Amount %	
	(amounts in million Php)					
Selling, general and administrative expenses	10,452	49	10,597	54	(145)	(1)
Depreciation and amortization	6,043	28	4,430	23	1,613	36
Cost of sales and services	2,546	12	2,024	10	522	26
Interconnection costs	1,446	7	1,709	9	(263)	(15)
Provisions	748	4	728	4	20	3
Total	21,235	100	19,488	100	1,747	9

Selling, general and administrative expenses decreased by Php145 million, or 1%, to Php10,452 million, primarily due to lower expenses related to rent, professional and other contracted services, and insurance and security services,

partly offset by higher expenses on repairs and maintenance, selling and promotions, and compensation and employee benefits.

Depreciation and amortization charges increased by Php1,613 million, or 36%, to Php6,043 million, on account of depreciation due to shortened life of certain data network platform and other technology equipment resulting from the transformation projects to improve and simplify the network and systems applications.

Cost of sales and services increased by Php522 million, or 26%, to Php2,546 million, primarily due to higher issuances of mobile handsets and mobile broadband data modems.

Interconnection costs decreased by Php263 million, or 15%, to Php1,446 million, primarily due to lower interconnection cost on domestic and international voice and SMS services, partially offset by an increase in interconnection charges on international data roaming.

Provisions increased by Php20 million, or 3%, to Php748 million, primarily due to higher provision for inventory obsolescence, partly offset by lower provision for doubtful accounts.

Other Income (Expenses)

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

	2018	2017	Change	
			Amount	%
	(amounts in million Php)			
Other Income (Expenses):				
Foreign exchange losses – net	(553)	(254)	(299)	118
Financing costs – net	(519)	(604)	85	(14)
Equity share in net earnings (losses) of associates	62	(33)	95	(288)
Interest income	147	60	87	145
Gain on derivative financial instruments – net	312	134	178	133
Other income (expenses) – net	12	334	(322)	(96)
Total	(539)	(363)	(176)	48

Our wireless business' other expenses amounted to Php539 million for the three months ended March 31, 2018, an increase of Php176 million, or 48%, from Php363 million in the same period in 2017, primarily due to the combined effects of the following: (i) lower other income – net by Php322 million in the same period in 2017 mainly due to lower miscellaneous income, impairment on Smart's investment in AF Payments, Inc., or AFPI, and lower income from consultancy; (ii) higher net foreign exchange losses by Php299 million due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar; (iii) lower net financing costs by Php85 million; (iv) higher interest income by Php87 million; (v) equity share in net earnings of associates of Php62 million in the first three months of 2018 as against equity share in net losses of Php33 million in the same period in 2017; and (vi) higher net gains on derivative financial instruments by Php178 million.

Provision for Income Tax

Provision for income tax amounted to Php474 million for the three months ended March 31, 2018, a decrease of Php607 million, or 56%, from Php1,081 million in the same period in 2017, mainly due to lower taxable income.

Net Income (Loss)

As a result of the foregoing, our wireless business' net income decreased by Php1,574 million, or 71%, to Php656 million for the three months ended March 31, 2018 from Php2,230 million in the same period in 2017.

EBITDA

Our wireless business' EBITDA decreased by Php383 million, or 5%, to Php7,926 million for the three months ended March 31, 2018 from Php8,309 million in the same period in 2017. EBITDA margin increased to 38% for the three months ended March 31, 2018 from 37% in the same period in 2017.

Core Income

Our wireless business' core income increased by Php253 million, or 11%, to Php2,551 million for the three months ended March 31, 2018 from Php2,298 million in the same period in 2017 on account of lower depreciation expense and net financing costs, partially offset by lower EBITDA and other miscellaneous income.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php20,457 million for the three months ended March 31, 2018, an increase of Php1,408 million, or 7%, from Php19,049 million in the same period in 2017.

The following table summarizes our total revenues from our fixed line business for the three months ended March 31, 2018 and 2017 by service segment:

	2018	%	2017	%	Increase (Decrease) Amount %	
	(amounts in million Php)					
Service Revenues:						
Voice	7,083	35	7,220	38	(137)	(2)
Data	12,137	59	10,574	56	1,563	15
Miscellaneous	452	2	455	2	(3)	(1)
	19,672	96	18,249	96	1,423	8
Non-Service Revenues:						
Sale of computers, phone units and point-product sales	785	4	800	4	(15)	(2)
Total Fixed Line Revenues	20,457	100	19,049	100	1,408	7

Service Revenues

Our fixed line service revenues increased by Php1,423 million, or 8%, to Php19,672 million for the three months ended March 31, 2018 from Php18,249 million in the same period in 2017, due to higher revenues from our data services, partially offset by lower voice and miscellaneous service revenues.

Voice Services

Revenues from our voice services decreased by Php137 million, or 2%, to Php7,083 million for the three months ended March 31, 2018 from Php7,220 million in the same period in 2017, primarily due to lower international services (partly due to the continued popularity of services such as Skype, Viber, Line, Facebook Messenger, Google Talk and WhatsApp, offering free on-net calling services, and other similar services), partially offset by higher revenues from local exchange and domestic services.

Data Services

The following table shows information of our data service revenues for the three months ended March 31, 2018 and 2017:

	2018	2017	Increase Amount %	
	(amounts in million Php)			
Data service revenues	12,137	10,574	1,563	15
Home broadband	5,551	4,134	1,417	34
Corporate data and ICT	6,586	6,440	146	2

Our data services posted revenues of Php12,137 million for the three months ended March 31, 2018, an increase of Php1,563 million, or 15%, from Php10,574 million in the same period in 2017, primarily due to higher home broadband revenues from DSL and Fibr, an increase in corporate data and leased lines primarily i-Gate, Metro Ethernet, Cignal plan, Internet Protocol-Virtual Private Network, or IP-VPN, Fibernet, and Shops.Work, and higher data center and ICT revenues. The percentage contribution of this service segment to our fixed line service revenues accounted for 62% and 58% for the three months ended March 31, 2018 and 2017, respectively.

Home Broadband

Home broadband data revenues amounted to Php5,551 million for the three months ended March 31, 2018, an increase of Php1,417 million, or 34%, from Php4,134 million in the same period in 2017. This growth is driven by increasing demand for broadband services which the company is providing through its existing copper network and a nationwide roll-out of its fiber-to-the-home, or FTTH, network. Home broadband revenues accounted for 46% and 39% of total data service revenues in the three months ended March 31, 2018 and 2017, respectively. In the first quarter of 2018, PLDT's FTTH nationwide network rollout has passed 4.4 million homes.

Corporate Data and ICT

Corporate data services amounted to Php5,683 million for the three months ended March 31, 2018, an increase of Php61 million, or 1%, as compared with Php5,622 million in the same period in 2017, mainly due to sustained market traction of broadband data services and growth on Fibr, as a result of higher internet connectivity requirements, and key Private Networking Solutions such as IP-VPN, Metro Ethernet and Shops.Work. Corporate data revenues accounted for 47% and 53% of total data services in the three months ended March 31, 2018 and 2017, respectively.

ICT revenues increased by Php85 million, or 10%, to Php903 million for the three months ended March 31, 2018 from Php818 million in the same period in 2017 mainly due to higher revenues from colocation and managed IT services. Cloud services include cloud contact center, cloud infrastructure as a service, cloud software as a service and cloud professional services. The percentage contribution of this service segment to our total data service revenues were 7% and 8% in the first three months of 2018 and 2017, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees. These service revenues decreased by Php3 million, or 1%, to Php452 million for the three months ended March 31, 2018 from Php455 million in the same period in 2017 mainly due to lower outsourcing and management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues accounted for 2% for each of the three months ended March 31, 2018 and 2017.

Non-service Revenues

Non-service revenues decreased by Php15 million, or 2%, to Php785 million for the three months ended March 31, 2018 from Php800 million in the same period in 2017, primarily due to lower sale of Telpad units, hardware and software, and FabTab for myDSL retention, partially offset by higher sale of computer-bundled and TD-LTE devices.

Expenses

Expenses related to our fixed line business totaled Php15,558 million for the three months ended March 31, 2018, an increase of Php1,186 million, or 8%, as compared with Php14,372 million in the same period in 2017. The increase was primarily due to higher selling, general and administrative expenses, provisions, and depreciation and amortization, partly offset by lower interconnection costs, and cost of sales and services. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 76% and 75% for the three months ended March 31, 2018 and 2017, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the three months ended March 31, 2018 and 2017 and the percentage of each expense item to the total:

	2018	%	2017	%	Increase (Decrease) Amount %
	(amounts in million Php)				
Selling, general and administrative expenses	9,539	61	8,399	59	1,140 14

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Depreciation and amortization	3,330	22	3,120	22	210	7
Cost of sales and services	1,069	7	1,208	8	(139)	(12)
Interconnection costs	977	6	1,322	9	(345)	(26)
Provisions	643	4	323	2	320	99
Total	15,558	100	14,372	100	1,186	8

Selling, general and administrative expenses increased by Php1,140 million, or 14%, to Php9,539 million primarily due to higher professional and other contracted services, compensation and employee benefits, rent, and repairs and maintenance expenses.

Depreciation and amortization charges increased by Php210 million, or 7%, to Php3,330 million mainly due to a higher depreciable asset base.

Cost of sales and services decreased by Php139 million, or 12%, to Php1,069 million, primarily due to lower cost of Telpad units, hardware and software, and FabTab for myDSL retention.

Interconnection costs decreased by Php345 million, or 26%, to Php977 million, primarily due to lower international interconnection costs, as a result of a decrease in international inbound calls that terminated to other domestic carriers, and lower domestic interconnection costs.

Provisions increased by Php320 million, or 99%, to Php643 million, mainly due to higher provisions for doubtful accounts and inventory obsolescence.

Other Income (Expenses)

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

	2018	2017	Change	
	(amounts in million Php)		Amount	%
Other Income (Expenses):				
Financing costs – net	(1,229)	(1,308)	79	6
Foreign exchange gain (losses)	17	(41)	58	141
Equity share in net earnings of associates	30	67	(37)	(55)
Interest income	193	199	(6)	(3)
Gains on derivative financial instruments – net	218	148	70	47
Other income – net	711	642	69	11
Total	(60)	(293)	233	80

Our fixed line business' other expenses amounted to Php60 million for the three months ended March 31, 2018 from Php293 million in the same period in 2017, mainly due to the combined effects of the following: (i) lower net financing costs by Php79 million; (ii) higher net gains on derivative financial instruments by Php70 million; (iii) higher other income – net by Php69 million; (iv) foreign exchange gains of Php17 million in the first three months of 2018 as compared with foreign exchange losses of Php41 million in the same period in 2017; (v) a decrease in interest income by Php6 million; and (vi) lower equity share in net earnings of associates by Php37 million.

Provision for Income Tax

Provision for income tax amounted to Php1,308 million for the three months ended March 31, 2018, an increase of Php133 million, or 11%, from Php1,175 million in the same period in 2017. The effective tax rates for our fixed line business was 27% for each of the three months ended March 31, 2018 and 2017.

Net Income

As a result of the foregoing, our fixed line business registered a net income of Php3,531 million for the three months ended March 31, 2018, a decrease of Php322 million, or 10%, as compared with Php3,209 million in the same period in 2017.

EBITDA

Our fixed line business' EBITDA increased by Php432 million, or 6%, to Php8,229 million for the three months ended March 31, 2018 from Php7,797 million in the same period in 2017. EBITDA margin decreased to 42% in the first three months in 2018 from 43% in the same period in 2017.

Core Income

Our fixed line business' core income increased by Php495 million, or 17%, to Php3,351 million for the three months ended March 31, 2018 from Php2,856 million in the same period in 2017, primarily as a result of higher EBITDA and lower net financing costs, partially offset by higher depreciation expense.

Others

Expenses

Expenses related to our other business totaled Php8 million for the three months ended March 31, 2018, a decrease of Php10 million, or 56%, as compared with Php18 million in the same period in 2017, due to lower selling, general and administrative expenses.

Other Income (Expenses)

The following table summarizes the breakdown of other income (expenses) for other business segment for the three months ended March 31, 2018 and 2017:

	2018	2017	Change	
	(amounts in million Php)			
			Amount	%
Other Income (Expenses):				
Interest income	191	111	80	72
Equity share in net earnings (losses) of associates and joint ventures	(18)	159	(177)	(111)
Financing costs – net	(54)	(49)	(5)	(10)
Foreign exchange losses	(606)	(102)	(504)	(494)
Other income (expenses) – net	3,311	(540)	3,851	713
Total	2,824	(421)	3,245	771

Other income increased by Php3,245 million to Php2,824 million for the three months ended March 31, 2018 as against other expenses of Php421 million in the same period in 2017, primarily due to the combined effects of the following: (i) higher other income – net by Php3,851 million mainly due to gain on valuation of Rocket Internet investment in the first three months of 2018 as against impairment in the same period in 2017; (ii) an increase in interest income by Php80 million; (iii) higher financing costs by Php5 million; (iv) equity share in net losses of associates and joint ventures of Php18 million in the first three months of 2018 as against equity share in net earnings of associates and joint ventures of Php159 million in the same period in 2017; and (v) higher net foreign exchange losses by Php504 million due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php2,702 million for the three months ended March 31, 2018, an increase of Php3,172 million as against net loss of Php470 million in the same period in 2017.

Core Income

Our other business segment's core income amounted to Php66 million for the three months ended March 31, 2018, a decrease of Php109 million, or 62%, as compared with Php175 million in the same period in 2017.

Liquidity and Capital Resources

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

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	Three Months ended March 31, 2018 2017 (amounts in million Php)	
Cash Flows		
Net cash flows provided by operating activities	16,316	15,131
Net cash flows used in investing activities	(16,161)	(9,681)
Payment for purchase of property and equipment	(12,944)	(1,770)
Net cash flows used in financing activities	(4,692)	(12,756)
Net decrease in cash and cash equivalents	(3,685)	(7,094)

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	March 31, 2018	December 31, 2017
	(amounts in million Php)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	160,399	157,654
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	11,840	14,957
Total interest-bearing financial liabilities	172,239	172,611
Total equity attributable to equity holders of PLDT	109,070	106,842
	281,309	279,453
Other Selected Financial Data		
Total assets	467,655	459,444
Property and equipment	184,455	186,907
Cash and cash equivalents	29,220	32,905
Short-term investments	8,700	1,074

Our consolidated cash and cash equivalents and short-term investments totaled Php37,920 million as at March 31, 2018. Principal sources of consolidated cash and cash equivalents for the three months ended March 31, 2018 were cash flows from operating activities amounting to Php16,316 million, proceeds from sale of notes receivables of Php4,852 million, proceeds from availment of long-term debt of Php4,500 million, proceeds from disposal of Hastings PDRs to the PLDT Beneficial Trust Fund of Php1,664 million, and interest received of Php352 million. These funds were used principally for: (1) payment for purchase of property and equipment, including capitalized interest, of Php12,944 million; (2) debt principal and interest payments of Php6,402 million and Php1,513 million, respectively; (3) net payment for purchase of short-term investments of Php7,413 million; (4) increase in advances and other noncurrent assets of Php2,629 million; and (5) net reduction in capital expenditures under long-term financing of Php1,463 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php39,953 million as at March 31, 2017. Principal sources of consolidated cash and cash equivalents in the first three months of 2017 were cash flows from operating activities amounting to Php15,131 million, proceeds from availment of long-term debt of Php12,256 million, proceeds from issuance of perpetual notes of Php4,200 million, dividends received of Php286 million and interest received of Php242 million. These funds were used principally for: (1) debt principal and interest payments of Php22,637 million and Php2,072 million, respectively; (2) net payment for purchase of short-term investments of Php5,572 million; (3) net reduction in capital expenditures under long-term financing of Php4,387 million; (4) advances to VTI and Bow Arken of Php2,892 million to cover for the assumed liabilities and working capital requirements; and (5) payment for purchase of property and equipment, including capitalized interest, of Php1,770 million.

Operating Activities

Our consolidated net cash flows provided by operating activities increased by Php1,185 million, or 8%, to Php16,316 million for the three months ended March 31, 2018 from Php15,131 million in the same period in 2017, primarily due to lower level of settlement of accounts payable and other liabilities, and lower prepayments, partially offset by lower collection of receivables, higher pension contribution and higher inventories.

Cash flows provided by operating activities of our wireless business decreased by Php353 million, or 6%, to Php5,131 million for the three months ended March 31, 2018 from Php5,484 million in the same period in 2017, primarily due to lower collection of receivables, higher inventories and lower operating income, partially offset by lower level of settlement of accounts payable and other liabilities, and lower prepayments. Cash flows provided by operating activities of our fixed line business increased by Php2,306 million, or 24%, to Php11,825 million for the three months ended March 31, 2018 from Php9,519 million in the same period in 2017, primarily due to lower level of settlement of accounts payable and other liabilities, higher collection of receivables and higher operating income, partly offset by higher pension contribution. Cash flows used in operating activities of our other business increased by Php714 million to Php476 million for the three months ended March 31, 2018 as against cash flows provided by operating activities of Php238 million in the same period in 2017 mainly due to lower collection of receivables and higher level of settlement of accounts payable.

Investing Activities

Consolidated net cash flows used in investing activities amounted to Php16,161 million for the three months ended March 31, 2018, an increase of Php6,480 million, or 67%, from Php9,681 million in the same period in 2017, primarily due to the combined effects of the following: (1) higher payment for purchase of property and equipment, including capitalized interest, by Php11,174 million; (2) higher advances and other noncurrent assets by Php2,601 million; (3) higher payment for purchase of short-term investments by Php1,841 million; (4) dividends received of Php286 million in 2017; (5) proceeds from disposal of Hastings PDRs of Php1,664 million; (6) lower net payment for purchase of investments in associates and joint ventures by Php2,836 million, primarily due to the purchase of investment in VTI, Bow Arken and Brightshare in 2017; and (7) proceeds from sale of notes receivables of Php4,852 million.

Our consolidated payment for purchase of property and equipment, including capitalized interest, for the three months ended March 31, 2018 totaled Php12,944 million, an increase of Php11,174 million as compared with Php1,770 million in the same period in 2017. Smart Group's capital spending increased by Php7,876 million to Php9,279 million for the three months ended March 31, 2018 from Php1,403 million in the same period in 2017. Smart Group's capex spending was primarily focused on expansion of LTE (4G) coverage. PLDT's capital spending increased by Php3,187 million to Php3,339 million for the three months ended March 31, 2018 from Php152 million in the same period in 2017. PLDT's capex spending was used to finance the modernization program and the continuous facility roll-out and expansion of our domestic fiber optic network, as well as expansion of our data center business. The balance represents other subsidiaries' capital spending.

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

Financing Activities

On a consolidated basis, cash flows used in financing activities amounted to Php4,692 million for the three months ended March 31, 2018, a decrease of Php8,064 million, or 63%, from Php12,756 million in the same period in 2017, resulting largely from the combined effects of the following: (1) lower payments of long-term debt and interest by Php16,235 million and Php559 million, respectively; (2) lower net settlement of capital expenditures under long-term financing by Php2,924 million; (3) proceeds from issuance of perpetual notes of Php4,200 million in 2017; and (4) lower proceeds from availment of long-term debt by Php7,756 million.

Debt Financing

Proceeds from availment of long-term debt for the three months ended March 31, 2018 amounted to Php4,500 million, mainly from Smart's drawings related to the financing of capital expenditure requirements and refinancing of maturing loan obligations. Payments of principal and interest on our total debt amounted to Php6,402 million and Php1,513 million, respectively, for the three months ended March 31, 2018.

Our consolidated long-term debt decreased by Php372 million to Php172,239 million as at March 31, 2018 from Php172,611 million as at December 31, 2017, primarily due to debt amortizations, partly offset by drawings from our long-term facilities and the depreciation of the Philippine peso relative to the U.S. dollar. As at March 31, 2018, the long-term debt level of Smart increased by 5% to Php65,395 million from Php62,388 as at December 31, 2017, while PLDT's decreased by 3% to Php106,844 million from Php110,223 million as at December 31, 2017.

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

Debt Covenants

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

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

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

Financing Requirements

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

The following table shows the dividends declared to shareholders from the earnings for the three months ended March 31, 2018 and 2017:

Earnings	Date			Amount Per share Total (in million Php, except per share amount)
	Approved ⁽¹⁾	Record	Payable	
2018				
Preferred				
Series IV Cumulative Non-convertible Redeemable Preferred Stock ⁽¹⁾	January 22, 2018	February 21, 2018	March 15, 2018	— 12
Voting Preferred Stock	March 8, 2018	March 28, 2018	April 15, 2018	— 3
Charged to Retained Earnings				15
2017				
Preferred				
Series IV Cumulative Non-convertible Redeemable Preferred Stock ⁽¹⁾	February 7, 2017	February 24, 2017	March 15, 2017	— 12
Voting Preferred Stock	March 7, 2017	March 30, 2017	April 15, 2017	— 3
Charged to Retained Earnings				15

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

See Note 19 – Equity to the accompanying unaudited consolidated financial statements for further details.

Changes in Financial Conditions

Our total assets amounted to Php467,655 million as at March 31, 2018, an increase of Php8,211 million, or 2%, from Php459,444 million as at December 31, 2017, primarily due to higher short-term investments and contract assets, partially offset by lower cash and cash equivalents, property and equipment, and investments in associates and joint

ventures. Starting 2018, available-for-sale financial investments are presented according to PFRS 9.

Our total liabilities amounted to Php354,233 million as at March 31, 2018, an increase of Php5,972 million, or 2%, from Php348,261 million as at December 31, 2017 significantly due to higher dividends payable, and accrued expenses and other liabilities, partly offset by lower pension and other employee benefits.

Off-Balance Sheet Arrangements

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

Equity Financing

On August 2, 2016, the PLDT Board of Directors approved the amendment of our dividend policy, reducing our dividend payout rate to 60% of our core earnings per share as regular dividends. This was in view of the elevated capital expenditures to support the build-out of a resilient and reliable data network, lower EBITDA primarily due to higher subsidies to grow the data business and defend market share, and the resources required to support the acquisition of SMC's telecommunications business. In declaring dividends, we take into consideration the interest of our shareholders, as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs. However, in the event that no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends of up to the balance of our core earnings or to undertake share buybacks. We were able to pay out approximately 100% of our core earnings for seven consecutive years from 2007 to 2013, approximately 90% of our core earnings for 2014, 75% of our core

earnings for 2015 and 60% of our core earnings for 2016 and 2017. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, are not available for distribution unless realized in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, Philippines, as the dividend-disbursing agent, converts the Philippine peso dividends into U.S. dollars at the prevailing exchange rate and remits the dollar dividends abroad, net of any applicable withholding tax.

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

Consolidated cash dividend payments for the three months ended March 31, 2018 amounted to Php16 million as compared with Php17 million paid to shareholders in the same period in 2017.

Contractual Obligations and Commercial Commitments

Contractual Obligations

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

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php93 million and Php88 million as at March 31, 2018 and December 31, 2017, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

Our operations are exposed to various risks, including liquidity risk, foreign currency exchange risk, interest rate risk, credit risk and capital management risk. The importance of managing these risks has significantly increased in light of considerable change and continuing volatility in both the Philippine and international financial markets. With a view to managing these risks, we have incorporated financial risk management functions in our organization, particularly in our treasury operations, equity issuances and sale of certain assets.

For further discussions of these risks, see Note 27 – Financial Assets and Liabilities to the accompanying unaudited consolidated financial statements.

The following table sets forth the estimated consolidated fair values of our financial assets and liabilities recognized as at March 31, 2018 and December 31, 2017 other than those whose carrying amounts are reasonable approximations of fair values:

Fair Values

	March 31, 2018	December 31, 2017
	(amounts in million Php)	
Noncurrent Financial Assets		
Investments in debt securities and other long-term investments – net of current portion	–	151
Debt instruments at amortized cost - net of current portion	151	–
Equity instruments at fair value through other comprehensive income – net of current portion	6,477	–
Other financial assets – net of current portion	2,259	–
Advances and other noncurrent assets – net of current portion	–	13,695
Total noncurrent financial assets	8,887	13,846
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	148,142	150,918
Customers' deposits	1,544	1,700
Deferred credits and other noncurrent liabilities	4,062	5,093
Total noncurrent financial liabilities	153,748	157,711

The following table sets forth the amount of gains (losses) recognized for the financial assets and liabilities for the three months ended March 31, 2018 and the year ended December 31, 2017:

	March 31, 2018	December 31, 2017
	(amounts in million Php)	
Profit and Loss		
Interest income	477	1,412
Gains on derivative financial instruments – net	530	533
Accretion on financial liabilities	(36)	(219)
Interest on loans and other related items	(1,942)	(7,830)
Other Comprehensive Income		
Net fair value losses on cash flow hedges – net of tax	(90)	(376)
Net gains (losses) on available-for-sale financial investments – net of tax	(4,301)	3,364

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines for the three months ended March 31, 2018 and 2017 were 3.8% and 3.1%, respectively. We continue to expect inflation to rise in the upper end of the 2% to 4% target range of the Bangko Sentral ng Pilipinas.

PART II – OTHER INFORMATION

Sale of Rocket Internet Shares

On April 16, 2018, Rocket Internet announced the buyback of up to 15.5 million Rocket Internet 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 Investments Pte. Ltd. or PLDT Online, committed to accept the Offer of Rocket Internet for at least 6.8 million shares, or approximately 67.4% of the total number of Rocket Internet shares directly held by PLDT Online.

On May 4, 2018, Rocket Internet accepted the tender of PLDT Online of 6.8 million shares for a total consideration of €163.2 million. Rocket Internet will settle the consideration on or before May 14, 2018. As a result of the sale, PLDT Online's equity ownership in Rocket Internet was reduced from 6.1% to 2.0%.

iCommerce's Investment in Philippines Internet Holding S.à.r.l., or PHIH

On January 20, 2015, PLDT and Rocket Internet entered into a joint venture agreement 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 Voyager, replaced the latter 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 5, 2017, AIH initiated arbitral proceedings via the German Arbitration Institute (DIS) against iCommerce for not settling the €2.6 million contribution. AIH required the payment of €2.6 million plus interest and all costs of the arbitral proceedings.

On December 14, 2017, the management and operations of iCommerce was transferred from VIH to PLDT Online. As a result, VIH ceased to have any direct interest in iCommerce and any indirect interest in PHIH. See Note 2 – Summary of Significant Accounting Policies – Transfer of iCommerce to PLDT Online.

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

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

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

the exit from the joint venture.

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.

On March 14, 2018, PCEV entered into a Share Purchase Agreement with Voyager to purchase 53 million ordinary shares of VIH, representing 100% of the issued and outstanding ordinary shares of VIH, for a total consideration of Php465 million. The total consideration was settled on March 15, 2018, while the transfer of shares to PCEV was completed on April 6, 2018.

On March 14, 2018, VIH entered into 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.

On April 12, 2018, 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 shares, for a total subscription price of SG\$96 million, or Php3,806 million, which was settled on April 13, 2018.

PCEV's Sale of Receivables from Metro Pacific Investments Corporation, or MPIC

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 Metro Pacific Investments Corporation, or 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 P2,124 million. The settlement was made on April 2, 2018, followed by PCEV's derecognition of the aforementioned receivables.

Agreement between PLDT and Smart and Amdocs

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

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 70% economic interest in Hastings Holdings, Inc., to the PLDT Beneficial Trust Fund for a total consideration of Php1,664 million. The assignment was completed on February 15, 2018 and ePLDT subsequently ceased to have any economic interest in Hastings.

Divestment of CURE

On October 26, 2011, PLDT received the Order issued by the NTC approving the application jointly filed by PLDT and Digital for the sale and transfer of approximately 51.6% of the outstanding common stock of Digital 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.

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 10MHz 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 in CURE as a condition to the sale and transfer of DTPI shares to PLDT.

See Note 2 – Summary of Significant Accounting Policies – Divestment of CURE to the accompanying unaudited consolidated financial statements for further details.

For updates on matters relating to the (1) Department of Labor and Employment, or DOLE, Compliance Order to PLDT, see Note 26 – Provisions and Contingencies; (2) Petition against the Philippine Competition Commission, see Note 10 – Investment in Associates and Joint Ventures; and (3) Wilson Gamboa and Jose M. Roy III Petition, see Note 26 – Provisions and Contingencies, to the accompanying unaudited consolidated financial statements.

Related Party Transactions

For a detailed discussion of the related party transactions, see Note 24 – Related Party Transactions to the accompanying unaudited consolidated financial statements

ANNEX I – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of our consolidated receivables as at March 31, 2018:

Type of Accounts Receivable	Total	Current	31-60 Days	61-90 Days	Over 91 Days
	(amounts in million Php)				
Retail subscribers	18,703	10,743	573	171	7,216
Corporate subscribers	10,275	3,350	1,411	937	4,577
Foreign administrations	5,649	1,461	248	150	3,790
Domestic carriers	415	38	15	48	314
Dealers, agents and others	14,032	5,625	1,172	440	6,795
Total	49,074	21,217	3,419	1,746	22,692
Less: Allowance for doubtful accounts	15,061				
Total Receivables - net	34,013				

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ANNEX II – Financial Soundness Indicators

The following table shows our financial soundness indicators as at March 31, 2018 and 2017:

	2018	2017		
Current Ratio ⁽¹⁾	0.58:1.0	0.49:1.0		
Net Debt to Equity Ratio ⁽²⁾	1.23:1.0	1.23:1.0		
Net Debt to EBITDA Ratio ⁽³⁾	2:03:1.0	2.22:1.0		
Total Debt to EBITDA Ratio ⁽⁴⁾	2.60:1.0	2.87:1.0		
Asset to Equity Ratio ⁽⁵⁾	4.29:1.0	4.25:1.0		
Interest Coverage Ratio ⁽⁶⁾	3.21:1.0	3.68:1.0		
Profit Margin ⁽⁷⁾	17	13	%	%
Return on Assets ⁽⁸⁾	3	4	%	%
Return on Equity ⁽⁹⁾	14	17	%	%
EBITDA Margin ⁽¹⁰⁾	44	44	%	%

⁽¹⁾Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)

⁽²⁾Net Debt to equity ratio is measured as total debt (long-term debt, including current portion) less cash and cash equivalent and short-term investments divided by total equity attributable to equity holders of PLDT.

⁽³⁾Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion) less cash and cash equivalent and short-term investments divided by EBITDA for the 12 months average period.

⁽⁴⁾Total Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion) divided by EBITDA for the 12 months average period.

⁽⁵⁾Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of PLDT.

⁽⁶⁾Interest coverage ratio is measured by EBIT, or earnings before interest and taxes for the 12 months average period, divided by total financing cost for the 12 months average period.

⁽⁷⁾Profit margin is derived by dividing net income for the period with total revenues for the period.

⁽⁸⁾Return on assets is measured as net income for the 12 months average period divided by average total assets.

⁽⁹⁾Return on Equity is measured as net income for the 12 months average period divided by average total equity attributable to equity holders of PLDT.

⁽¹⁰⁾EBITDA margin is measured as EBITDA for the period divided by service revenues for the period.

EBITDA for the period is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing cost, 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 for the period.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the first quarter of 2018 to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: PLDT Inc.

Signature and Title: /s/ Manuel V. Pangilinan
Manuel V. Pangilinan
Chairman of the Board
President and Chief Executive Officer

Signature and Title: /s/ Anabelle Lim-Chua
Anabelle Lim-Chua
Senior Vice President
(Principal Financial Officer)

Signature and Title: /s/ June Cheryl A. Cabal-Revilla
June Cheryl A. Cabal-Revilla
Senior Vice President
(Principal Accounting Officer)

Date: May 11, 2018

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS AT MARCH 31, 2018 (UNAUDITED) AND DECEMBER 31, 2017 (AUDITED)

AND FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017 (UNAUDITED)

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in million pesos)

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Noncurrent Assets		
Property and equipment (Notes 9 and 21)	184,455	186,907
Investments in associates and joint ventures (Note 10)	44,486	46,130
Available-for-sale financial investments (Notes 6 and 11)	—	15,165
Financial assets at fair value through profit or loss (Note 11)	18,522	—
Investment in debt securities and other long-term investments – net of current portion (Note 12)	—	150
Debt instruments at amortized cost – net of current portion (Note 12)	150	—
Investment properties (Notes 6 and 13)	1,943	1,635
Goodwill and intangible assets (Note 14)	69,369	69,583
Deferred income tax assets – net (Note 7)	29,512	30,466
Derivative financial assets – net of current portion (Note 27)	192	215
Prepayments – net of current portion (Note 18)	6,023	5,370
Advances and other noncurrent assets – net of current portion (Note 24)	—	14,154
Equity instruments at fair value through other comprehensive income – net of current portion (Notes 6 and 24)	6,477	—
Other financial assets – net of current portion	2,422	—
Other non-financial assets – net of current portion	2,997	—
Total Noncurrent Assets	366,548	369,775
Current Assets		
Cash and cash equivalents (Note 15)	29,220	32,905
Short-term investments (Note 27)	8,700	1,074
Trade and other receivables (Note 16)	34,013	33,761
Inventories and supplies (Note 17)	4,902	3,933
Contract assets (Note 27)	3,765	—
Current portion of derivative financial assets (Note 27)	299	171
Current portion of investment in debt securities and other long-term investments (Note 12)	—	100
Current portion of debt instruments at amortized cost (Note 12)	105	—
Current portion of prepayments (Note 18)	7,662	9,633
Current portion of advances and other noncurrent assets (Note 19)	—	8,092
Current portion of equity instruments at fair value through other comprehensive income	4,335	—

(Notes 6 and 24)		
Current portion of other financial assets	6,837	—
Current portion of other non-financial assets	1,269	—
Total Current Assets	101,107	89,669
TOTAL ASSETS	467,655	459,444
EQUITY AND LIABILITIES		
Equity		
Non-voting serial preferred stock (Notes 8 and 19)	360	360
Voting preferred stock (Note 19)	150	150
Common stock (Notes 8 and 19)	1,093	1,093
Treasury stock (Notes 8 and 19)	(6,505)	(6,505)
Treasury shares under employee benefit trust (Note 25)	(940)	(940)
Capital in excess of par value (Note 19)	130,374	130,374
Other equity reserves (Note 25)	937	827
Retained earnings (Note 19)	8,416	634
Other comprehensive loss (Note 6)	(24,815)	(19,151)
Total Equity Attributable to Equity Holders of PLDT (Note 27)	109,070	106,842
Noncontrolling interests (Note 6)	4,352	4,341
TOTAL EQUITY	113,422	111,183

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

(in million pesos)

	March 31,	December 31,
	2018	2017
	(Unaudited)	(Audited)
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 20 and 24)	160,399	157,654
Deferred income tax liabilities – net (Note 7)	3,649	3,366
Derivative financial liabilities – net of current portion (Note 27)	4	8
Customers' deposits (Note 27)	2,450	2,443
Pension and other employee benefits (Note 25)	7,777	8,997
Deferred credits and other noncurrent liabilities (Note 21)	6,600	7,702
Total Noncurrent Liabilities	180,879	180,170
Current Liabilities		
Accounts payable (Note 22)	59,757	60,445
Accrued expenses and other current liabilities (Notes 23 and 26)	93,176	90,740
Current portion of interest-bearing financial liabilities (Notes 20 and 24)	11,840	14,957
Dividends payable (Note 19)	7,622	1,575
Current portion of derivative financial liabilities (Note 27)	15	141
Income tax payable (Note 7)	944	233
Total Current Liabilities	173,354	168,091
TOTAL LIABILITIES	354,233	348,261
TOTAL EQUITY AND LIABILITIES	467,655	459,444

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

	2018	2017
	(Unaudited)	
REVENUES		
Service revenues	37,745	37,701
Non-service revenues (Note 5)	2,762	1,487
	40,507	39,188
EXPENSES		
Selling, general and administrative expenses (Note 5)	17,309	16,552
Depreciation and amortization (Note 9)	9,373	7,550
Cost of sales and services (Note 5)	3,614	3,232
Asset impairment (Note 5)	1,391	1,051
Interconnection costs	1,874	2,091
	33,561	30,476
	6,946	8,712
OTHER INCOME (EXPENSES) (Note 5)	1,889	(1,456)
INCOME BEFORE INCOME TAX	8,835	7,256
PROVISION FOR INCOME TAX (Note 7)	1,911	2,287
NET INCOME	6,924	4,969
ATTRIBUTABLE TO:		
Equity holders of PLDT (Note 8)	6,900	4,951
Noncontrolling interests	24	18
	6,924	4,969
Earnings Per Share Attributable to Common Equity Holders of		
PLDT (Note 8)		
Basic	31.87	22.84
Diluted	31.87	22.84

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2018 and 2017

(in million pesos)

	2018	2017
	(Unaudited)	
NET INCOME	6,924	4,969
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)		
Foreign currency translation differences of subsidiaries	178	13
Net transactions on cash flow hedges:	(90)	(132)
Net fair value losses on cash flow hedges (Note 27)	(78)	(145)
Income tax related to fair value adjustments charged directly to equity (Note 7)	(12)	13
Share in the other comprehensive loss of associates and joint ventures		
accounted for using the equity method (Note 10)	(182)	(42)
Net losses on available-for-sale financial investments:	(4,301)	(847)
Unrealized losses from changes in fair value adjustments recognized during the period (Note 11)	(4,311)	(1,386)
Impairment recognized in profit or loss (Note 11)	—	540
Income tax related to fair value adjustments charged directly to equity (Note 7)	10	(1)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	(4,395)	(1,008)
Actuarial losses on defined benefit obligations:	(1,265)	(387)
Remeasurement in actuarial losses on defined benefit obligations	(1,807)	(549)
Income tax related to remeasurement adjustments (Note 7)	542	162
Share in the other comprehensive income (loss) of associates and joint		
ventures accounted for using the equity method (Note 10)	—	216
Revaluation increment on investment properties:	—	—
Depreciation of revaluation increment in investment properties		
transferred to property and equipment (Note 9)	—	(1)
Income tax related to revaluation increment charged directly to equity (Note 7)	—	1
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	(1,265)	(171)
Total Other Comprehensive Loss – Net of Tax	(5,660)	(1,179)
TOTAL COMPREHENSIVE INCOME	1,264	3,790
ATTRIBUTABLE TO:		
Equity holders of PLDT	1,236	3,770
Noncontrolling interests	28	20
	1,264	3,790

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Three Months Ended March 31, 2018 and 2017

(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Treasury Shares under Benefit Trust	Capital in Excess of Par Value	Other Equity Reserves	Retained Earnings	Other Comprehensive Income (Loss)	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
Balances as at January 1, 2018	510	1,093	(6,505)	(940)	130,374	827	634	(19,151)	106,842	4,341	111,183
PFRS 15 and PFRS 9 adjustments	—	—	—	—	—	—	7,006	—	7,006	—	7,006
Total comprehensive income (loss):	—	—	—	—	—	—	6,900	(5,664)	1,236	28	1,264
Net income (Note 8)	—	—	—	—	—	—	6,900	—	6,900	24	6,924
Other comprehensive (loss) income (Note 6)	—	—	—	—	—	—	—	(5,664)	(5,664)	4	(5,660)
Cash dividends (Note 19)	—	—	—	—	—	—	(6,065)	—	(6,065)	(15)	(6,080)
Perpetual notes (Note 19)	—	—	—	—	—	—	—	—	—	—	—
Distribution charges on perpetual notes (Note 19)	—	—	—	—	—	—	(59)	—	(59)	—	(59)
Other equity reserves (Note 3)	—	—	—	—	—	110	—	—	110	—	110
	—	—	—	—	—	—	—	—	—	—	—

Loss from changes in fair value adjustment												
Acquisition and dilution of noncontrolling interests	—	—	—	—	—	—	—	—	—	(2)	(2)	
Balances as at March 31, 2018												
(Unaudited)	510	1,093	(6,505)	(940)	130,374	937	8,416	(24,815)	109,070	4,352	113,422	
Balances as at January 1, 2017	510	1,093	(6,505)	—	130,488	—	3,483	(20,894)	108,175	362	108,537	
Total comprehensive income (loss):	—	—	—	—	—	—	4,951	(1,181)	3,770	20	3,790	
Net income (Note 8)	—	—	—	—	—	—	4,951	—	4,951	18	4,969	
Other comprehensive income (loss) (Note 6)	—	—	—	—	—	—	—	(1,181)	(1,181)	2	(1,179)	
Cash dividends (Note 19)	—	—	—	—	—	—	(6,064)	—	(6,064)	—	(6,064)	
Perpetual notes (Note 19)	—	—	—	—	—	—	—	—	—	4,200	4,200	
Equity reserves	—	—	—	—	(127)	—	—	—	(127)	—	(127)	
Balances as at March 31, 2017												
(Unaudited)	510	1,093	(6,505)	—	130,361	—	2,370	(22,075)	105,754	4,582	110,336	

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(in million pesos)

	2018	2017
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	8,835	7,256
Adjustments for:		
Depreciation and amortization (Note 9)	9,373	7,550
Interest on loans and other related items – net (Note 5)	1,638	1,824
Asset impairment (Note 5)	1,391	1,051
Foreign exchange losses – net (Notes 9 and 26)	1,142	397
Pension benefit costs (Notes 5 and 25)	447	483
Amortization of intangible assets (Notes 5 and 14)	214	205
Incentive plans (Notes 5 and 25)	110	—
Impairment of investments (Notes 10 and 11)	60	212
Accretion on financial liabilities – net (Note 5)	36	60
Losses (gains) on disposal of property and equipment (Note 9)	3	(1)
Equity share in net earnings of associates and joint ventures (Notes 5 and 10)	(74)	(193)
Interest income (Note 5)	(477)	(309)
Gains on derivative financial instruments – net (Notes 5 and 27)	(530)	(282)
Others	(4,005)	(168)
Operating income before changes in assets and liabilities	18,163	18,085
Decrease (increase) in:		
Trade and other receivables	(5,154)	(324)
Inventories and supplies	(1,077)	489
Prepayments	947	(60)
Advances and other noncurrent assets	(326)	23
Contract assets	486	—
Increase (decrease) in:		
Accounts payable	4,534	(3,843)
Accrued expenses and other current liabilities	2,380	1,708
Pension and other employee benefits	(3,475)	(569)
Customers' deposits	7	(3)
Other noncurrent liabilities	14	14
Net cash flows generated from operations	16,499	15,520
Income taxes paid	(183)	(389)
Net cash flows from operating activities	16,316	15,131
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	352	242

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Dividends received (Note 10)	—	286
Proceeds from:		
Proceeds from collection of notes receivable	4,852	—
Disposal of investments	1,664	—
Disposal of investments in associates and joint ventures	46	—
Disposal of property and equipment (Note 9)	22	94
Payments for:		
Purchase of subsidiaries – net of cash acquired	(51)	—
Purchase of investments in associates and joint ventures (Note 10)	(60)	(2,896)
Interest capitalized to property and equipment (Note 9)	(304)	(207)
Purchase of short-term investments	(7,413)	(5,572)
Purchase of property and equipment (Note 9)	(12,640)	(1,563)
Acquisition of intangible assets (Note 14)	—	(37)
Increase in advances and other noncurrent assets	(2,629)	(28)
Net cash flows used in investing activities	(16,161)	(9,681)

See accompanying Notes to Consolidated Financial Statements.

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PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Three Months Ended March 31, 2018 and 2017

(in million pesos)

	2018	2017
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availments of long-term debt (Note 20)	4,500	12,256
Derivative financial instruments (Note 27)	218	16
Deposit for future stock subscription	66	—
Issuance of perpetual notes (Note 19)	—	4,200
Payments for:		
Cash dividends (Note 19)	(16)	(17)
Debt issuance costs (Note 20)	(23)	(115)
Distribution charges on perpetual notes (Note 19)	(59)	—
Long-term financing for capital expenditures	(1,463)	(4,387)
Interest – net of capitalized portion (Notes 5 and 20)	(1,513)	(2,072)
Long-term debt (Note 20)	(6,402)	(22,637)
Net cash flows used in financing activities	(4,692)	(12,756)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH		
AND CASH EQUIVALENTS	852	212
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,685)	(7,094)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD (Note 15)	32,905	38,722
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (Note 15)	29,220	31,628

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 March 31, 2018. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at March 31, 2018. On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., or JGSHI, and its affiliates, or JG Summit Group. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at March 31, 2018, the JG Summit Group beneficially owned approximately 8% of PLDT's outstanding common shares.

On October 16, 2012, BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, or PLDT Beneficial Trust Fund, created pursuant to PLDT's Benefit Plan, subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement between BTFHI and PLDT dated October 15, 2012. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its

Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at March 31, 2018. See Note 19 – Equity – Voting Preferred Stock and Note 26 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition.

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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 depository, 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 depository 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 30.3 million ADSs outstanding as at March 31, 2018.

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

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

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

2. Summary of Significant Accounting Policies

Basis of Preparation

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

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

Our consolidated financial statements include adjustments consisting only of normal recurring adjustments, necessary to present fairly the results of operations for the interim periods. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results of operations that may be expected for the fully year.

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

Basis of Consolidation

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the “PLDT Group”) as at March 31, 2018 and December 31, 2017:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership			
			March 31, 2018 (Unaudited)		December 31, 2017 (Audited)	
			Direct	Indirect	Direct	Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	100.0	—	100.0	—
Smart Broadband, Inc., or SBI,	Philippines	Internet broadband distribution				
and Subsidiary		services	—	100.0	—	100.0
Primeworld Digital Systems, Inc.,	Philippines	Internet broadband distribution				
or PDSI		services	—	100.0	—	100.0
I-Contacts Corporation	Philippines	Operations support servicing				
		business	—	100.0	—	100.0
Smart Money Holdings Corporation,	Cayman Islands	Investment company				
or SMHC			—	100.0	—	100.0
Far East Capital Limited, or	Cayman Islands	Cost effective offshore financing				
FECL, and Subsidiary, or FECL		and risk management activities				
Group		for Smart	—	100.0	—	100.0
PH Communications Holdings Corporation, or PHC	Philippines	Investment company				
			—	100.0	—	100.0
Connectivity Unlimited Resource Enterprise,	Philippines	Cellular mobile services				
or CURE			—	100.0	—	100.0
Francom Holdings, Inc., or FHI:	Philippines	Investment company				
Chikka Holdings Limited, or	British Virgin Islands	Content provider, mobile				
Chikka, and Subsidiaries, or	Islands	applications development				
Chikka Group		and services	—	100.0	—	100.0

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Voyager Innovations, Inc., or Voyager	Philippines	Mobile applications and digital platforms developer	—	100.0	—	100.0
Voyager Innovations Holdings, Pte. Ltd. or VIH, (formerly eInnovations Holdings Pte. Ltd., or eInnovations) ^(a) :	Singapore	Investment company	—	100.0	—	100.0
Voyager Innovations Investments Pte. Ltd., or VII, (formerly Takatack Holdings Pte. Ltd., or Takatack Holdings) ^(b)	Singapore	Investment company	—	100.0	—	100.0
Voyager Innovations Singapore Pte. Ltd., or VIS, (formerly Takatack Technologies Pte. Ltd.) ^(c)	Singapore	Development and maintenance of IT-based solutions for communications and e-Commerce platforms	—	100.0	—	100.0
Takatack Malaysia Sdn. Bhd., or Takatack Malaysia	Malaysia	Development, maintenance and support services to enable the digital commerce ecosystem	—	100.0	—	100.0
iCommerce Investments Pte. Ltd., or iCommerce ^(d)	Singapore	Investment company	—	—	—	100.0
Voyager Fintech Ventures Pte. Ltd., or Fintech Ventures	Singapore	Investment company	—	100.0	—	100.0
Fintqnlologies Corporation, or FINTQ	Philippines	Development of financial technology innovations	—	100.0	—	100.0
Fintq Inventures Insurance Agency Corporation	Philippines	Insurance company	—	100.0	—	100.0
ePay Investments Pte. Ltd., or ePay	Singapore	Investment company	—	100.0	—	100.0
PayMaya Philippines, Inc.	Philippines	Provide and market certain mobile	—	100.0	—	100.0

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or PayMaya PayMaya Operations	Philippines	payment services Market, sell and distribute payment				
Philippines, Inc., or PayMaya Ops		solutions and other related				
		services	—	100.0	—	100.0
ePay Investments Myanmar, Ltd., or ePay Myanmar ^(e)	Myanmar	Investment company				
3rd Brand Pte. Ltd., or 3rd Brand ^(f)	Singapore	Solutions and systems integration	—	100.0	—	—
		services	—	85.0	—	85.0
Wifun, Inc., or Wifun	Philippines	Software developer and selling				
		of WiFi access equipment	—	100.0	—	100.0

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Telesat, Inc. ^(g)	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. ^(g)	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,	Philippines	Information and communications	—	100.0	—	100.0

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Inc., or IPCDSI, and Subsidiary, or IPCDSI Group		infrastructure for internet-based services, e-commerce, customer relationship management and IT related services					
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	—	67.0	—	67.0	
netGames, Inc. ^(h)	Philippines	Gaming support services	—	57.5	—	57.5	
Digitel: Digitel Information Technology Services, Inc. ^(g)	Philippines	Telecommunications services	99.6	—	99.6	—	
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	—	99.6	—	99.6	
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	98.0	—	98.0	—	
Pacific Global One Aviation Company, Inc., or PG1	Philippines	Air transportation business	75.0	—	75.0	—	
Pilipinas Global Network Limited, or PGNL, and Subsidiaries	British Virgin Islands	Internal distributor of Filipino channels and content	65.0	—	65.0	—	
Others			64.6	—	64.6	—	
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 ^(g)	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) On July 11, 2017, the Accounting and Corporate Regulatory Authority, or ACRA, of Singapore approved the change in business name of eInnovations Holdings Pte. Ltd. to Voyager Innovations Holdings Pte. Ltd. On April 16, 2018, the ACRA of Singapore approved the transfer of VIH to PCEV for a consideration amounting to Php465 million.

(b) On December 29, 2017, the ACRA of Singapore approved the change in business name of Takatack Holdings Pte. Ltd. to Voyager Innovations Investments Pte. Ltd.

(c) On March 6, 2018, the ACRA of Singapore approved the change in business name of Takatack Technologies Pte. Ltd. to Voyager Innovations Singapore Pte. Ltd.

(d) On December 14, 2017, VIH sold its 10 thousand ordinary shares in iCommerce to PLDT Online for a total purchase price of SG\$1.00.

(e) On July 25, 2017, ePay Investments Myanmar, Ltd. was incorporated in Myanmar to engage in the business of providing support services on the development and provision of digital technology.

(f) On January 15, 2018, VIH purchased from Phonix Investment Management Ltd. (formerly Kolipri Communications Ltd.) its 15% minority interest of 3rd Brand for a consideration of SG\$1.00.

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(g) Ceased commercial operations.

(h) Ceased commercial operations and under liquidation due to shortened corporate life to August 31, 2015.

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. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

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

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and impact is presented as part of other equity reserves.

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

Divestment of CURE

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

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

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

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

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

In a letter dated September 10, 2012, Smart informed the NTC that the minimum Cost Recovery Amount, or CRA, to enable PLDT to recover its investment in CURE includes, among others, the total cost of equity investments in CURE, advances from Smart for operating requirements, advances from stockholders and associated funding costs. In a letter dated January 21, 2013, the NTC referred the computation of the CRA to the Commissioners of the NTC.

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

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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 100% interest in CURE. These transactions were eliminated in our consolidated financial statements.

Incorporation of Talas

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

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

Extension of Smart's Congressional Franchise

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

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

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

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

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On December 18, 2017, PLDT settled the partial consideration to SBI amounting to Php1,294 million. The remaining balance of Php1,152 million is payable in December 2018.

This transaction was eliminated in our consolidated financial statements.

Transfer of iCommerce to PLDT Online

On December 14, 2017, VIH and PLDT Online entered into a Sale and Purchase Agreement, or SPA, whereby VIH sold all of its 10 thousand ordinary shares in iCommerce to PLDT Online for a total purchase price of SG\$1.00. On the same date, VIH assigned its loans receivables from iCommerce to PLDT Online amounting to US\$8.6 million. In consideration, PLDT Online paid VIH US\$8.9 million inclusive of interest as at November 30, 2017. See Note 10 – Investments in Associates and Joint Ventures – Investments in Joint Ventures – iCommerce’s Investment in PHIH.

Perpetual Notes

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

Agreement between PLDT and Smart and Amdocs

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

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.

On March 14, 2018, PCEV entered into a Share Purchase Agreement with Voyager to purchase 53 million ordinary shares of VIH, representing 100% of the issued and outstanding ordinary shares of VIH, for a total consideration of Php465 million. The total consideration was settled on March 15, 2018, while the transfer of shares to PCEV was completed on April 6, 2018.

On March 14, 2018, 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.

On April 12, 2018, 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.

New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except that the PLDT Group has adopted the following amendments starting January 1, 2018. Except for amendments to Philippine Financial Reporting Standards, or PFRS, 9, Financial Instruments, and PFRS 15, Revenue from Contracts with Customers, the adoption of these amendments did not have any significant impact on PLDT Group’s financial position or

performance.

- Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4
- Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, Investment Property, Transfers of Investment Property
- Philippine Interpretation IFRIC 22, Foreign Currency Transactions and Advance Consideration

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• PFRS 1, First-time Adoption of International Financial Reporting Standards (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)

• PFRS 9

In July 2014, the FRSC issued the final version of PFRS 9 Financial Instruments that replaces PAS 39, Financial Instruments: Recognition and Measurement and all previous versions of PFRS 9. PFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

We have initially adopted the new standard on the required effective date and will not restate comparative information. Therefore, the comparative information for 2017 is reported under PAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings as at January 1, 2018.

Classification and measurement

Except for certain trade receivables, under PFRS 9, we initially measure a financial asset at its fair value plus, in the case of a financial asset not at FVPL transaction costs.

Under PFRS 9, debt financial instruments are subsequently measured at FVPL, amortized cost, or fair value through other comprehensive income. The classification is based on two criteria: our business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding, or the SPPI criterion.

The new classification and measurement of the debt financial asset is debt instruments at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the trade and other receivables, and loans included under other financial assets – net of current portion.

Other financial assets are classified and subsequently measured as follows:

Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which we intend to hold for the foreseeable future. Equity instruments at FVOCI are not subject to an impairment assessment under PFRS 9.

Financial assets at FVPL comprise derivative instruments and quoted equity instruments which we have not irrevocably elected, at initial recognition or transition, to classify at fair value through other comprehensive income. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under PAS 39, our quoted and unquoted equity securities were classified as available-for-sale financial assets. Upon transition, the available-for-sale reserve relating to quoted equity securities, which had been previously recognized under accumulated other comprehensive income was reclassified to retained earnings.

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

interest was made based on the facts and circumstances as at the initial recognition of the assets.

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The following summarizes the impact of transition to PFRS 9 on available-for-sale reservers and retained earnings as at January 1, 2018:

	(in million pesos)
Reserve	
Reclassification of investment securities from available-for-sale to FVPL	4,453
Retained Earnings	
Investment securities from available-for-sale to FVPL	4,453

Impairment

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

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

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

For non-credit-impaired financial assets:

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

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

For credit-impairment financial assets:

Financial assets are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial assets. PFRS 9 provides some operational simplifications for short-term trade receivables, lease receivables and contract assets by introducing an alternative simplified approach. Under the simplified approach, there is no more requirement to determine at reporting date whether a credit exposure has significantly increased in credit risk or not. Credit exposures under the simplified approach will be subject only to lifetime ECL. In addition, PFRS 9 allows the use of a provision matrix approach or a loss rate approach as a practical expedient when measuring ECL, so long as these

methodologies reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

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ECL is a function of the risk of a default occurring and the magnitude of default, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

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

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

We have incorporated forward-looking information into both assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and measurement of ECL. A broad range of forward-looking information will be considered as economic inputs such as the Philippine Gross Domestic Product, Retail Price Index, Unemployment Rates and other economic indicators. Based on our assessment, the impact was not material taken as a whole.

We plan to apply the simplified approach and record lifetime ECL on all trade receivables and contract assets. For other debt financial assets measured at amortized cost, the general approach will be applied, measuring either a 12-month or lifetime ECL, depending on the extent of the deterioration of the credit quality from origination. The new impairment requirements will impact the current impairment methodologies of the debt securities classified as at amortized cost or at fair value through other comprehensive income and the corresponding impairment allowance levels.

Hedge accounting

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

We determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under PFRS 9. We have chosen not to retrospectively apply PFRS 9 on transition to the hedges where we excluded the forward points from the hedge designation under PAS 39. As PFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of PFRS 9 will not have a significant impact on the consolidated financial statements.

We have implemented existing governance framework, ensuring appropriate controls and validations are in place over key processes and judgments in implementing PFRS 9. We are continuously refining our internal controls and processes which are relevant in the proper implementation of PFRS 9.

PFRS 15

Except as described below, the accounting policies applied in our consolidated financial statements are the same as those applied in the consolidated financial statements as at and for the year ended December 31, 2017. The changes in accounting policies are also expected to be reflected in the consolidated financial statements as at and for the year

ending December 31, 2018. We have initially adopted PFRS 15 from January 1, 2018. A number of other new standards are effective from January 1, 2018 but they do not have a material effect on our consolidated financial statements. The effect of initially applying these standards is mainly attributed to the following:

- Earlier recognition of revenue from non-service component
- Recognition of financing component of existing contracts

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PFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced PAS 18, PAS 11 and related interpretations. We have adopted PFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application (i.e. January 1, 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under PAS 18, PAS 11 and related interpretations. The following table summarizes the impact, net of tax, of transition to PFRS 15 on retained earnings at January 1, 2018.

	Impact of adopting PFRS 15 at January 1, 2018 (in million pesos)
Retained Earnings	
Early recognition of non-service component	2,944
Contracts without subsidies	(125)
Financing component	(266)
Impact at January 1, 2018	2,553

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to various goods and services are set out below. Under PFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Type of product/ service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Bundled plans	Revenues are 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 prices will be determined based on the list prices at which we sell the non-service component or rendering of the service component in separate transactions.	PFRS 15 did not have significant impact on our accounting policies as this only entails reclassification between service and non-service revenues.
Sale of handset/ equipment	Customers obtain control when the goods are delivered to and have been accepted at their premises.	Under current practice, revenue for some contracts was based on the cash payment received. Revenue recognition was deferred over the contract period.

Under PFRS 15, revenue shall be recognized as the performance obligations are satisfied by transferring a promised good or service.

The impact of these changes on items other than revenue are an increase in trade receivable and new contract asset.

Significant financing component

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

Under PFRS 15, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.

The impact of these changes on items other than revenue are a decrease in contract asset and increase in interest income.

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Summary of Significant Accounting Policies

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

Business Combinations and Goodwill

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

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

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

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

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

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

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

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

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

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Investments in Associates

An associate is an entity in which we have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control nor joint control over those policies. The existence of significant influence is presumed to exist when we hold 20% or more, but less than 50% of the voting power of another entity. Significant influence is also exemplified when we have one or more of the following: (a) a representation on the board of directors or the equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions with the investee; (d) interchange of managerial personnel with the investee; or (e) provision of essential technical information.

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

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

Our share in the profits or losses of our associates is included under “Other income (expenses)” in our consolidated income statement. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and net of noncontrolling interest in the subsidiaries of the associate.

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

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

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

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

Joint Arrangements

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

• Joint operation – when we have rights to the assets, and obligations for the liabilities, relating to an arrangement, we account for each of our assets, liabilities and transactions, including our share of those held or incurred jointly, in relation to the joint operation in accordance with the PFRS applicable to the particular assets, liabilities and transactions.

• Joint venture – when we have rights only to the net assets of the arrangements, we account for our interest using the equity method, the same as our accounting for investments in associates.

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

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

Upon loss of joint control over the joint venture, we measure and recognize our retained investment at fair value. Any difference between the carrying amount of the former joint venture upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate with no remeasurement.

Current Versus Noncurrent Classifications

We present assets and liabilities in our consolidated 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.

We classify all other liabilities as noncurrent.

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

Foreign Currency Transactions and Translations

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

The functional and presentation currency of the entities under PLDT Group (except for the subsidiaries discussed below) is the Philippine peso.

Transactions in foreign currencies are initially recorded by entities under our Group at the respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the end of the reporting period. All differences arising on settlement or translation of monetary items are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising from transactions of non-monetary items measured at fair value is treated in line with the recognition of this gain or loss on the change in fair value of the items (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

The functional currency of SMHC, FECL Group, PLDT Global and certain of its subsidiaries, Digitel Capital Philippines Ltd., or DCPL, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC is the U.S. dollar; the functional currency of eInnovations, Takatack Holdings, VIS, iCommerce, Fintech Ventures, ePay, 3rd Brand, Chikka Pte. Ltd., or CPL, and ABM Global Solutions Pte. Ltd., or AGSPL, is the Singaporean dollar; the functional currency of Chikka Communications Consulting (Beijing) Co. Ltd., or CCCBL, is the Chinese renminbi; the functional currency of AGS Malaysia and Takatack Malaysia, is the Malaysian ringgit; the functional currency of AGS Indonesia is the Indonesian rupiah; and the functional currency of ePay Myanmar is the Myanmar kyat. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. Upon disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries is recognized in our consolidated income statement.

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

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

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

Financial Instruments – Initial recognition and subsequent measurement

Financial Assets

Initial recognition and measurement

Financial assets within the scope of PAS 39 are classified as financial assets at FVPL, loans and receivables, held-to-maturity, or HTM, investments, available-for-sale financial investments, or as derivatives designated as

hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each reporting date.

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

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

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From January 1, 2018, Under PFRS 9, the classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price.

We classify all of the financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost
- Fair value through other comprehensive income, or FVOCI
 - Fair value through profit or loss, or FVPL

We classify and measure the derivative at FVPL. We may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Subsequent measurement

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

Financial assets at FVPL

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

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

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

Our financial assets at FVPL include derivative financial assets as at December 31, 2017. See Note 27 – Financial Assets and Liabilities.

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Loans and receivables

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

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

HTM investments

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

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

Available-for-sale financial investments

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

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

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

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

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

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

Financial assets at amortized cost

From January 1, 2018, we measure financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

We determine the 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 at a higher level of aggregated portfolios and is based on observable factors such as:

- 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
- 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
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- 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.

The SPPI test

As a second step of the classification process, we assess the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, we apply judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Our financial investments at amortized cost include cash and cash equivalents, short-term investments, trade and other receivables and debt instruments at amortized cost as at March 31, 2018. See Note 12 – Investments in Debt Securities and Other Long-term Investments/Debt Instruments at Amortized Cost, Note 15 – Cash and Cash Equivalents, Note 16 – Trade and Other Receivables and Note 27 – Financial Assets and Liabilities.

Equity instrument at FVOCI

From January 1, 2018, upon initial recognition, we elect to classify irrevocably some of the equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under PAS and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when we benefit from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Our equity instrument at FVOCI includes Metro Pacific Investments Corporation, or MPIC, receivables as at March 31, 2018. See Note 24 – Related Party Transactions and Note 27 –Financial Assets and Liabilities.

Financial assets at FVPL

From January 1, 2018, financial assets in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under PFRS 9. Management only designates an instrument at FVPL upon initial recognition when the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis.

Financial assets at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at

FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

A derivative is a financial instrument or other contract with all three of the following characteristics:

Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').

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- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.

It is settled at a future date.

Our financial assets at FVPL include derivative financial assets and equity investments as at March 31, 2018. See Note 11 – Available-for-Sale Financial Investments/Financial Assets as FVPL and Note 27 – Financial Assets and Liabilities.

Financial Liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at FVPL

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

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

Our financial liabilities at FVPL include long-term principal only-currency swaps and interest rate swaps as at March 31, 2018 and December 31, 2017. See Note 27 – Financial Assets and Liabilities.

Other financial liabilities

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

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

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Our other financial liabilities include interest-bearing financial liabilities, customers' deposits, dividends payable, and accrual for long-term capital expenditures, accounts payable, and accrued expenses and other current liabilities (except for statutory payables) as at March 31, 2018 and December 31, 2017. See Note 20 – Interest-bearing Financial Liabilities, Note 21 – Deferred Credits and Other Noncurrent Liabilities, Note 22 – Accounts Payable and Note 23 – Accrued Expenses and Other Current Liabilities.

Offsetting of financial instruments

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

Amortized cost of financial instruments

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

“Day 1” difference

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

Impairment of Financial Assets

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

Impairment of Trade and Other Receivables

Individual impairment

Retail subscribers

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

from the last statement date.

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

Corporate subscribers

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

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Foreign administrations and domestic carriers

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

Dealers, agents and others

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

Collective impairment

Postpaid wireless and fixed line subscribers

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

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

Other subscribers

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

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

Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses, or 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

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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.

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

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

Financial liabilities

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

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

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

Derivative Financial Instruments and Hedge Accounting

Initial recognition and subsequent measurement

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

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

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

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

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting

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changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. In a situation when that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect our consolidated income statement.

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

We use an interest rate swap agreement to hedge our interest rate exposure and a long-term principal only-currency swap agreement to hedge our foreign exchange exposure on certain outstanding loan balances. See Note 27 – Financial Assets and Liabilities.

Current versus noncurrent classification

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

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

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

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

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

Property and Equipment

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

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

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

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

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

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

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalized until the assets are substantially completed for their intended use or sale.

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

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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 are accreted and such accretion is recognized as interest expense. See Note 9 – Property and Equipment and Note 21 – Deferred Credits and Other Noncurrent Liabilities.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an amount evaluation performed by a Philippine SEC accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

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

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

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

Intangible Assets

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

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

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually either individually or at the CGU level. The useful life of an intangible asset with an indefinite life is reviewed annually to

determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

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

Internally generated intangibles are not capitalized and the related expenditures are charged against operations in the period in which the expenditures are incurred.

Inventories and Supplies

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

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

Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that an asset may be impaired. If any indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. 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 value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses are recognized in our consolidated income statement.

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

The following assets have specific characteristics for impairment testing:

Property and equipment and intangible assets with definite useful lives

For property and equipment, we also assess for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage. See Note 3 – Management's Use of Accounting Judgments, Estimates and

Assumptions – Impairment of non-financial assets, Note 9 – Property and Equipment and Note 14 – Goodwill and Intangible Assets for further disclosures relating to impairment of non-financial assets.

Investments in associates and joint ventures

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income statement. See Note 10 – Investments in Associates and Joint Ventures for further disclosures relating to impairment of non-financial assets.

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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.

Intangible asset with indefinite useful life

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

See Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets and Note 14 – Goodwill and Intangible Assets – Impairment testing of goodwill and intangible assets with indefinite useful life for further disclosures relating to impairment of non-financial assets.

Investment in Debt Securities

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

Cash and Cash Equivalents

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

Short-term Investments

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

Fair Value Measurement

We measure financial instruments such as derivatives, available-for-sale financial investments and certain short-term investments and non-financial assets such as investment properties, at fair value at each reporting date. The fair values of financial instruments measured at amortized cost are disclosed in Note 27 – Financial Assets and Liabilities. The fair values of investment properties are disclosed in Note 13 – Investment Properties.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in our consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: (i) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities; (ii) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and (iii) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in our consolidated financial statements on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

We, in conjunction with our external valuers, also compare the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations. For the purpose of fair value disclosures, we have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue Recognition

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 based on third-party pricing, arm's length pricing and cost-plus arrangement, as applicable. These are further adjusted by inputting the related time value of money on contract assets with more than one year of amortization. When determining our performance obligations, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. We are acting as a principal when we have

control over the respective telecommunication services before we render those. 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.

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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 identify the performance obligations in a contract with customer by exercising judgement and considering all relevant facts and circumstances. 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, Sun and Infinity brands, 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 contract liability 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 considered as part of the transaction price of the services to be provided and are allocated to each performance obligation on a relative stand-alone selling price basis. Installation costs, on the other hand, are considered as a separate performance obligation with revenue recognized once the installation has been completed. The related incremental costs are similarly deferred and recognized over the same period in our consolidated income statement, if such costs are expected to be recovered.

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.

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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, and accessories (non-service component) and telecommunication services (service component), the total arrangement consideration 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 we do not sell a good or service separately, we use the cost-plus margin method to determine the stand-alone selling price to be used in the revenue 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 does not coincide, effects of which are considered as containing a significant financing component.

Revenues 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.

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 control over the goods have passed to the buyer, usually on delivery of the goods. The related cost or net realizable value of handsets or equipment, sold to customers is presented as "Cost of sales" in our consolidated income statement.

Interest income

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

Dividend income

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

Expenses

Expenses are recognized as incurred.

Provisions

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

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Retirement Benefits

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

Defined benefit pension plans

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

Retirement costs consist of the following:

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

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

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

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

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

Defined contribution plans

Smart and certain of its subsidiaries maintain a defined contribution plan that covers all regular full-time employees under which it pays fixed contributions based on the employees’ monthly salaries and provides for qualified employees to receive a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of

service based on the provisions of R.A. 7641.

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

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

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

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

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

Other Long-term Employee Benefits

Employee benefit costs include current service cost, net interest on the net defined benefit obligation, and remeasurements of the net defined benefit obligation. Past service costs and actuarial gains and losses are recognized immediately in our profit or loss.

The long-term employee benefit liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds) at the end of the reporting period and is determined using the projected unit credit method. See Note 25 – Employee Benefits – Other Long-term Employee Benefits for more details.

Leases

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

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

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

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest income is accrued over the lease term using the EIR and lease amortization is accounted for as reduction of lease receivable.

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

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

Income Taxes

Current income tax

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

Deferred income tax

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

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

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward benefits of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized, except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred income tax relating to items recognized in “Other comprehensive income” account is included in our statement of comprehensive income and not in our consolidated income statement.

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

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

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VAT

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

Contingencies

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

Events After the End of the Reporting Period

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

Equity

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

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

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

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

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

Standards Issued But Not Yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are listed below. We will adopt these standards and amendments to existing standards which are relevant to us when these become effective. Except for PFRS 16, Leases, as discussed further below, we do not expect the adoption of these standards and amendments to PFRS to have a significant impact on our consolidated financial statements.

Effective beginning on or after January 1, 2019

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

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

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The interpretation specifically addresses the following:

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

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

We are currently assessing the impact of adopting this interpretation.

- Amendments to PFRS 9, Prepayment Features with Negative Compensation

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

We are currently assessing the impact of adopting this amendment.

PFRS 16

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but not before an entity applies PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. We are currently assessing the impact of adopting this standard.

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

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

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

The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for 'significant market fluctuations' in the absence of a plan amendment, curtailment or settlement.

The amendments apply to plan amendments, curtailments or settlements that occur on or after January 1, 2019. Earlier application is permitted.

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Amendments to PFRS 3, Business Combinations, Clarifying measurement of previously held interest in obtaining control over a joint operations (Part of Annual Improvements to PFRSs 2015 - 2017 Cycle)

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The amendments clarify that obtaining control of a business that is a joint operation is a business combination achieved in stages. The acquirer should remeasure its previously held interest in the joint operation at fair value at the acquisition date.

The amendments are effective for business combinations with acquisition date on or after January 1, 2019. Earlier application is permitted.

◆Amendments to PFRS 11, Joint Arrangements, Clarifying measurement of previously held interest in obtaining joint control over a joint operation (Part of Annual Improvements to PFRSs 2015 - 2017 Cycle)

The amendments clarify that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

The amendments are effective for transactions resulting in obtaining joint control on or after January 1, 2019. Earlier application is permitted.

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

The amendments clarify that the income tax consequences of dividends of financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits were recognized. These requirements apply to all income tax consequences of dividends.

The amendments should be applied for annual periods beginning on or after January 1, 2019 to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Earlier application is permitted.

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

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

The amendments should be applied prospectively for borrowing costs incurred on or after January 1, 2019. Earlier application is permitted.

Effective beginning on or after January 1, 2021

◆PFRS 17, Insurance Contracts

PFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issued 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 of 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: a specific adaptation for contracts with direct participation features (the variable fee approach) and 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. Early application is permitted, provided the entity also applies PFRS 9 and PFRS 15 on or before the date it first applies PFRS 17.

Deferred effectivity

•Amendments to PFRS 10 and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

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

Judgments

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

Determination of functional currency

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

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso, except for (a) SMHC, FECL Group, PLDT Global and certain of its subsidiaries, DCPL, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC, which uses the U.S. dollar; (b) eInnovations, Takatack Holdings, VIS, iCommerce, Fintech Ventures, ePay, 3rd Brand, CPL and AGSPL, which uses the Singaporean dollar; (c) CCCBL, which uses the Chinese renminbi; (d) AGS Malaysia and Takatack Malaysia, which uses the Malaysian ringgit; (e) AGS Indonesia, which uses the Indonesian rupiah; and (f) ePay Myanmar, which uses the Myanmar kyat.

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.

See related discussion on Note 10 – Investments in Associates and Joint Ventures – Investments in Associates – Investment in MediaQuest PDRs.

Leases

As a lessee, we have various lease agreements in respect of certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on PAS 17. Total lease expense amounted to Php1,639 million and Php1,742 million for the three months ended March 31, 2018 and 2017, respectively. Total finance lease obligations amounted to Php669 thousand and Php679 thousand as at March 31, 2018 and December 31, 2017, respectively. See Note 2 – Summary of Significant Accounting Policies, Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases and Note 27 – Financial Assets and Liabilities – Liquidity Risk.

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

On May 30, 2016, PLDT acquired a 50% equity interest in each of VTI, Bow Arken and Brightshare. See related discussion on Note 10 – Investments in Associates and Joint Ventures – Investments in Joint Ventures. Based on the Memorandum of Agreement, PLDT and Globe Telecom, Inc., or Globe, each have the right to appoint half the members of the Board of Directors of each of VTI, Bow Arken and Brightshare, as well as the (i) co-Chairman of the Board; (ii) co-Chief Executive Officer and President; and (iii) co-Controller where any matter requiring their approval shall be deemed passed or approved if the consents of both co-officers holding the same position are obtained. All decisions of each Board of Directors may only be approved if at least one director nominated by each of PLDT and Globe votes in favor of it.

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

Accordingly, PLDT accounted for the investment in VTI, Bow Arken and Brightshare using the equity method of accounting in accordance with PAS 28, Measuring an Associate or Joint Venture. 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.

Impairment of available-for-sale equity 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.

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 March 31, 2018 and December 31, 2017. Impairment losses charged in our consolidated income statements amounted to nil and Php540 million for the three months ended March 31, 2018 and 2017, respectively. See related discussion on Note 11 – Available-for-Sale Financial Investments/Financial Assets at FVPL – Investment of PLDT Online in Rocket Internet.

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.

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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 value in use of the CGUs to which these assets are allocated. The value in use calculation requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 14 – Goodwill and Intangible Assets – Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Life for the key assumptions used to determine the value in use of the relevant CGUs.

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

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

There were no asset impairment recognized on noncurrent assets for the three months ended March 31, 2018 and 2017. 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, investments in associates, joint ventures and deposits, goodwill and intangible assets, and prepayments are separately disclosed in Note 9 – Property and Equipment, Note 10 – Investments in Associates and Joint Ventures, Note 14 – Goodwill and Intangible Assets and Note 18 – Prepayments, respectively.

Estimating useful lives of property and equipment

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

In 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. Additional depreciation recognized in 2017 amounted to Php19,481 million.

The total depreciation and amortization of property and equipment amounted to Php9,373 million and Php7,550 million for the three months ended March 31, 2018 and 2017, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php184,455 million and Php186,907 million as at March 31, 2018 and December 31, 2017, respectively. See Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information and Note 9 – Property and Equipment.

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Estimating useful lives of intangible assets with finite lives

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

The total amortization of intangible assets with finite lives amounted to Php214 million and Php205 million for the three months ended March 31, 2018 and 2017, respectively. Total carrying values of intangible assets with finite lives amounted to Php3,485 million and Php3,699 million as at March 31, 2018 and December 31, 2017, respectively. See Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information and Note 14 – Goodwill and Intangible Assets.

Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. Based on this, management expects that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php5,457 million and Php5,495 million as at March 31, 2018 and December 31, 2017, respectively. Total consolidated provision from deferred income tax amounted to Php610 million and Php1,262 million for the three months ended March 31, 2018 and 2017, respectively. Total consolidated recognized net deferred income tax assets amounted to Php29,512 million and Php30,466 million as at March 31, 2018 and December 31, 2017, respectively. See Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information and Note 7 – Income Taxes.

Estimating allowance for doubtful accounts

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 recognized in our consolidated income statements amounted to Php897 million and Php911 million for the three months ended March 31, 2018 and 2017, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php34,013 million and Php33,761 million as at March 31, 2018 and December 31, 2017, respectively. See Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment and Note 16 – Trade and Other Receivables.

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

Net consolidated pension benefit costs amounted to Php447 million and Php483 million for the three months ended March 31, 2018 and 2017, respectively. The prepaid benefit costs amounted to Php400 million each as at March 31, 2018 and December 31, 2017. The accrued benefit costs amounted to Php7,777 million and Php8,997 million as at March 31, 2018 and December 31, 2017, respectively. See Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 18 – Prepayments and Note 25 – Employee Benefits.

On September 26, 2017, the Board of Directors of PLDT approved the TIP, which intends to provide incentive compensation to key officers, executives and other eligible participants who are consistent performers and contributors to the Company's strategic and financial goals. The incentive compensation will be in the form of Performance Shares, PLDT common shares of stock, which will be released in three annual grants on the condition, among others, that pre-determined consolidated core net income targets are successfully achieved over three annual performance periods from January 1, 2017 to December 31, 2019. On September 26, 2017, the Board of Directors approved the acquisition of 860 thousand Performance Shares to be awarded under the TIP. On March 7, 2018, the Executive Compensation Committee, or 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.

As at May 10, 2018, a total of 618 thousand PLDT common shares have been acquired by the Trustee, of which 204 thousand PLDT common shares have been released to the eligible participants on April 5, 2018 for the 2017 annual grant. The TIP will be administered by the ECC of the Board. The expense accrued for the TIP amounted to Php110 million as at March 31, 2018 and is presented as equity reserves in the consolidated statement of financial position. See Note 5 – Income and Expenses – Compensation and Employee Benefits and Note 25 – Employee Benefits – Other Long-term Employee Benefits.

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which these are incurred if a reasonable estimate can be made. This requires an estimation of the cost to restore or dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration or dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php1,647 million and Php1,630 million as at March 31, 2018 and December 31, 2017, respectively. See Note 21 – Deferred Credits and Other Noncurrent Liabilities.

Provision for legal contingencies and tax assessments

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

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

Revenue recognition

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenue, receivables, and contract assets/contract liabilities.

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.

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 mobile contracts in accordance with PFRS 15, Revenue from Contract with Customers, and have concluded that the handset and the mobile services may be accounted for as separate performance obligations. The handset (with activation) is delivered first, followed by the mobile service (which is provided over the contract/lock-in period, generally one or 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.

We recognize revenue for these arrangements 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 mobile service which is provided over the contract period of one or two years, because control transferring over time, revenue is recognized monthly as we provide the service. For the handset which is provided at the inception of the contract, because control transferred at point in time, revenue is recognized at the time of delivery.

We recognize installation and activation related fees as separate performance obligations. These are considered in the allocation of the total transaction price relative to the stand-alone selling prices. The corresponding revenue to be allocated to installation and activation services are recognized upon performance of the said services.

We recognize the incremental costs of obtaining contracts and the costs incurred in fulfilling with customers that are directly associated with the contract, such as incentives, performance bonuses and commissions, as an outright expense.

Determination of fair values of financial assets and financial liabilities

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

Other than those whose carrying amounts are reasonable approximations of fair values, total fair values of noncurrent financial assets and noncurrent financial liabilities as at March 31, 2018 amounted to Php8,887 million and Php153,748 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2017 amounted to Php13,846 million and Php157,711 million, respectively. See Note 27 – Financial Assets and Liabilities.

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4. Operating Segment Information

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

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

• **Wireless** – wireless telecommunications services provided by Smart and DMPI, our mobile service providers; Voyager and certain subsidiaries, our mobile applications, digital platforms developer and mobile financial services provider; SBI and PDSI, our wireless broadband service providers; ACeS Philippines, our satellite information and messaging services provider; 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, SBI, BCC, PLDT Global and certain subsidiaries, and Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, big data, managed security services, managed information technology services and resellership through ePLDT, IPCDSI Group, AGS Group, Curo and ePDS; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation through Talas; and distribution of Filipino channels and content through PGNL and its subsidiaries; and

- **Others** – PCEV, PGIH, PLDT Digital and its subsidiaries, MIC 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 year; earnings before interest, taxes, and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income for the year is measured consistent with net income in our consolidated financial statements.

EBITDA for the year 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 year is measured as EBITDA divided by service revenues.

Core income for the year 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 year 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.

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The segment revenues, net income, and other segment information of our reportable operating segments for the three months ended March 31, 2018 and 2017, and as at March 31, 2018 and December 31, 2017 are as follows:

	Wireless (in million pesos)	Fixed Line	Others	Inter- segment Transactions	Consolidated
March 31, 2018 (Unaudited)					
Revenues					
External customers	22,131	18,376	—	—	40,507
Service revenues	20,153	17,592	—	—	37,745
Non-service revenues	1,978	784	—	—	2,762
Inter-segment transactions	773	2,081	—	(2,854)	—
Service revenues	773	2,080	—	(2,853)	—
Non-service revenues	—	1	—	(1)	—
Total revenues	22,904	20,457	—	(2,854)	40,507
Results					
Depreciation and amortization	6,043	3,330	—	—	9,373
Asset impairment	748	643	—	—	1,391
Equity share in net earnings (losses) of associates and joint ventures	62	30	(18)	—	74
Interest income	147	193	191	(54)	477
Financing costs – net	(519)	(1,229)	(54)	104	(1,698)
Provision for income tax	474	1,308	114	15	1,911
Net income / Segment profit	656	3,531	2,702	35	6,924
EBITDA	7,926	8,229	(8)	386	16,533
EBITDA margin	38 %	42 %	—	—	44 %
Core income	2,551	3,351	66	35	6,003
Assets and liabilities					
Operating assets	214,779	180,055	37,663	(38,839)	393,658
Investments in associates and joint ventures	—	43,284	1,202	—	44,486
Deferred income tax assets – net	17,900	11,981	—	(369)	29,512
Total assets	232,679	235,320	38,865	(39,208)	467,656
Operating liabilities	152,309	201,368	14,328	(17,421)	350,584
Deferred income tax liabilities – net	2,572	553	525	—	3,650
Total liabilities	154,881	201,921	14,853	(17,421)	354,234
Other segment information					
Capital expenditures, including capitalized interest	4,614	2,331	—	—	6,945
March 31, 2017 (Unaudited)					
Revenues					
External customers	22,832	16,356	—	—	39,188
Service revenues	22,145	15,556	—	—	37,701
Non-service revenues	687	800	—	—	1,487
Inter-segment transactions	330	2,693	—	(3,023)	—
Service revenues	330	2,693	—	(3,023)	—

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Non-service revenues	—	—	—	—	—
Total revenues	23,162	19,049	—	(3,023)	39,188
Results					
Depreciation and amortization	4,430	3,120	—	—	7,550
Asset impairment	728	323	—	—	1,051
Impairment of investments	(127)	(201)	540	—	212
Equity share in net earnings (losses) of associates and joint ventures	(33)	67	159	—	193
Interest income	60	199	111	(61)	309
Financing costs – net	604	1,308	49	(61)	1,900
Provision for income tax	1,081	1,175	31	—	2,287
Net income (loss) / Segment profit (loss)	2,230	3,209	(470)	—	4,969
EBITDA	8,309	7,797	(18)	379	16,467
EBITDA margin	37 %	43 %	—	—	44 %
Core income	2,298	2,856	175	—	5,329

December 31, 2017 (Audited)

Assets and liabilities					
Operating assets	211,983	174,217	34,504	(37,856)	382,848
Investments in associates and joint ventures	—	44,867	1,263	—	46,130
Deferred income tax assets – net	18,826	11,994	—	(354)	30,466
Total assets	230,809	231,078	35,767	(38,210)	459,444
Operating liabilities	153,622	196,451	13,624	(18,802)	344,895
Deferred income tax liabilities – net	2,656	286	424	—	3,366
Total liabilities	156,278	196,737	14,048	(18,802)	348,261

March 31, 2017 (Unaudited)

Other segment information					
Capital expenditures, including capitalized interest	1,408	362	—	—	1,770

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the three months ended March 31, 2018 and 2017:

	March 31,	
	2018	2017
	(Unaudited)	
	(in million pesos)	
EBITDA	16,533	16,467
Add (deduct) adjustments:		
Gains on derivative financial instruments – net	530	282
Interest income	477	309
Equity share in net earnings of associates and joint ventures	74	193
Impairment of investments	(60)	(339)
Amortization of intangible assets	(214)	(205)
Foreign exchange losses – net	(1,142)	(397)
Financing costs – net	(1,698)	(1,900)
Provision for income tax	(1,911)	(2,287)
Depreciation and amortization	(9,373)	(7,550)
Other income – net	3,708	396
Total adjustments	(9,609)	(11,498)
Consolidated net income	6,924	4,969

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the three months ended March 31, 2018 and 2017:

	March 31,	
	2018	2017
	(Unaudited)	
	(in million pesos)	
Consolidated core income	6,003	5,329
Add (deduct) adjustments:		
Gain on investment valuation	3,350	—
Gains on derivative financial instruments – net, excluding hedge costs	546	386
Net income attributable to noncontrolling interests	24	18
Core income adjustment on equity share in net earnings		
(losses) of associates and joint ventures	(12)	19
Impairment of investments	(60)	(339)
Foreign exchange losses – net	(1,142)	(397)
Depreciation due to shortened life of property and equipment	(2,392)	—
Net tax effect of aforementioned adjustments	607	(47)
Total adjustments	921	(360)
Consolidated net income	6,924	4,969

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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, 2018 and 2017:

	March 31,		2017	
	Basic	Diluted	Basic	Diluted
	(Unaudited)			
Consolidated core EPS	27.72	27.72	24.60	24.60
Add (deduct) adjustments:				
Gain on Rocket investment valuation	15.50	15.50	—	—
Gains on derivative financial instruments – net,				
excluding hedge costs	1.77	1.77	1.25	1.25
Core income adjustment on equity share in net earnings				
(losses) of associates and joint ventures	(0.05)	(0.05)	0.09	0.09
Foreign exchange losses – net	(5.05)	(5.05)	(1.53)	(1.53)
Depreciation due to shortened life of property and equipment	(8.03)	(8.03)	(1.57)	(1.57)
Total adjustments	4.14	4.14	(1.76)	(1.76)
Consolidated EPS attributable to common equity holders of PLDT	31.87	31.87	22.84	22.84

The following table presents our revenues from external customers by category of products and services for the three months ended March 31, 2018 and 2017:

	March 31,	
	2018	2017
	(Unaudited)	
	(in million pesos)	
Wireless services		
Service revenues:		
Mobile	19,725	21,069
Home broadband	48	652
Digital platforms and mobile financial services	297	309
MVNO and others	83	115
	20,153	22,145
Non-service revenues:		
Sale of mobile handsets and broadband data modems	1,978	687
Total wireless revenues	22,131	22,832
Fixed line services		
Service revenues:		
Voice	6,575	6,312
Data	10,738	9,025
Miscellaneous	279	219

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	17,592	15,556
Non-service revenues:		
Sale of computers, phone units and SIM cards	628	589
Point-product-sales	156	211
	784	800
Total fixed line revenues	18,376	16,356
Total revenues	40,507	39,188

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, 2018 and 2017.

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5. Income and Expenses

Non-service Revenues

Non-service revenues for the three months ended March 31, 2018 and 2017 consist of the following:

	March 31, 2018 2017 (Unaudited) (in million pesos)	
Sale of computers, mobile handsets and broadband data modems	2,606	1,276
Point-product-sales	156	211
Total non-service revenues	2,762	1,487

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2018 and 2017 consist of the following:

	March 31, 2018 2017 (Unaudited) (in million pesos)	
Compensation and employee benefits	5,855	5,487
Repairs and maintenance (Notes 13, 17 and 24)	3,340	3,028
Professional and other contracted services (Note 24)	2,900	2,665
Rent (Note 24)	1,639	1,742
Selling and promotions (Note 24)	1,498	1,508
Taxes and licenses (Note 26)	1,036	971
Insurance and security services (Note 24)	379	460
Communication, training and travel (Note 24)	245	302
Amortization of intangible assets (Note 14)	214	205
Other expenses	203	184
Total selling, general and administrative expenses	17,309	16,552

Compensation and Employee Benefits

Compensation and employee benefits for the three months ended March 31, 2018 and 2017 consist of the following:

	March 31,	
	2018	2017
	(Unaudited)	
	(in million pesos)	
Salaries and other employee benefits	5,068	4,981
Pension benefit costs (Note 25)	447	483
Manpower rightsizing program, or MRP	230	23
Incentive plan (Note 25)	110	—
Total compensation and employee benefits	5,855	5,487

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, 2018 and 2017 consist of the following:

	March 31, 2018 2017 (Unaudited) (in million pesos)	
Cost of computers, mobile handsets and broadband data modems (Note 17)	2,691	2,462
Cost of services (Note 17)	770	586
Cost of point-product-sales (Note 17)	153	184
Total cost of sales and services	3,614	3,232

Asset Impairment

Asset impairment for the three months ended March 31, 2018 and 2017 consist of the following:

	March 31, 2018 2017 (Unaudited) (in million pesos)	
Trade and other receivables (Notes 16 and 27)	897	911
Inventories and supplies (Note 17)	494	140
Total asset impairment	1,391	1,051

Other Income (Expenses)

Other income (expenses) for the three months ended March 31, 2018 and 2017 consist of the following:

	March 31, 2018 2017 (Unaudited) (in million pesos)	
Gains on derivative financial instruments – net (Note 27)	530	282
Interest income (Notes 12 and 15)	477	309
Equity share in net earnings of associates and joint ventures (Note 10)	74	193

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Foreign exchange losses – net (Notes 9 and 27)	(1,142)	(397)
Financing costs – net	(1,698)	(1,900)
Other income – net (Notes 11 and 13)	3,648	57
Total other income (expenses)	1,889	(1,456)

Interest Income

Interest income for the three months ended March 31, 2018 and 2017 consist of the following:

	March 31, 2018 2017 (Unaudited) (in million pesos)	
Interest income on loans and receivables (Notes 12 and 15)	476	306
Interest income on HTM investments (Note 12)	1	3
Total interest income	477	309

Financing Costs – net

Financing costs – net for the three months ended March 31, 2018 and 2017 consist of the following:

	March 31,	
	2018	2017
	(Unaudited)	
	(in million pesos)	
Interest on loans and other related items (Notes 20 and 27)	1,942	2,031
Accretion on financial liabilities (Notes 20 and 27)	36	60
Financing charges	24	16
Capitalized interest (Note 9)	(304)	(207)
Total financing costs – net	1,698	1,900

6. Components of Other Comprehensive Income

Changes in other comprehensive income under equity of our consolidated statements of financial position for the three months ended March 31, 2018 and 2017 are as follows:

	Net gains on		Actuarial		Share in the		Total other		
	Foreign available	Net	Revaluations	losses	of	other	comprehensive	income (loss)	
	current	transaction	increments	on	joint ventures	attributable	Share of	comprehensive	
	translational	on cash flow	investment	benefit	accounted for	equity	Share of	comprehensive	
	differences	of hedges	properties	plans	using the equity	holders	noncontrolling	interests	
	of subsidiaries	– net of tax	– net of tax	– net of tax	method	of PLDT	interests	– net of tax	
	(in million pesos)								
Balances as at January 1, 2018	583	4,300	(369)	620	(24,467)	182	(19,151)	14	(19,137)

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Other comprehensive income (loss)	174	(4,301)	(90)	—	(1,265)	(182)	(5,664)	4	(5,660)
Balances as at March 31, 2018									
(Unaudited)	757	(1)	(459)	620	(25,732)	—	(24,815)	18	(24,797)
Balances as at January 1, 2017	608	936	7	619	(23,376)	312	(20,894)	7	(20,887)
Other comprehensive income (loss)	11								