PLDT Inc.
Form 6-K
March 07, 2019

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

March 7, 2019

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

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/ Marilyn A. Victorio-Aquino
Name:	Marilyn A. Victorio-Aquino
Title:	Corporate Affairs and Legal Services Head

Date: 03/07/2019

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-C

Form Type

Not Applicable

Amendment Designation (if applicable)

December 31, 2018

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

March 7, 2019

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-C with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements as at and for the year ended December 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 COJUANGCO BUILDING

MAKATI AVENUE MAKATI CITY

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting	Fiscal Year

	Month/Day	Month/Day
11,657 as at January 31, 2019	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

SECURITIES AND EXCHANGE COMMISSION

CURRENT REPORT UNDER SECTION 17

OF THE SECURITIES REGULATION CODE

AND SRC RULE 17.1

1. March 7, 2019
Date of Report (Date of earliest event reported)

2. SEC Identification Number PW-55

3. BIR Tax Identification No. 000-488-793

4. PLDT INC.
Exact name of issuer as specified in its charter

5. PHILIPPINES
Province, country or other jurisdiction

of Incorporation

6. ____________ (SEC Use Only)
Industry Classification Code

7. Ramon Cojuangco Building, Makati Avenue, Makati City 1200
Address of principal office Postal Code

8. (632) 816-8553
Issuer's telephone number, including area code

9. Not Applicable
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code and Sections 4 and 8 of the Revised Securities Act

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Stock	216,055,775 [(1)]
Amount of Debt Outstanding	Php176,276 million as at December 31, 2018

(1) Represents the total outstanding common shares (net of 2,724,111 Treasury shares).

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements
Our consolidated financial statements as at and for the years ended December 31, 2018 and 2017 and related notes (pages F-1 to F-168) are filed as part of this report on Form 17-C.

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 Php52.56 to US$1.00, the exchange rate as at December 31, 2018 quoted through the Bankers Association of the Philippines.

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.

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Financial Highlights and Key Performance Indicators

(amounts in million Php, except for EBITDA margin, earnings per common share)	Years ended December 31, 2018 (Unaudited)	2017 (Audited)	Increase (Decrease) Amount	%
Consolidated Income Statement				
Revenues	164,752	159,926	4,826	3
Expenses	150,979	150,415	564	—
Other income (expenses)	9,042	5,058	3,984	79
Income before income tax	22,815	14,569	8,246	57
Net income	18,973	13,466	5,507	41
Core income	25,855	27,668	(1,813)	(7)
EBITDA	64,027	66,174	(2,147)	(3)
EBITDA margin[1]	42%	44%	—	—
Reported earnings per common share:				
Basic	87.28	61.61	25.67	42
Diluted	87.28	61.61	25.67	42
Core earnings per common share[2]:				
Basic	119.39	127.79	(8.40)	(7)
Diluted	119.39	127.79	(8.40)	(7)

(amounts in million Php, except for net debt to equity ratio)	December 31, 2018 (Unaudited)	2017 (Audited)	Increase (Decrease) Amount	%
Consolidated Statements of Financial Position				
Total assets	482,750	459,444	23,306	5
Property and equipment	195,964	186,907	9,057	5
Cash and cash equivalents and short-term investments	52,819	33,979	18,840	55
Total equity attributable to equity holders of PLDT	112,358	106,842	5,516	5
Long-term debt, including current portion	176,276	172,611	3,665	2
Net debt[3] to equity ratio	1.10x	1.30x	—	—

(amounts in million Php, except for operational data)	Years ended December 31, 2018 (Unaudited)	2017 (Audited)	Change Amount	%
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	61,116	56,114	5,002	9
Net cash used in investing activities	(25,054)	(21,060)	(3,994)	(19)

Payment for purchase of property and equipment, including				
capitalized interest	48,771	37,432	11,339	30
Net cash used in financing activities	(18,144)	(40,319)	22,175	55
Operational Data				
Number of mobile subscribers	60,499,017	58,293,908	2,205,109	4
Prepaid[4]	58,178,978	55,776,646	2,402,332	4
Postpaid	2,320,039	2,517,262	(197,223)	(8)
Number of broadband subscribers	2,025,563	1,950,881	74,682	4
Fixed Line broadband	1,812,037	1,713,527	98,510	6
Fixed Wireless broadband	213,526	237,354	(23,828)	(10)
Number of fixed line subscribers	2,710,972	2,663,210	47,762	2
Number of employees:	17,222	17,779	(557)	(3)
Fixed Line	10,890	10,737	153	1
LEC	8,772	6,832	1,940	28
Others	2,118	3,905	(1,787)	(46)
Wireless	6,332	7,042	(710)	(10)

[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).

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

Exchange Rates – per US$	Month end rates	Weighted average rates during the year
December 31, 2018	52.56	52.68
December 31, 2017	49.96	50.41
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 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 – 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 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. 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 net income, 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 multimedia services nationwide. We have organized our business into business units based on our products and services and have three reportable operating segments which serve as the bases for management's decision to allocate resources and evaluate operating performance:

- Wireless — mobile telecommunications services provided by Smart Communications, Inc., or Smart, and Digitel Mobile Philippines, Inc., or DMPI, our mobile service providers; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; and certain subsidiaries of PLDT Global Corporation, or PLDT Global, our mobile virtual network operations, or MVNO, provider;
- Fixed Line — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. or Philcom, and its subsidiaries, or Philcom Group, PLDT-Maratel, Inc., Bonifacio Communications Corporation, PLDT Global and certain subsidiaries, and Digital Telecommunications Phils., Inc., or Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, big data, managed security services, managed IT services and resellership provided by ePLDT, Inc., or ePLDT, IP Converge Data Services, Inc., or IPCDSI, and subsidiary, or IPCDSI Group, ABM Global Solutions, Inc., or AGS, and its subsidiaries, or AGS Group, Curo Teknika, Inc. and ePDS, Inc., or ePDS; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation provided by Talas Data Intelligence, Inc., or Talas; distribution of Filipino channels and content by Pilipinas Global Network Limited and its subsidiaries; and
- Others — Voyager Innovations Holdings, Pte. Ltd., or VIH, and certain subsidiaries, our mobile applications and digital platforms developers and mobile financial services provider; PLDT Communications and Energy Ventures, Inc., or PCEV, PLDT Global Investment Holdings, Inc., PLDT Global Investments Corporation, or PGIC, PLDT Digital Investments Pte. Ltd., or PLDT Digital, and its subsidiaries, our investment companies.

As at December 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 net income to our consolidated EBITDA and our consolidated core income for the years ended December 31, 2018 and 2017 are set forth below.

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

	2018 (Unaudited)	2017 (Audited)
	(amounts in million Php)	
Consolidated net income	18,973	13,466
Add (deduct) adjustments:		
Depreciation and amortization	47,240	51,915

Financing costs – net	7,067	7,370
Provision for income tax	3,842	1,103
Noncurrent asset impairment	2,122	3,913
Amortization of intangible assets	892	835
Foreign exchange losses – net	771	411
Impairment of investments	172	2,562
Equity share in net earnings (losses) of associates and joint ventures	87	(2,906)
Gains on derivative financial instruments – net	(1,086)	(533)
Interest income	(1,943)	(1,412)
Other income – net	(14,110)	(10,550)
Total adjustments	45,054	52,708
Consolidated EBITDA	64,027	66,174

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

	2018 (Unaudited)	2017 (Audited)
	(amounts in million Php)	
Consolidated net income	18,973	13,466
Add (deduct) adjustments:		
Depreciation due to shortened life of property and equipment	4,564	12,816
Noncurrent asset impairment	2,122	3,913
Manpower rightsizing program	1,703	—
Unrealized loss in fair value of investments	1,154	—
Foreign exchange losses – net	771	411
Investment written-off	362	—
Impairment of investments	172	2,562
Core income adjustment on equity share in net losses of associates and joint ventures	23	60
Net income attributable to noncontrolling interests	(57)	(95)
Other nonrecurring income	(1,018)	—
Gains on derivative financial instruments – net, excluding hedge costs	(1,135)	(724)
Net tax effect of aforementioned adjustments	(1,779)	(4,741)
Total adjustments	6,882	14,202
Consolidated core income	25,855	27,668

Results of Operations

The following table shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expense), income (loss) before income tax, provision for income tax, net income (loss)/segment profit (loss), EBITDA, EBITDA margin and core income for the years ended December 31, 2018 and 2017. In each of the years ended December 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.

	Wireless	Fixed Line	Others[(1)]	Inter-segment Transactions	Consolidated
	(amounts in million Php, except for EBITDA margin)				
For the year ended December 31, 2018 (Unaudited)					
Revenues	89,929	85,222	1,138	(11,537)	164,752
Expenses	82,246	77,782	4,093	(13,142)	150,979
Other income (expenses)	(625)	(45)	12,099	(2,387)	9,042

Income (loss) before income tax	7,058	7,395	9,144	(782)	22,815
Provision for income tax	1,333	1,336	1,173	—	3,842
Net income (loss)/Segment profit (loss)	5,725	6,059	7,971	(782)	18,973
EBITDA	34,235	30,875	(2,688)	1,605	64,027
EBITDA margin(2)	41%	38%	-246%	—	42%
Core income	9,760	6,925	9,952	(782)	25,855
For the year ended December 31, 2017 (Audited)					
Revenues	92,572	78,341	1,279	(12,266)	159,926
Expenses	97,651	63,864	2,774	(13,874)	150,415
Other income (expenses)	77	(3,323)	10,530	(2,226)	5,058
Income (loss) before income tax	(5,002)	11,154	9,035	(618)	14,569
Provision for (benefit from) income tax	(2,787)	3,680	210	—	1,103
Net income (loss)/Segment profit (loss)	(2,215)	7,474	8,825	(618)	13,466
EBITDA	36,395	29,478	(1,307)	1,608	66,174
EBITDA margin(2)	42%	39%	-104%	—	44%
Core income	9,812	8,846	9,628	(618)	27,668
Increase (Decrease)					
Revenues	(2,643)	6,881	(141)	729	4,826
Expenses	(15,405)	13,918	1,319	732	564
Other income (expenses)	(702)	3,278	1,569	(161)	3,984
Income (loss) before income tax	12,060	(3,759)	109	(164)	8,246
Provision for (benefit from) income tax	4,120	(2,344)	963	—	2,739
Net income (loss)/Segment profit (loss)	7,940	(1,415)	(854)	(164)	5,507
EBITDA	(2,160)	1,397	(1,381)	(3)	(2,147)
Core income	(52)	(1,921)	324	(164)	(1,813)

(1) Other business segment includes results of operations of VIH, resulting from the transfer from Smart to PCEV in April 2018. Consequently, we reclassified the presentation of VIH from Wireless to Other business segment, including prior period herein reported. VIH was deconsolidated from PCEV effective November 30, 2018.
(2) 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 method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of intitial application or only to contracts that are not completed at this date. We elected to apply the standard to all contracts that are not completed as at the date of initial application, that is, January 1, 2018. The cumulative effect arising from the transition was recognized as an adjustment to the opening balance of retained earnings.

The following is the impact of PFRS 15 adoption in our results of operations for the year ended December 31, 2018:

		PFRS 15 Impact		
	PAS 18	Wireless	Fixed Line	PFRS 15
	(amounts in million Php)			
Service revenues	157,845	(3,250)	(388)	154,207
Non-service revenues	7,602	2,733	210	10,545
Other income – interest income	1,486	338	119	1,943
Income before income tax	23,259	(298)	(146)	22,815
Provision for income tax	3,976	(90)	(44)	3,842
Net income	19,283	(208)	(102)	18,973
EBITDA	64,928	(636)	(265)	64,027
EBITDA margin	41%	—	—	42%
Core income	26,165	(208)	(102)	25,855

On a Consolidated Basis

Revenues

We reported consolidated revenues of Php164,752 million in 2018, an increase of Php4,826 million, or 3%, as compared with Php159,926 million in 2017, primarily due to higher revenues from data services in our Fixed Line business segment, as well as higher non-service revenues from our Wireless business segment, partially offset by lower revenues from mobile and home broadband services from our Wireless business segment, and lower voice revenues from our Fixed Line business segment.

In compliance with Memorandum Circular No. 05-07-2018 issued by the National Telecommunications Commission, or NTC, the interconnection rate for our voice calls was reduced to Php0.50 per minute from Php2.50 per minute, and the rate for SMS was down to Php0.05 per message from Php0.15 per message effective September 1, 2018.

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

	Wireless	Fixed Line	Others	Inter-segment Transactions		Consolidated
	(amounts in million Php)					
For the year ended December 31, 2018						
Service Revenues						
Wireless	83,001			(2,736	)	80,265
Mobile	81,096			(1,192	)	79,904
Home broadband	155			—		155
MVNO and others	1,750			(1,544	)	206
Fixed Line		81,648		(8,790	)	72,858
Voice		25,178		(2,192	)	22,986
Data		54,770		(5,912	)	48,858
Home broadband		26,733		(255	)	26,478
Corporate data and ICT		28,037		(5,657	)	22,380
Miscellaneous		1,700		(686	)	1,014
Others			1,094	(10	)	1,084
Total Service Revenues	83,001	81,648	1,094	(11,536	)	154,207
Non-Service Revenues						
Sale of computers, phone units and mobile handsets	6,928	3,064	44	(8	)	10,028
Point-product sales	—	510	—	7		517
Total Non-Service Revenues	6,928	3,574	44	(1	)	10,545
Total Revenues	89,929	85,222	1,138	(11,537	)	164,752
For the year ended December 31, 2017						
Service Revenues						
Wireless	87,412			(1,284	)	86,128
Mobile	84,439			(1,273	)	83,166
Home broadband	2,556			(9	)	2,547
MVNO and others	417			(2	)	415
Fixed Line		74,757		(10,946	)	63,811
Voice		28,500		(3,204	)	25,296
Data		44,294		(6,849	)	37,445
Home broadband		18,054		(245	)	17,809
Corporate data and ICT		26,240		(6,604	)	19,636
Miscellaneous		1,963		(893	)	1,070
Others			1,256	(30	)	1,226
Total Service Revenues	87,412	74,757	1,256	(12,260	)	151,165
Non-Service Revenues						
Sale of computers, phone units and mobile handsets	5,160	2,724	23	(18	)	7,889

Point-product sales	—	860	—	12	872
Total Non-Service Revenues	5,160	3,584	23	(6)	8,761
Total Revenues	92,572	78,341	1,279	(12,266)	159,926

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

	2018	%	2017	%	Change Amount	%
	(amounts in million Php)					
Wireless	89,929	54	92,572	58	(2,643)	(3)
Fixed Line	85,222	52	78,341	49	6,881	9
Others[1]	1,138	1	1,279	1	(141)	(11)
Inter-segment transactions	(11,537)	(7)	(12,266)	(8)	729	6
Consolidated	164,752	100	159,926	100	4,826	3

[1] Other business segment includes revenues from digital platforms and mobile financial services.

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Expenses

Consolidated expenses increased by Php564 million to Php150,979 million in 2018 from Php150,415 million in 2017, primarily due to higher depreciation and amortization, selling, general and administrative expenses, asset impairment and provisions in our Fixed Line business segment, and higher cost of sales and services in our Wireless business segment, partially offset by lower depreciation and amortization, asset impairment and interconnection costs in our Wireless business segment.

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

	2018	%	2017	%	Change Amount	%
	(amounts in million Php)					
Wireless	82,246	54	97,651	65	(15,405)	(16)
Fixed Line	77,782	52	63,864	42	13,918	22
Others	4,093	3	2,774	2	1,319	48
Inter-segment transactions	(13,142)	(9)	(13,874)	(9)	732	5
Consolidated	150,979	100	150,415	100	564	—

Other Income (Expenses)

Consolidated other income increased by Php3,984 million, or 79%, to Php9,042 million in 2018 from Php5,058 million in 2017, primarily due to gain on the loss of control on VIH and realized gain on fair value of Rocket Internet investment in 2018 from our Other business segment, as well as impairment of investment in Hastings PDRs in 2017 from our Fixed Line business segment, partially offset by gain on sale of Beacon Electric Holdings, Inc., or Beacon, shares in 2017 and equity share in net losses of associates and joint ventures in 2018 from our Other business segment.

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

	2018	2017	Change Amount	%
	(amounts in million Php)			
Wireless	(625)	77	(702)	(912)
Fixed Line	(45)	(3,323)	3,278	99
Others	12,099	10,530	1,569	15
Inter-segment transactions	(2,387)	(2,226)	(161)	(7)
Consolidated	9,042	5,058	3,984	79

Net Income (Loss)

Consolidated net income increased by Php5,507 million, or 41%, to Php18,973 million in 2018, from Php13,466 million in 2017, primarily due to higher net income from our Wireless business segment, partly offset by lower net income from our Fixed Line and Other business segments. Our consolidated basic and diluted EPS increased to Php87.28 in 2018 from Php61.61 in 2017. Our weighted average number of outstanding common shares was approximately 216.06 million in each of 2018 and 2017.

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

	2018	%	2017	%	Change Amount	%
	(amounts in million Php)					
Wireless	5,725	30	(2,215)	(17)	7,940	358
Fixed Line	6,059	32	7,474	56	(1,415)	(19)
Others	7,971	42	8,825	66	(854)	(10)
Inter-segment transactions	(782)	(4)	(618)	(5)	(164)	(27)
Consolidated	18,973	100	13,466	100	5,507	41

EBITDA

Our consolidated EBITDA amounted to Php64,027 million in 2018, a decrease of Php2,147 million, or 3%, as compared with Php66,174 million in 2017, primarily due to lower EBITDA in our Wireless and Other business segments, partially offset by higher EBITDA in our Fixed Line business segment.

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

	2018	%	2017	%	Change Amount	%
	(amounts in million Php)					
Wireless	34,235	53	36,395	55	(2,160)	(6)
Fixed Line	30,875	48	29,478	45	1,397	5
Others	(2,688)	(4)	(1,307)	(2)	(1,381)	(106)
Inter-segment transactions	1,605	3	1,608	2	(3)	—
Consolidated	64,027	100	66,174	100	(2,147)	(3)

Core Income

Our consolidated core income amounted to Php25,855 million in 2018, a decrease of Php1,813 million, or 7%, as compared with Php27,668 million in 2017, primarily due to lower core income from our Fixed Line business segment, partially offset by higher core income from our Other business segment. Our consolidated basic and diluted core EPS decreased to Php119.39 in 2018 from Php127.79 in 2017.

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

	2018	%	2017	%	Change Amount	%
	(amounts in million Php)					
Wireless	9,760	38	9,812	35	(52)	(1)
Fixed Line	6,925	27	8,846	32	(1,921)	(22)
Others	9,952	38	9,628	35	324	3
Inter-segment transactions	(782)	(3)	(618)	(2)	(164)	(27)
Consolidated	25,855	100	27,668	100	(1,813)	(7)

On a Business Segment Basis

Wireless

Revenues

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

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

	2018	%	2017	%	Increase (Decrease) Amount	%
	(amounts in million Php)					
Service Revenues:						
Mobile	81,096	90	84,439	91	(3,343)	(4)
Home broadband	155	—	2,556	3	(2,401)	(94)
MVNO and others[(1)]	1,750	2	417	—	1,333	320
Total Wireless Service Revenues	83,001	92	87,412	94	(4,411)	(5)
Non-Service Revenues:						
Sale of mobile handsets and broadband data modems	6,928	8	5,160	6	1,768	34
Total Wireless Revenues	89,929	100	92,572	100	(2,643)	(3)

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

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Service Revenues

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

Mobile Services

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

	2018	%	2017	%	Increase (Decrease) Amount	%
	(amounts in million Php)					
Mobile Services:						
Data	38,350	47	26,281	31	12,069	46
Voice	28,052	35	30,724	36	(2,672)	(9)
SMS	13,103	16	26,045	31	(12,942)	(50)
Inbound roaming and others[(1)]	1,591	2	1,389	2	202	15
Total	81,096	100	84,439	100	(3,343)	(4)

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

Data Services

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

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

	2018	%	2017	%	Increase (Decrease) Amount	%

(amounts in million Php)

Data Services:						
Mobile internet[1]	33,207	87	20,086	76	13,121	65
Mobile broadband	4,589	12	6,030	23	(1,441)	(24)
Other data[2]	554	1	165	1	389	236
Total	38,350	100	26,281	100	12,069	46

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

Mobile Internet

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

Mobile Broadband

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

Other Data

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

Voice Services

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

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

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

SMS Services

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

Inbound Roaming and Others

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

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

			Increase (Decrease)	
	2018	2017	Amount	%

	(amounts in million Php)			
Mobile service revenues	81,096	84,439	(3,343)	(4)
By service type				
Prepaid	59,914	59,862	52	—
Postpaid	19,591	23,188	(3,597)	(16)
Inbound roaming and others	1,591	1,389	202	15

Prepaid Revenues

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

Postpaid Revenues

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

Subscriber Base, ARPU and Churn Rates

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

	2018	2017	Increase (Decrease) Amount	%
Mobile subscriber base				
Smart[1]	21,956,289	21,821,441	134,848	1
Prepaid	20,532,174	20,433,351	98,823	0
Postpaid	1,424,115	1,388,090	36,025	3
TNT	31,893,641	28,807,964	3,085,677	11
Sun[1]	6,649,087	7,664,503	(1,015,416)	(13)
Prepaid	5,753,163	6,535,331	(782,168)	(12)
Postpaid	895,924	1,129,172	(233,248)	(21)
Total mobile subscribers	60,499,017	58,293,908	2,205,109	4

[1] Includes mobile broadband subscribers.

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

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

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

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

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

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2018	2017	Amount	%	2018	2017	Amount	%
	(amounts in Php)							
Prepaid								
Smart	130	118	12	10	118	108	10	9
TNT	79	81	(2)	(2)	71	74	(3)	(4)
Sun	89	88	1	1	81	82	(1)	(1)
Postpaid								
Smart	836	1,004	(168)	(17)	819	972	(153)	(16)
Sun	403	422	(19)	(5)	401	418	(17)	(4)

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

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

Home Broadband

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

MVNO and Others

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

Non-Service Revenues

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

Expenses

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

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

					Increase (Decrease)	
	2018	%	2017	%	Amount	%
	(amounts in million Php)					
Selling, general and administrative expenses	39,693	48	39,584	41	109	—
Depreciation and amortization	24,778	30	36,776	38	(11,998)	(33)
Cost of sales and services	9,989	12	8,814	9	1,175	13
Interconnection costs	4,467	6	6,373	6	(1,906)	(30)
Provisions	2,210	3	2,191	2	19	1
Asset impairment	1,109	1	3,913	4	(2,804)	(72)
Total	82,246	100	97,651	100	(15,405)	(16)

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

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

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

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

Provisions increased by Php19 million, or 1%, to Php2,210 million, primarily due to higher provision for doubtful accounts, partly offset by lower provision for inventory obsolescence.

Asset impairment decreased by Php2,804 million, or 72%, to Php1,109 million primarily due to the impairment of certain network equipment in 2017 which were rendered obsolete due to technological advancements as a result of continuing network transformation projects.

Other Income (Expenses)

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

	2018	2017	Change Amount	%
	(amounts in million Php)			
Other Income (Expenses):				
Financing costs – net	(1,865)	(2,247)	382	17
Foreign exchange losses – net	(125)	(57)	(68)	(119)
Equity share in net earnings (losses) of associates and joint ventures	62	(129)	191	148
Gain on derivative financial instruments – net	449	282	167	59
Interest income	719	305	414	136
Other income – net	135	1,923	(1,788)	(93)
Total	(625)	77	(702)	(912)

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

Provision for (Benefit from) Income Tax

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

Net Income

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

EBITDA

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

Core Income

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

Fixed Line

Revenues

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

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

	2018	%	2017	%	Increase (Decrease) Amount	%
	(amounts in million Php)					
Service Revenues:						
Voice	25,178	30	28,500	36	(3,322)	(12)
Data	54,770	64	44,294	57	10,476	24
Miscellaneous	1,700	2	1,963	2	(263)	(13)
	81,648	96	74,757	95	6,891	9
Non-Service Revenues:						
Sale of computers, phone units and point-product sales	3,574	4	3,584	5	(10)	—
Total Fixed Line Revenues	85,222	100	78,341	100	6,881	9

Service Revenues

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

Voice Services

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

Data Services

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

	2018	2017	Increase Amount	%
	(amounts in million Php)			
Data service revenues	54,770	44,294	10,476	24
Home broadband	26,733	18,054	8,679	48

Corporate data and ICT	28,037	26,240	1,797	7

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

Home Broadband

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

Corporate Data and ICT

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

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

Miscellaneous Services

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

Non-service Revenues

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

Expenses

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

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

	2018	%	2017	%	Increase (Decrease) Amount	%
	(amounts in million Php)					
Selling, general and administrative expenses	41,065	53	37,390	59	3,675	10
Depreciation and amortization	22,303	29	15,001	23	7,302	49
Interconnection costs	5,145	7	4,587	7	558	12
Cost of sales and services	4,523	6	4,788	8	(265)	(6)
Provisions	3,527	4	2,098	3	1,429	68

Asset impairment	1,219	1	—	—	1,219	—
Total	77,782	100	63,864	100	13,918	22

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

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

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

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

Provisions increased by Php1,429 million, or 68%, to Php3,527 million, primarily due to higher provision for doubtful accounts mainly due to lower collection efficiency, and higher provision for inventory obsolescence due to provision for network materials resulting from the modernization of facilities.

Asset impairment amounted to Php1,219 million in 2018 primarily due to the impairment provision for property and equipment of Digitel.

Other Income (Expenses)

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

			Change	
	2018	2017	Amount	%
	(amounts in million Php)			
Other Income (Expenses):				
Financing costs – net	(5,195)	(5,106)	(89)	(2)
Foreign exchange losses	(58)	(98)	40	41
Equity share in net earnings of associates	171	44	127	289
Gains on derivative financial instruments – net	355	251	104	41
Interest income	812	695	117	17
Other income – net	3,870	891	2,979	334
Total	(45)	(3,323)	3,278	99

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

Provision for Income Tax

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

Net Income

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

EBITDA

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

Core Income

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

Others

Revenues

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

Expenses

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

Other Income (Expenses)

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

	2018	2017	Change Amount	%
	(amounts in million Php)			
Other Income (Expenses):				
Interest income	536	655	(119)	(18)
Gain on derivative financial instruments – net	282	—	282	100
Financing costs – net	(131)	(214)	83	39
Equity share in net earnings (losses) of associates and joint ventures	(320)	2,991	(3,311)	(111)
Foreign exchange losses – net	(588)	(256)	(332)	(130)
Other income – net	12,320	7,354	4,966	68
Total	12,099	10,530	1,569	15

Our Other business segment's other income amounted to Php12,099 million in 2018, an increase of Php1,569 million, or 15%, from Php10,530 million in 2017, primarily due to the combined effects of the following: (i) higher other income – net by Php4,966 million mainly due to gain on the loss of control on VIH and realized gain on fair value of Rocket Internet investment in 2018, partly offset by gain on sale of Beacon shares and gain on conversion of iflix convertible notes in 2017, and unrealized loss on fair value of iflix investment in 2018; (ii) net gains on derivative financial instruments of Php282 million in 2018; (iii) lower net financing costs by Php83 million; (iv) lower interest income by Php119 million; (v) higher net foreign exchange losses by Php332 million; and (vi) equity share in net losses of associates and joint ventures of Php320 million in 2018 as against equity share in net earnings of associates and joint ventures of Php2,991 million in 2017 mainly due to sale of Beacon shares and SPi Global in 2017.

Net Income

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

EBITDA

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

Core Income

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

Liquidity and Capital Resources

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

	Years ended December 31, 2018	2017
	(amounts in million Php)	
Cash Flows		
Net cash flows provided by operating activities	61,116	56,114
Net cash flows used in investing activities	(25,054)	(21,060)
Payment for purchase of property and equipment, including capitalized interest	48,771	37,432
Net cash flows used in financing activities	(18,144)	(40,319)
Net increase (decrease) in cash and cash equivalents	18,749	(5,817)

	December 31, 2018	2017
	(amounts in million Php)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	155,835	157,654
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	20,441	14,957
Total interest-bearing financial liabilities	176,276	172,611
Total equity attributable to equity holders of PLDT	112,358	106,842
	288,634	279,453
Other Selected Financial Data		

Total assets	482,750	459,444
Property and equipment	195,964	186,907
Cash and cash equivalents	51,654	32,905
Short-term investments	1,165	1,074

Our consolidated cash and cash equivalents and short-term investments totaled Php52,819 million as at December 31, 2018. Principal sources of consolidated cash and cash equivalents in 2018 were: (1) cash flows from operating activities amounting to Php61,116 million; (2) proceeds from availment of long-term debt of Php20,500 million; (3) proceeds from disposal of Rocket Internet shares of Php11,405 million and proceeds from repurchase of Matrixx's Convertible Series B Preferred Stock of Php237 million; (4) proceeds from sale of receivables from Metro Pacific Investments Corporation, or MPIC, of Php6,976 million; (5) collection of receivables from MPIC of Php4,451 million; (6) proceeds from disposal of Hastings PDRs of Php1,664 million; (7) interest received of Php1,115 million; (8) proceeds from collection of derivative financial instruments of Php886 million; and (9) proceeds from disposal of property and equipment of Php345 million. These funds were used principally for: (1) payment for purchase of property and equipment, including capitalized interest, of Php48,771 million; (2) debt principal and interest payments of Php18,740 million and Php6,614 million, respectively; (3) cash dividend payments of Php13,928 million; and (4) payment for purchase of investment in Multisys Technologies Corporation, or Multisys, of Php1,588 million and net decrease in cash resulting from deconsolidation of VIH of Php1,186 million.

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

Operating Activities

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

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

Investing Activities

Consolidated net cash flows used in investing activities amounted to Php25,054 million in 2018, an increase of Php3,994 million, or 19%, from Php21,060 million in 2017, primarily due to the combined effects of the following: (1) lower proceeds from disposal of investment in associates and joint ventures by Php14,838 million mainly due to proceeds from disposal of the remaining Beacon shares in 2017; (2) higher payment for purchase of property and equipment, including capitalized interest, by Php11,339 million; (3) higher payment for purchase of investment, mainly investment in Multisys amounting to Php1,588 million and decrease in cash resulting from deconsolidation of VIH of Php1,186 million; (4) lower net proceeds from maturity of short-term investments by Php1,720 million; (5) proceeds from redemption of Beacon's Class B Preferred Shares of Php1,000 million in 2017; (6) dividends received of Php833 million in 2017; (7) proceeds from disposal of Hastings PDRs of Php1,664 million in 2018; (8) higher collection of receivables from MPIC by Php2,450 million; (9) proceeds from sale of receivables from MPIC of Php6,976 million in 2018; (10) lower payment for purchase of investments in associates and joint ventures by Php5,522 million, mainly investment in VTI; and (11) proceeds from sale of Rocket Internet shares of Php11,405 million and proceeds from repurchase of Matrixx's Convertible Series B Preferred Stock of Php237 million in 2018.

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

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

Financing Activities

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

Debt Financing

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

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

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

See Note 20 – Interest-bearing Financial Liabilities – Compliance with Debt Covenants to the accompanying 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.

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

Earnings	Date Approved[1]	Record	Payable	Amount Per share	Total
				(in million Php, except per share amount)	
2018					
Common					
Regular Dividend	August 9, 2018	August 28, 2018	September 11, 2018	36	7,778
Preferred					
Series IV Cumulative Non-convertible					
Redeemable Preferred Stock[1]	January 22, 2018	February 21, 2018	March 15, 2018	—	12
	May 10, 2018	May 25, 2018	June 15, 2018	—	12
	August 9, 2018	August 28, 2018	September 15, 2018	—	13
	November 8, 2018	November 23, 2018	December 15, 2018	—	12
Voting Preferred Stock	March 8, 2018	March 28, 2018	April 15, 2018	—	3
	June 13, 2018	June 29, 2018	July 15, 2018	—	2
	September 25, 2018	October 9, 2018	October 15, 2018	—	2
	December 4, 2018	December 19, 2018	January 15, 2019	—	3
Charged to Retained Earnings					7,837
2017					
Common					
Regular Dividend	August 10, 2017	August 25, 2017	September 8, 2017	48	10,371
	March 27, 2018	April 13, 2018	April 27, 2018	28	6,050
Preferred					
Series IV Cumulative Non-convertible					
Redeemable Preferred Stock[1]	February 7, 2017	February 24, 2017	March 15, 2017	—	12
	May 12, 2017	May 26, 2017	June 15, 2017	—	12
	August 10, 2017	August 25, 2017	September 15, 2017	—	13
	November 9, 2017	November 23, 2017	December 15, 2017	—	12
Voting Preferred Stock	March 7, 2017	March 30, 2017	April 15, 2017	—	3
	June 13, 2017	June 27, 2017	July 15, 2017	—	2
	September 26, 2017	October 10, 2017	Octoberber 15, 2017	—	2
	December 5, 2017	December 20, 2017	January 15, 2018	—	3

Charged to Retained Earnings	16,480

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

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

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, 2017 and 2018. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, are not available for distribution unless realized in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, Philippines, as the dividend-disbursing agent, converts the Philippine peso dividends into U.S. dollars at the prevailing exchange 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 year ended December 31, 2018 amounted to Php13,928 million as compared with Php16,617 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 December 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 Php20 million and Php88 million as at December 31, 2018 and 2017, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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 December 31, 2018 and September 30, 2018 other than those whose carrying amounts are reasonable approximations of fair values:

	Fair Values	
	December 31, 2018	September 30, 2018
	(amounts in million Php)	
Noncurrent Financial Assets		
Debt instruments at amortized cost – net of current portion	148	150
Financial assets at fair value through other comprehensive income – net of current portion	2,749	2,749
Other financial assets – net of current portion	2,020	2,275
Total noncurrent financial assets	4,917	5,174
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	139,504	155,835
Customers' deposits	1,305	2,194
Deferred credits and other noncurrent liabilities	2,583	1,261
Total noncurrent financial liabilities	143,392	149,507

The following table sets forth the amount of gains (losses) recognized for the financial assets and liabilities for the year ended December 31, 2018 and the nine months ended September 30, 2018:

	December 31, 2018	September 30, 2018
	(amounts in million Php)	
Profit and Loss		
Interest income	1,943	1,396
Gains on derivative financial instruments – net	1,086	1,053
Accretion on financial liabilities	(145)	(108)
Interest on loans and other related items	(8,307)	(6,169)
Other Comprehensive Income		
Net fair value losses on cash flow hedges – net of tax	(271)	(146)
Net gains on available-for-sale financial investments – net of tax	—	10

Impact of Inflation and Changing Prices

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

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PART II – OTHER INFORMATION

Investment of PGIH in Multisys

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

On December 3, 2018, PGIH completed the closing of its investment in Multisys. PGIH paid Php523 million to the owner of Multisys for the acquisition of existing shares and invested Php800 million into Multisys as a deposit for future subscription pending the approval by the Philippine SEC of the capital increase of Multisys.

On February 1, 2019, the Philippine SEC approved the capital increase of Multisys. This resulted to an increase in the total equity ownership of PGIH in Multisys to 45.73%.

Loss of Control of PCEV over VIH

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

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

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

On November 28, 2018, VIH received the US$175 million funding from KKR and Tencent. Upon closing of this investment transaction, PCEV's ownership was reduced to 53.87% and PCEV retained only two Board seats in the investee, resulting to a loss of control.

On December 10, 2018, VIH received the US$40 million funding from IFC and IFC EAF. As a result, PCEV's ownership was further reduced to 48.74%.

ePLDT's Additional Investment in ePDS

On August 7, 2018, the Board of Directors of ePLDT approved the additional investment in ePDS amounting to Php66 million, thereby increasing its equity interest in ePDS from 67% to 95%.

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, or Php10,059 million, which was settled on May 9, 2018, reducing the equity ownership in Rocket Internet from 6.1% to 2.0%.

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

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

Conversion of PLDT Online's iflix Convertible Note

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

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

Investment of PLDT Capital in Phunware

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

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

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

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

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

Investment of PLDT Capital in Matrixx

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

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

Investment of iCommerce 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.

In 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 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 MPIC due in 2019 to 2021 amounting to Php5,550 million for a total consideration of Php4,852 million, which was settled on March 5, 2018. Under the terms of the RPA, the Purchasers will have exclusive ownership of the purchased receivables and all of its rights, title, and interest.

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

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.

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

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 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.

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 costs 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 telecommunications company. With the foregoing, PLDT is deemed to have fully complied with its obligation to divest from CURE as a condition to the sale and transfer of 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 December 31, 2018:

Type of Accounts Receivable	Total	Current	31-60 Days	61-90 Days	Over 91 Days
	(amounts in million Php)				
Retail subscribers	19,444	10,404	992	318	7,730
Corporate subscribers	11,073	2,789	2,275	1,089	4,920
Foreign administrations	4,225	1,408	183	125	2,509
Domestic carriers	270	60	52	19	139
Dealers, agents and others	5,547	2,945	456	113	2,033
Total	40,559	17,606	3,958	1,664	17,331
Less: Allowance for doubtful accounts	16,634				
Total Receivables - net	23,925				

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ANNEX II – Financial Soundness Indicators

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

	2018	2017
Current Ratio[1]	0.52:1.0	0.53:1.0
Net Debt to Equity Ratio[2]	1.10:1.0	1.30:1.0
Net Debt to EBITDA Ratio[3]	1:93:1.0	2.09:1.0
Total Debt to EBITDA Ratio[4]	2.75:1.0	2.61:1.0
Asset to Equity Ratio[5]	4.30:1.0	4.30:1.0
Interest Coverage Ratio[6]	4.19:1.0	2.93:1.0
Profit Margin[7]	12 %	8 %
Return on Assets[8]	4 %	3 %
Return on Equity[9]	17 %	13 %
EBITDA Margin[10]	42 %	44 %

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

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

(3) Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion) less cash and cash equivalent and short-term investments divided by EBITDA for the 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 fourth 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: March 7, 2019

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2018 AND 2017

AND FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2018 and 2017

(in million pesos)

	2018 (Unaudited)	2017 (Audited)
ASSETS		
Noncurrent Assets		
Property and equipment (Notes 9 and 21)	195,964	186,907
Investments in associates and joint ventures (Note 10)	55,427	46,130
Available-for-sale financial investments (Notes 6 and 11)	—	15,165
Financial assets at fair value through profit or loss (Note 11)	4,763	—
Investment in debt securities and other long-term investments – net of current portion (Note 12)	—	150
Debt instruments at amortized cost (Note 12)	150	—
Investment properties (Notes 6 and 13)	777	1,635
Goodwill and intangible assets (Note 14)	68,583	69,583
Deferred income tax assets – net (Note 7)	27,697	30,466
Derivative financial assets – net of current portion (Note 27)	140	215
Prepayments – net of current portion (Note 18)	6,255	5,370
Advances and other noncurrent assets – net of current portion (Note 24)	17,083	14,154
Financial assets at fair value through other comprehensive income – net of current portion (Notes 6 and 24)	2,749	—
Other financial assets – net of current portion (Note 27)	2,275	—
Other non-financial assets – net of current portion	230	—
Total Noncurrent Assets	382,093	369,775
Current Assets		
Cash and cash equivalents (Note 15)	51,654	32,905
Short-term investments (Note 27)	1,165	1,074
Trade and other receivables (Note 16)	23,925	33,761
Inventories and supplies (Note 17)	2,878	3,933
Contract assets (Notes 5 and 27)	3,399	—
Current portion of derivative financial assets (Note 27)	183	171
Current portion of investment in debt securities and other long-term investments (Note 12)	—	100
Current portion of prepayments (Note 18)	7,760	9,633
Current portion of advances and other noncurrent assets (Note 19)	620	8,092

Current portion of financial assets at fair value through other comprehensive income (Notes 6 and 24)	1,604	—
Current portion of other financial assets (Notes 19 and 27)	7,008	—
Current portion of other non-financial assets	461	—
Total Current Assets	100,657	89,669
TOTAL ASSETS	482,750	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)	(808)	(940)
Capital in excess of par value (Note 19)	130,526	130,374
Other equity reserves (Note 25)	651	827
Retained earnings (Note 19)	12,081	634
Other comprehensive loss (Note 6)	(25,190)	(19,151)
Total Equity Attributable to Equity Holders of PLDT (Note 27)	112,358	106,842
Noncontrolling interests (Note 6)	4,308	4,341
TOTAL EQUITY	116,666	111,183

See accompanying Notes to Consolidated Financial Statements.

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PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

As at December 31, 2018 and 2017

(in million pesos)

	2018 (Unaudited)	2017 (Audited)
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 20, 24 and 27)	155,835	157,654
Deferred income tax liabilities – net (Note 7)	2,981	3,366
Derivative financial liabilities – net of current portion (Note 27)	—	8
Customers' deposits (Note 27)	2,194	2,443
Pension and other employee benefits (Note 25)	7,182	8,997
Deferred credits and other noncurrent liabilities (Note 21)	5,226	7,702
Total Noncurrent Liabilities	173,418	180,170
Current Liabilities		
Accounts payable (Note 22)	74,755	60,445
Accrued expenses and other current liabilities (Notes 23 and 26)	95,637	90,740
Current portion of interest-bearing financial liabilities (Notes 20, 24 and 27)	20,441	14,957
Dividends payable (Note 19)	1,533	1,575
Current portion of derivative financial liabilities (Note 27)	80	141
Income tax payable	220	233
Total Current Liabilities	192,666	168,091
TOTAL LIABILITIES	366,084	348,261
TOTAL EQUITY AND LIABILITIES	482,750	459,444

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

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

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

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

See accompanying Notes to Consolidated Financial Statements.

For the year-ended December 31, 2018, the total of service and non-service revenues pertains to revenue from contracts with customers.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

(in million pesos)

	2018 (Unaudited)	2017 (Audited)	2016
NET INCOME	18,973	13,466	20,162
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)			
Foreign currency translation differences of subsidiaries	117	(18)	79
Financial instrument at fair value through other comprehensive income (Note 24)	(29)	—	—
Net transactions on cash flow hedges:	(271)	(376)	10
Net fair value gains (losses) on cash flow hedges (Note 27)	(286)	(411)	76
Income tax related to fair value adjustments charged directly to equity (Note 7)	15	35	(66)
Net gains on available-for-sale financial investments:	—	3,364	860
Unrealized gains (losses) from changes in fair value adjustments recognized during the period (Note 11)	—	2,826	(4,520)
Impairment recognized in profit or loss (Note 11)	—	540	5,381
Income tax related to fair value adjustments charged directly to equity (Note 7)	—	(2)	(1)
Share in the other comprehensive income of associates and joint ventures accounted for using the equity method (Note 10)	—	112	151
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent years	(183)	3,082	1,100
Revaluation increment on investment properties:	(2)	1	17
Fair value adjustment to property and equipment transferred to investment properties during the year	—	4	26
Depreciation of revaluation increment in investment properties transferred to property and equipment (Note 9)	(2)	(2)	(2)
Income tax related to revaluation increment charged directly to equity (Note 7)	—	(1)	(7)

Actuarial losses on defined benefit obligations:	(1,222)	(1,091)	(3,571)
Remeasurement in actuarial losses on defined benefit obligations (Note 25)	(1,788)	(1,566)	(5,112)
Income tax related to remeasurement adjustments (Note 7)	566	475	1,541
Share in the other comprehensive income of associates and joint ventures accounted for using the equity method (Note 10)	—	194	—
Net other comprehensive loss not to be reclassified to profit or loss in subsequent years	(1,224)	(896)	(3,554)
Total Other Comprehensive Income (Loss) – Net of Tax	(1,407)	2,186	(2,454)
TOTAL COMPREHENSIVE INCOME	17,566	15,652	17,708
ATTRIBUTABLE TO:			
Equity holders of PLDT	17,504	15,550	17,557
Noncontrolling interests	62	102	151
	17,566	15,652	17,708

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Treasury Shares under Employee Benefit Trust	Capital in Excess of Par Value	Other Equity Reserves	Retained Earnings	Other Comprehensive Income (Loss)	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
Balances as at January 1, 2018	510	1,093	(6,505)	(940)	130,374	827	634	(19,151)	106,842	4,341	111,183
Effect on adoption of PFRS 9 (Note 2)	—	—	—	—	—	—	4,101	(4,627)	(526)	—	(526)
Effect on adoption of PFRS 15 (Note 2)	—	—	—	—	—	—	2,553	—	2,553	—	2,553
Balances as at January 1, 2018 (as restated)	510	1,093	(6,505)	(940)	130,374	827	7,288	(23,778)	108,869	4,341	113,210
Total comprehensive income (loss):	—	—	—	—	—	—	18,916	(1,412)	17,504	62	17,566
Net income (Note 8)	—	—	—	—	—	—	18,916	—	18,916	57	18,973
Other comprehensive (loss) income (Note 6)	—	—	—	—	—	—	—	(1,412)	(1,412)	5	(1,407)
Cash dividends (Note 19)	—	—	—	—	—	—	(13,887)	—	(13,887)	(15)	(13,902)
	—	—	—	—	—	—	(236)	—	(236)	—	(236)

Distribution charges on perpetual notes (Note 19)											
Other equity reserves (Note 3)	—	—	—	—	—	(176)	—	—	(176)	—	(176)
Treasury shares under employee benefit trust	—	—	—	132	—	—	—	—	132	—	132
Acquisition and dilution of noncontrolling interests	—	—	—	—	152	—	—	—	152	(80)	72
Balances as at December 31, 2018 (Unaudited)	510	1,093	(6,505)	(808)	130,526	651	12,081	(25,190)	112,358	4,308	116,666
Balances as at January 1, 2017	510	1,093	(6,505)	—	130,488	—	3,483	(20,894)	108,175	362	108,537
Total comprehensive income:	—	—	—	—	—	—	13,807	1,743	15,550	102	15,652
Net income (Note 8)	—	—	—	—	—	—	13,371	—	13,371	95	13,466
Other comprehensive income (Note 6)	—	—	—	—	—	—	436	1,743	2,179	7	2,186
Cash dividends (Note 19)	—	—	—	—	—	—	(16,479)	—	(16,479)	(66)	(16,545)
Perpetual notes (Note 19)	—	—	—	—	—	—	—	—	—	4,165	4,165
Distribution charges on perpetual notes (Note 19)	—	—	—	—	—	—	(177)	—	(177)	—	(177)
Equity reserves	—	—	—	—	—	827	—	—	827	—	827
Treasury shares under employee	—	—	—	(940)	—	—	—	—	(940)	—	(940)

benefit trust											
Acquisition and dilution of noncontrolling interests	—	—	—	—	(114)	—	—	—	(114)	(222)	(336)
Balances as at December 31, 2017 (Audited)	510	1,093	(6,505)	(940)	130,374	827	634	(19,151)	106,842	4,341	111,183
Balances as at January 1, 2016	510	1,093	(6,505)	—	130,517	—	6,195	(18,202)	113,608	290	113,898
Total comprehensive income:	—	—	—	—	—	—	20,249	(2,692)	17,557	151	17,708
Net income (Note 8)	—	—	—	—	—	—	20,006	—	20,006	156	20,162
Other comprehensive income (loss) (Note 6)	—	—	—	—	—	—	243	(2,692)	(2,449)	(5)	(2,454)
Cash dividends (Note 19)	—	—	—	—	—	—	(22,961)	—	(22,961)	(81)	(23,042)
Perpetual notes (Note 19)	—	—	—	—	—	—	—	—	—	—	—
Distribution charges on perpetual notes (Note 19)	—	—	—	—	—	—	—	—	—	—	—
Equity reserves	—	—	—	—	—	—	—	—	—	—	—
Acquisition and dilution of noncontrolling interests	—	—	—	—	(29)	—	—	—	(29)	2	(27)
Balances as at December 31, 2016 (Audited)	510	1,093	(6,505)	—	130,488	—	3,483	(20,894)	108,175	362	108,537

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(in million pesos)

	2018 (Unaudited)	2017 (Audited)	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	22,815	14,569	22,071
Adjustments for:			
Depreciation and amortization (Note 9)	47,240	51,915	34,455
Asset impairment (Note 5)	8,065	8,258	11,042
Interest on loans and other related items – net (Note 5)	6,783	7,014	6,956
Pension benefit costs (Notes 5 and 25)	1,855	1,607	1,775
Amortization of intangible assets (Notes 5 and 14)	892	835	929
Foreign exchange losses – net (Notes 5 and 9)	771	411	2,785
Incentive plans (Notes 5 and 25)	208	827	—
Accretion on financial liabilities – net (Note 5)	145	219	230
Equity share in net losses (earnings) of associates and joint ventures (Notes 5 and 10)	87	(2,906)	(1,181)
Impairment of investments (Notes 10 and 11)	60	2,562	5,515
Losses (gains) on disposal of property and equipment (Note 9)	(12)	79	(1,360)
Gains on disposal of investment in associates and joint ventures (Note 10)	(144)	(6,512)	(7,365)
Gains on derivative financial instruments – net (Notes 5 and 27)	(1,086)	(533)	(996)
Interest income (Note 5)	(1,943)	(1,412)	(1,046)
Gains on disposal of investment property (Note 13)	—	-	—
Others	(13,018)	(2,443)	(400)
Operating income before changes in assets and liabilities	72,718	74,490	73,410
Decrease (increase) in:			
Prepayments	969	(212)	(5,634)
Advances and other noncurrent assets	(5,287)	162	(99)
Trade and other receivables	(12,061)	(10,674)	(7,060)
Inventories and supplies	26	(542)	(917)
Contract assets	276	—	—
Increase (decrease) in:			
Customers' deposits	(250)	13	1
Pension and other employee benefits	(5,733)	(5,841)	(5,863)
Other noncurrent liabilities	47	38	(10)
Accounts payable	7,816	4,622	1,358
Accrued expenses and other current liabilities	5,039	(1,392)	755
Net cash flows generated from operations	63,560	60,664	55,941

Income taxes paid	(2,444)	(4,550)	(6,965)
Net cash flows from operating activities	61,116	56,114	48,976

See accompanying Notes to Consolidated Financial Statements.

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PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

(in million pesos)

	2018 (Unaudited)	2017 (Audited)	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in notes receivable	4,731	—	—
Interest received	1,115	1,217	947
Proceeds from:			
Disposal of financial assets at fair value through profit or loss	11,643	—	—
Notes receivable	6,976	2,001	—
Proceeds from maturity of short-term investments	6,102	20,254	1,557
Disposal of investments (Note 10)	1,664	—	—
Disposal of property and equipment (Note 9)	345	484	1,889
Redemption of debt instruments at amortized cost	105	—	—
Disposal of investments in associates and joint ventures	46	14,884	17,000
Disposal of available-for-sale financial investments	—	1,000	2,502
Redemption of investment in debt securities	—	456	609
Disposal of investment properties	—	290	—
Payments for:			
Acquisition of intangible assets (Note 14)	(21)	(137)	(159)
Purchase of investments in associates and joint ventures (Note 10)	(111)	(5,633)	(21,524)
Interest capitalized to property and equipment (Notes 5 and 9)	(1,524)	(816)	(566)
Purchase of investments - net of cash acquired	(2,814)	(266)	(22)
Purchase of short-term investments	(5,992)	(18,424)	(2,734)
Purchase of property and equipment (Note 9)	(47,247)	(36,616)	(42,259)
Purchase of available-for-sale financial investments	—	(76)	(3,500)
Purchase of investment properties	—	—	(6)
Purchase of investment in debt securities	—	—	(20)
Dividends received (Note 10)	—	833	4,409
Increase in advances and other noncurrent assets	(72)	(511)	(105)
Net cash flows used in investing activities	(25,054)	(21,060)	(41,982)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of long-term debt (Note 20)	20,500	26,255	40,569
Derivative financial instruments (Note 27)	886	218	—
Issuance of perpetual notes (Note 19)	—	4,165	—
Issuance of capital stock	—	—	5
Payments for:			
Debt issuance costs (Note 20)	(38)	(153)	(185)

Distribution charges on perpetual notes (Note 19)	(236)	(177)	—
Interest – net of capitalized portion (Notes 5 and 20)	(6,614)	(7,076)	(6,512)
Cash dividends (Note 19)	(13,928)	(16,617)	(22,987)
Long-term debt (Note 20)	(18,740)	(39,199)	(19,650)
Long-term financing for capital expenditures	—	(7,735)	(6,040)
Derivative financial instruments (Note 27)	—	—	(541)
Decrease in treasury shares under employee benefit trust	26	—	—
Net cash flows used in financing activities	(18,144)	(40,319)	(15,341)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	831	(552)	614
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,749	(5,817)	(7,733)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (Note 15)	32,905	38,722	46,455
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 15)	51,654	32,905	38,722

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

PLDT Inc. (formerly Philippine Long Distance Telephone Company), which we refer to as PLDT or the Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, certain subsidiaries of First Pacific Company Limited, or First Pacific, and its Philippine affiliates (collectively the First Pacific Group and its Philippine affiliates), acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DOCOMO, Inc., or NTT DOCOMO, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT, and together with NTT Communications beneficially owned approximately 20% of PLDT's outstanding common stock as at December 31, 2018. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at December 31, 2018. On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., or JGSHI, and its affiliates, or JG Summit Group. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at December 31, 2018, the JG Summit Group beneficially owned approximately 8% of PLDT's outstanding common shares.

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

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

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, Inc., or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5.00 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". There were approximately 25.7 million ADSs outstanding as at December 31, 2018.

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

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

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

Amendments to the Articles of Incorporation of PLDT

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

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

Amendments to the By-Laws of PLDT

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

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Our consolidated financial statements have been prepared under the historical cost basis, except for derivative financial assets, financial assets at fair value through profit or loss, or FVPL, financial assets at fair value through other comprehensive, or FVOCI, certain available-for-sale financial investments, certain short-term investments and investment properties that are measured at fair values.

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

Basis of Consolidation

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

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

		of WiFi access equipment				
Telesat, Inc.[a]	Philippines	Satellite communications services	100.0	—	100.0	—
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5	88.5	11.5
Digitel Mobile Philippines, Inc., or DMPI, (a wholly-owned subsidiary of Digitel)	Philippines	Cellular mobile services	—	99.6	—	99.6
Fixed Line						
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	100.0	—	100.0	—
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	100.0	—	100.0	—
PLDT Global Corporation, or PLDT Global, and Subsidiaries	British Virgin Islands	Telecommunications services	100.0	—	100.0	—
Smart-NTT Multimedia, Inc.[a]	Philippines	Data and network services	100.0	—	100.0	—
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	100.0	—	100.0	—
Talas Data Intelligence, Inc., or Talas	Philippines	Business infrastructure and solutions; intelligent data processing and implementation services and data analytics insight generation	100.0	—	100.0	—
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	100.0	—	100.0	—
IP Converge Data Services,	Philippines	Information and	—	100.0	—	100.0

Inc., or IPCDSI, and Subsidiary, or IPCDSI Group		communications 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	—	95.0	—	67.0
netGames, Inc.[(b)]	Philippines	Gaming support services	—	57.5	—	57.5
Digitel:	Philippines	Telecommunications services	99.6	—	99.6	—
Digitel Information Technology Services, Inc.[(a)]	Philippines	Internet services	—	99.6	—	99.6
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	98.0	—	98.0	—
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	75.0	—	75.0	—
Pacific Global One Aviation Company, Inc., or PG1	Philippines	Air transportation business	65.0	—	65.0	—
Pilipinas Global Network Limited, or PGNL, and Subsidiaries	British Virgin Islands	Internal distributor of Filipino channels and content	64.6	—	64.6	—
Others						
PLDT Global Investments Holdings, Inc., or PGIH	Philippines	Investment company	100.0	—	100.0	—
PLDT Digital Investments Pte. Ltd.,	Singapore	Investment company	100.0	—	100.0	—

or PLDT Digital, and Subsidiaries	

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Mabuhay Investments Corporation, or MIC[(a)]	Philippines	Investment company	67.0	—	67.0	—
PLDT Global Investments Corporation, or PGIC	British Virgin Islands	Investment company	—	100.0	—	100.0
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment company	—	99.9	—	99.9
Voyager Innovations Holdings, Pte. Ltd. or VIH, (formerly eInnovations Holdings Pte. Ltd.)[(c)]:	Singapore	Investment company	—	—	—	100.0
Voyager Innovations Investments Pte. Ltd., or VII, (formerly Takatack Holdings Pte. Ltd.)[(d)]	Singapore	Investment company	—	—	—	100.0
Voyager Innovations Singapore Pte. Ltd., or VIS, (formerly Takatack Technologies Pte. Ltd.)[(e)]	Singapore	Development and maintenance of IT-based solutions for communications and e-Commerce platforms	—	—	—	100.0
Takatack Malaysia Sdn. Bhd., or Takatack Malaysia	Malaysia	Development, maintenance and support services to enable the digital commerce ecosystem	—	—	—	100.0
Voyager Innovations, Inc., or Voyager	Philippines	Mobile applications and digital platform developer	—	—	—	100.0
Voyager Innovations Pte. Ltd., or VIP, (formerly ePay Investments Pte. Ltd.)[(f)]	Singapore	Investment company	—	—	—	100.0
PayMaya Philippines, Inc. or PayMaya	Philippines	Provide and market certain mobile payment	—	—	—	100.0

		services				
PayMaya Operations Philippines, Inc., or PayMaya Ops	Philippines	Market, sell and distribute payment solutions and other related services	—	—	—	100.0
ePay Investments Myanmar, Ltd., or ePay Myanmar[(g)]	Myanmar	Investment company	—	—	—	100.0
3rd Brand Pte. Ltd., or 3rd Brand[(h)]	Singapore	Solutions and systems integration services	—	—	—	85.0
Voyager Fintech Ventures Pte. Ltd., or Fintech Ventures	Singapore	Investment company	—	—	—	100.0
Fintqnologies Corporation, or FINTQ	Philippines	Development of financial technology innovations	—	—	—	100.0
Fintq Inventures Insurance Agency Corporation	Philippines	Insurance company	—	—	—	100.0

(a) Ceased commercial operations.
(b) Ceased commercial operations and under liquidation due to shortened corporate life to August 31, 2015.
(c) On July 11, 2017, the Accounting and Corporate Regulatory Authority, or ACRA, of Singapore approved the change in business name of eInnovations Holdings Pte. Ltd. to Voyager Innovations Holdings Pte. Ltd. On April 16, 2018, the ACRA of Singapore approved the transfer of VIH to PCEV. On November 28, 2018, upon closing of the subscription agreements of PLDT, Tencent Holdings Limited, or Tencent, and KKR & Co., Inc., or KKR, PCEV's ownership in VIH was reduced to 53.87% and with only two board seats in the investee, the transaction resulted to a loss of control. On December 10, 2018, PCEV's ownership in VIH was further reduced to 48.74% upon receipt of the investments from International Finance Corp., or IFC, and IFC Emerging Asia Fund, or IFC EAF. PCEV accounts for its remaining interest in VIH as investment in associate starting December 2018.
(d) 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.
(e) 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.
(f) On January 25, 2018, the ACRA of Singapore approved the change in business name of ePay Investments Pte. Ltd. to Voyager Innovations Pte. Ltd.
(g) 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.
(h) 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.

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

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances.

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

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

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

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

Divestment of CURE

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

- CURE is obligated to sell its Red Mobile business to Smart consisting primarily of its subscriber base, brand and fixed assets; and
- Smart is obligated to sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 Megahertz, or MHz, of 3G frequency in the 2100 band and related permits.

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

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

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

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

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

Incorporation of Talas

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

28, 2017 and March 31, 2017, respectively, as approved by PLDT's Board of Directors in June 2016.

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

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

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

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

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

Extension of Smart's Congressional Franchise

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

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

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

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

Transfer of SBI's Home Broadband Subscription Assets to PLDT

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

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

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

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

This transaction was eliminated in our consolidated financial statements.

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

On December 14, 2017, VIH and PLDT Online entered into a Sale and Purchase Agreement, or SPA, whereby VIH sold all of its 10 thousand ordinary shares in iCommerce to PLDT Online for a total purchase price of SG$1.00. On the same date, VIH assigned its loans receivables from iCommerce to PLDT Online amounting to US$8.6 million. In consideration, a total of US$8.9 million, inclusive of interest, was fully paid by PLDT Online to VIH in February 2018. See Note 10 – Investments in Associates and Joint Ventures – Investments in Joint Ventures – iCommerce's Investment in PHIH.

Issuance of Perpetual Notes

In 2017, Smart issued various perpetual notes, including Php1,100 million perpetual notes to Rizal Commercial Banking Corporation, or RCBC, Trustee of PLDT's Redemption Trust Fund. See Note 19 – Equity – Perpetual Notes. This transaction was eliminated in our consolidated financial statements.

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

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

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

Consolidation of the Digital Investments of Smart under PCEV

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

(i) PCEV entered into a Share Purchase Agreement with Voyager to purchase 53 million ordinary shares of VIH, representing 100% of the issued and outstanding ordinary shares of VIH, for a total consideration of Php465 million. The total consideration was settled on March 15, 2018, while the transfer of shares to PCEV was completed on April 6, 2018;
(ii) VIH entered into a Share Purchase Agreement with Smart to purchase all of its 170 million common shares of Voyager for a total consideration of Php3,527 million. The total consideration was settled on April 16, 2018; and
(iii) PCEV entered into a Subscription Agreement with VIH to subscribe to additional 96 million ordinary shares of VIH, with a par value of SG$1.00 per ordinary share, for a total subscription price of SG$96 million, or Php3,806 million, which was settled on April 13, 2018.

ePLDT's Additional Investment in ePDS

On March 5, 2018 and August 7, 2018, the Board of Directors of ePLDT approved the additional investment in ePDS amounting to Php134 million and Php66 million, respectively, thereby increasing its equity interest in ePDS from

67% to 95%.

Loss of Control of PCEV over VIH

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

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

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

On November 28, 2018, VIH received the US$175 million funding from KRR and Tencent. Upon closing of this investment transaction, PCEV's ownership was reduced to 53.87% and PCEV retained only two Board seats in the investee, resulting to a loss of control.

In November 2018, upon the loss of control, VIH was deconsolidated and the fair market value of the investment amounting to Php10,748 million was recorded as an investment in associate. On December 10, 2018, VIH received the US$40 million funding from IFC and IFC EAF. As a result, PCEV's ownership was further reduced to 48.74%. The carrying value of PCEV's investment in VIH amounted to Php10,487 million as at December 31, 2018. See Note 10 – Investments in Associates and Joint Ventures – Investment in PCEV in VIH.

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 new standards and amendments starting January 1, 2018. Except for the adoption of PFRS 9, Financial Instruments, and PFRS 15, Revenue from Contract with Customers, the adoption of these new standards and 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 Philippine Accounting Standards, or PAS, 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, Investment Property, Transfers of Investment Property
- Philippine Interpretation to International Financial Reporting Interpretations Committee, or IFRIC, 22, Foreign Currency Transactions and Advance Consideration
- PFRS 1, First-time Adoption of Philippine Financial Reporting Standards (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- PFRS 9, Financial Instruments (2014)

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

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

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

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

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

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

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

	Note	PAS 39 Measurement Category	Amount	Reclassification	PFRS 9 Amount	Measurement Category
			(in million pesos)			
Financial Assets						
Cash and cash equivalents	15	Loans and receivables	32,905	—	32,905	Amortized Cost
Short-term investments	27	Loans and receivables	1,074	—	1,074	Amortized Cost
Trade and other receivables	16	Loans and receivables	33,761	—	33,761	Amortized Cost
Current portion of investment in debt securities and other long-term investments	12	Loans and receivables	100	—	100	Amortized Cost
Current portion of advances and other noncurrent assets(3)	19	Loans and receivables	6,824	(6,812)	12	Amortized Cost
Less: To Financial instruments at FVPL				(6,812)	—	
Advances and other noncurrent assets – net of current portion(3)	24	Loans and receivables	13,855	(11,461)	2,394	Amortized Cost
Less: To Financial instruments at FVOCI			—	(11,461)	—	
Investment in debt securities and other long-term investments – net of current portion(2)	12		N/A	150	150	Amortized Cost
Add: From HTM investments	12		—	150	—	
		Loans and receivables	88,519	(18,123)	70,396	Amortized Cost
Investment in debt securities and other long-term investments – net of current portion(2)	12	Held-to-maturity	150	(150)	—	
Less: To Financial instruments at amortized	12		—	(150)	—	

cost						
		Held-to-maturity	150	(150)	—	
Current portion of derivative financial assets[1]	27	Derivatives used for hedging	171	(171)	—	
Derivative financial assets – net of current portion[1]	27	Derivatives used for hedging	215	(215)	—	
Current portion of derivative financial liabilities[1]	27	Derivatives used for hedging	(51)	51	—	
Derivative financial liabilities – net of current portion[1]	27	Derivatives used for hedging	(8)	8	—	
Less: To financial assets at FVOCI	6 and 24		—	(327)	—	
		Derivatives used for hedging	327	(327)	—	
Available-for-sale financial investments[4]	11	Available-for-sale financial investments	15,165	(15,165)	—	
Less: To financial assets at FVPL	11		—	(15,165)	—	
	11	Available-for-sale financial investments	15,165	(15,165)	—	
Advances and other noncurrent assets – net of current portion[3]	24		N/A	11,461	11,461	FVOCI
Add: From Loans and receivables	24		—	11,461	—	
			—	11,461	11,461	FVOCI
Current portion of derivative financial assets[1]	12		N/A	171	171	FVPL
Derivative financial assets – net of current portion[1]	12		N/A	215	215	FVPL
Current portion of derivative financial liabilities[1]	12		N/A	(51)	(51)	FVPL

Derivative financial liabilities – net of current portion[1]	12	N/A	(8)	(8)	FVPL
Current portion of advances and other noncurrent assets[3]	19	N/A	6,812	6,812	FVPL
Available-for-sale financial investments[4]	11	N/A	15,165	15,165	FVPL
Add: From Loans and receivables	19	—	6,812	—	
From Available-for-sale financial investments	11	—	15,165	—	
From Derivatives used for hedging		—	327	—	
		—	22,304	22,304	FVPL

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

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

[3] We have elected the option to irrevocably designate some of the previous equity instruments as equity instruments at FVOCI.
[4] As at January 1, 2018, we have classified our AFS asset-backed securities as financial assets measured at FVPL as the payments did not meet the SPPI criterion. We have not elected the option to irrevocably designate previous available-for-sale equity instruments as equity instruments at FVOCI.

Classification and measurement

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

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

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

A debt instrument is measured at FVOCI if it meets both criteria which business model's objective is achieved by both collecting contractual cash flows and selling financial assets, and is not designated as at FVPL.

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

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

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

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

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

(in
million

	pesos)
Assets	
Financial assets at FVOCI	(136)
Total assets	(136)
Total adjustment on equity:	
Retained earnings	4,491
Other comprehensive income	(4,627)
	(136)

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Impairment

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

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

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

For non-credit-impaired financial assets:

- Stage 1 financial assets are comprised of all non-impaired financial instruments which have not experienced a significant increase in credit risk since initial recognition. We recognize a 12-month ECL for Stage 1 financial assets.
- Stage 2 financial assets are comprised of all non-impaired financial assets which have experienced a significant increase in credit risk since initial recognition. We recognize a lifetime ECL for Stage 2 financial assets.

For credit-impaired financial assets:

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

PFRS 9 provides some operational simplifications for trade receivables, lease receivables and contract assets by introducing an alternative simplified approach. Under the simplified approach, there is no more requirement to determine at reporting date whether a credit exposure has significantly increased in credit risk or not. Credit exposures under the simplified approach will be subject only to lifetime ECL. In addition, PFRS 9 allows the use of a provision matrix approach or a loss rate approach as a practical expedient when measuring ECL, so long as these methodologies reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

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

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

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

The table below presents a reconciliation of the prior period's closing impairment allowance measured in accordance with PAS 39 and the provisions in accordance with PAS 37 to the opening impairment allowance determined in accordance with PFRS 9 as at January 1, 2018.

Measurement category	Impairment allowance under PAS 39	Retained earnings, beginning Remeasurement	Impairment allowance under PFRS 9
	(in million pesos)		
Loans and receivables (PAS 39)/ Financial assets at amortized cost (PFRS 9)			
Trade and other receivables	14,501	372	14,873
Current portion of other financial assets	—	18	18
	14,501	390	14,891

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

Hedge accounting

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

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

•PFRS 15

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

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

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

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

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the PLDT Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities

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

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

The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under PAS 18, PAS 11 and related interpretations. The following table summarized the impact, net of tax, of transition to PFRS 15 on retained earnings at January 1, 2018.

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

	Reference	Increase (Decrease)
		(in millions)
Assets		
Trade and other receivables	B and C	(37)
Contract assets	B and C	3,880
Deferred income tax assets	B and C	(918)
Total assets		2,925
Liabilities		
Accrued expenses and other current liabilities		49
Contract liabilities	B and C	130
Deferred income tax liabilities	B and C	193
Total liabilities		372
Net impact on equity		
Retained earnings	B and C	2,553

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

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

	Reference	PFRS 15	Previous PFRS	Increase (Decrease)
		(in millions)		
Revenue from contracts with customers				
Sale of goods	A, B and C	10,545	7,602	2,943
Rendering of services	A and C	154,207	157,845	(3,638)
Revenue		164,752	165,447	(695)
Interest income	C	1,943	1,486	457
Impairment loss on contract asset	B and C	(206)	—	(206)
Provision for income tax	B and C	(3,842)	(3,976)	134
Net impact on profit for the year		(2,105)	(2,490)	385
Attributable to:				
Equity holders of parent	B and C	(2,162)	(2,547)	385
Noncontrolling interests		57	57	—

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

	Reference	PFRS 15	Previous PFRS	Increase (Decrease)
		(in millions)		
Assets				
Noncurrent Assets				
Investments and advances		56,354	56,354	—
Property and equipment		195,964	195,964	—
Goodwill and intangible assets		68,583	68,583	—
Derivative financial assets - net of current portion		140	140	—
Financial assets as FVPL		4,763	4,763	—
Deferred income tax assets - net		27,697	27,697	—
Advances and other noncurrent assets - net of current portion		28,592	28,592	—
Total Noncurrent Assets		382,093	382,093	—
Current Assets				
Cash and cash equivalents		52,819	52,819	—
Trade and other receivables	B and C	23,925	23,958	(33)
Inventories and supplies		2,878	2,878	—
Contract assets	B and C	3,399	—	3,399
Current portion of derivative financial assets		183	183	—
Current portion of advances and other noncurrent assets	B and C	17,453	18,286	(833)
Total Current Assets		100,657	98,124	2,533
TOTAL ASSETS		482,750	480,217	2,533
Liabilities and Equity				
Equity				
Equity attributable to equity holders of PLDT	B and C	112,594	110,351	2,243
Non-controlling interests		4,072	4,072	—
Total Equity		116,666	114,423	2,243
Noncurrent Liabilities				
Interest-bearing financial liabilities - net of current portion		155,835	155,835	—
Deferred income tax liabilities		2,981	2,836	145
Pension and other employee benefits		7,182	7,182	—
Deferred credits and other noncurrent liabilities		5,226	5,226	—
Customers' deposits - net of current portion		2,194	2,194	—
Total Noncurrent Liabilities		173,418	173,273	145
Current Liabilities				
Trade and other payables		170,247	170,247	—
Current portion of long-term debt		20,441	20,441	—
Contract liabilities	B and C	145	—	145
Derivative financial liabilities		80	80	—
Dividends payable		1,533	1,533	—
Income tax payable		220	220	—
Total Current Liabilities		192,666	192,521	145
Total Liabilities		366,084	365,794	290
TOTAL EQUITY AND LIABILITIES		482,750	480,217	2,533

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

Type of product/service	Reference	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Bundled plans	A	Revenues are recognized based on the allocation of the transaction price to the different performance obligations based on their stand-alone selling prices. The stand-alone selling prices are 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/equipments	B	Customers obtain control when the goods are delivered to and have been accepted at their premises.	Under PAS 18, 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	C	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 the timing of the transfer of control over the handset, which is more than one year.	Under PFRS 15, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.
			The impact of these changes on items other than revenue are a decrease in contract asset and increase in interest income.

Summary of Significant Accounting Policies

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

Business Combinations and Goodwill

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

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

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

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

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

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

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

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

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

Investments in Associates

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

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

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

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

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

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

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

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

Joint Arrangements

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

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

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

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

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

Current Versus Noncurrent Classifications

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

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;

- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

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

We classify all other liabilities as noncurrent.

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

Foreign Currency Transactions and Translations

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

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

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

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

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

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

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

Beginning January 1, 2018

Financial Instruments – Initial recognition and subsequent measurement

Classification of financial assets

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

- financial assets measured at amortized cost;
- financial assets measured at FVPL;
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss; and
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss.

Contractual cash flows characteristics

If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, we assess whether the cash flows from the financial asset represent solely payments of principal and interest, or SPPI, on the principal amount outstanding.

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

Business model

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

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

Financial assets at amortized cost

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

Our financial assets at amortized cost include portions of investment in debt securities and other long-term investments, cash and cash equivalents, short-term investments, trade and other receivables, and portions of advances and other noncurrent assets as at December 31, 2018. See Note 12 – Debt Instruments at Amortized Cost/Investment in Debt Securities and Other Long-term Investments, Note 16 – Cash and Cash Equivalents, Note 17 – Trade and Other Receivables and Note 27 – Financial Assets and Liabilities.

Financial assets at FVOCI (debt instruments)

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

We may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in other comprehensive income are not subsequently transferred to profit or loss. However, we may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:

- our right to receive payment of the dividend is established;
- it is probable that the economic benefits associated with the dividend will flow to us; and
- the amount of the dividend can be measured reliably.

Our financial assets at FVOCI include portions of advances and other noncurrent assets as at December 31, 2018. See Note 24 – Related Party Transactions and Note 27 – Financial Assets and Liabilities.

Financial assets at FVPL

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

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

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

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

Classification of financial liabilities

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

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

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

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

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

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

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

Our other financial liabilities include interest-bearing financial liabilities, customers' deposits, dividends payable, and accrual for long-term capital expenditures, accounts payable, and accrued expenses and other current liabilities (except for statutory payables) as at December 31, 2018. See Note 21 – Interest-bearing Financial Liabilities, Note 22 – Deferred Credits and Other Noncurrent Liabilities, Note 23 – Accounts payable and Note 24 – Accrued Expenses and Other Current Liabilities.

Reclassifications of financial instruments

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

We do not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at FVPL.

Impairment of Financial Assets

PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

We recognize ECL for the following financial assets that are not measured at FVPL:

- debt instruments that are measured at amortized cost and FVOCI

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

Stage 1: 12-month ECL

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

Stage 2: Lifetime ECL – not credit-impaired

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

Stage 3: Lifetime ECL – credit-impaired

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

Loss allowance

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

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

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

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

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

Write-off policy

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

- the asset is in past due for over 60 days, or is already an item-in-litigation with any of the following:

a. no properties of the counterparty could be attached
b. the whereabouts of the client cannot be located
c. it would be more expensive for the Group to follow-up and collect the amount, hence the we have ceased enforcement activity, and
d. collections can no longer be made due to insolvency or bankruptcy of the counterparty

- expanded credit arrangement is no longer possible;

- filing of legal case is not possible; and

- the account has been classified as ‘Loss’.

Simplified approach

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

Prior to January 1, 2018

Financial Instruments – Initial recognition and subsequent measurement

Financial Assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial assets at FVPL

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

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

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

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

Loans and receivables

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

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

HTM investments

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

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

Available-for-sale financial investments

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

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

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

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

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

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

Financial Liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at FVPL

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

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

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

Other financial liabilities

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

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

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

Offsetting of financial instruments

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

Amortized cost of financial instruments

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

"Day 1" difference

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

Impairment of Financial Assets

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

Impairment of Trade and Other Receivables

Individual impairment

Retail subscribers

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

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

Corporate subscribers

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

Foreign administrations and domestic carriers

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

Dealers, agents and others

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

Collective impairment

Postpaid wireless and fixed line subscribers

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

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

Other subscribers

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

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

Financial assets at amortized cost

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

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

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

Available-for-sale financial investments

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

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

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

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or where applicable as part of a financial asset or part of a group of similar financial assets) is primarily derecognized when: (1) the right to receive cash flows from the asset has expired; or (2) we have transferred the right to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either: (a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

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

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

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

Financial liabilities

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

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

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

Derivative Financial Instruments and Hedge Accounting

Initial recognition and subsequent measurement

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

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

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

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

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

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

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

Current versus noncurrent classification

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

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

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

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

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

Property and Equipment

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

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

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

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

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

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

Borrowing Costs

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

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

Asset Retirement Obligations

We are legally required under various lease agreements to dismantle the installation in leased sites and restore such sites to their original condition at the end of the lease contract term. We recognize the liability measured at the present value of the estimated costs of these obligations and capitalize such costs as part of the balance of the related item of property and equipment. The amount of asset retirement obligations is accreted and such accretion is recognized as interest expense. See Note 9 – Property and Equipment and Note 21 – Deferred Credits and Other Noncurrent Liabilities.

Investment Properties

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

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

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

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

Intangible Assets

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

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

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

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

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

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

Inventories and Supplies

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

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

Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that an asset may be impaired. If any indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use, or VIU. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses are recognized in our consolidated income statement.

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

The following assets have specific characteristics for impairment testing:

Property and equipment and intangible assets with definite useful lives

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

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

Investments in associates and joint ventures

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

Goodwill

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU, or group of CGUs, is less than the carrying amount of the CGU, or group of CGUs, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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

Intangible asset with indefinite useful life

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

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

Cash and Cash Equivalents

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

Short-term Investments

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

Fair Value Measurement

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

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (i) in the principal market for the asset or liability; or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

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

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

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

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

Revenue 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.

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 judgment 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 voice, short messaging services, or SMS, and data services through the postpaid plans of Smart, Sun Cellular 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 as revenues as the additional service is provided or as availed by the subscribers.

Our prepaid service revenues arise from the usage of airtime load from channels and prepaid cards provided by Smart, Sun Cellular, TNT, SmartBro and Sun brands. Proceeds from over-the-air reloading channels and prepaid cards are initially recognized as contract liability and realized upon actual usage of the airtime value for voice, SMS, mobile data and other VAS, prepaid unlimited and bucket-priced SMS and call subscriptions, net of free SMS allocation and bonus credits (load package purchased, i.e., free additional SMS or minute calls or Peso credits), or upon expiration of the usage period, whichever comes earlier. Interconnection fees and charges arising from the actual usage of airtime value or subscriptions are recorded as incurred.

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

Non-recurring upfront fees such as activation fees charged to subscribers for connection to our network are deferred and recognized as revenue throughout the estimated average length of the customer relationship. 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.

On the other hand, installation fees are not considered as a separate performance obligation but combined with the distinct performance obligation which is to provide telecommunication services and deliver equipments. Likewise, the Group recognizes revenue from installation fees for voice and data as over time and point in time, respectively, as they satisfy the related distinct performance obligation.

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.

VAS

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

Incentives

We operate customer engagement and loyalty programs which allows customers to accumulate points when they pay their bills on time and full, purchase products or services, and load or top-up for prepaid customers. Customers may avail of the "MVP Reward Card" for free, powered by PayMaya, which allows for instant conversion of points into the PayMaya wallet coupled with exclusive offers and deals when used at partner establishments.

The credits to PayMaya wallet are considered as rebates and accounted as reduction to service revenues.

Multiple-deliverable arrangements

In revenue arrangements, which involve bundled sales of mobile devices, 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 goods or services are not currently offered 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 at the point in time when the goods are delivered while revenues from telecommunication services component are recognized over time 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 been passed to the buyer, usually upon delivery of the goods. The related cost or net realizable value of handsets or equipment sold to customers is presented as "Cost of sales" in our consolidated income statement.

Interest income

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

Dividend income

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

Expenses

Expenses are recognized as incurred.

Provisions

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

Retirement Benefits

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

Defined benefit pension plans

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

Retirement costs consist of the following:

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

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

Net interest on the net defined benefit asset or obligation is the change during the period in the net defined benefit asset or obligation that arises from the passage of time which is determined by applying the discount rate based on the government bonds to the net defined benefit asset or obligation. Net 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.

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

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

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

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

Other Long-term Employee Benefits

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

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

Transformation Incentive Plan, or TIP

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

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

PLDT Group treats the TIP as equity-settled in its entirety. Please see Note 3 – Management's Use of Accounting Judgements, Estimates and Assumptions – Estimating pension benefit cost and other employee benefits.

Leases

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

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

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

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

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

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

Income Taxes

Current income tax

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

Deferred income tax

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

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

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

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

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

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

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

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

VAT

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

Contingencies

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

Events After the End of the Reporting Period

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

Equity

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

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

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

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

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

Standards Issued But Not Yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the consolidated financial statements are listed below. We will adopt these standards and amendments to existing standards which are relevant to us when these become effective. 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, Income Taxes, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

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

We are currently assessing the impact of adopting this interpretation.

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

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

These amendments have no impact on our consolidated financial statements.

- PFRS 16

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

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

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

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

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

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

The accounting for operating leases where we act as the lessee will significantly change due to the adoption of PFRS 16. We are currently assessing the impact of adopting this interpretation.

Moving forward, our cash flows from operating activities will increase and cash flows from financing cash flows will decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

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

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

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

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

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

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

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

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

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

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

- Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, Definition of a Business

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

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

These amendments will apply on our future business combinations.

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, Insurance Contracts

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

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

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

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. The standard has no significant impact on our consolidated financial statements.

Deferred effectivity

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

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

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

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

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

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

Judgments, key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are consistent with those applied in the most recent annual financial statements, except for those that relate to the adoption of PFRS 9 and PFRS 15. Selected critical judgments and estimates applied in the preparation of the unaudited interim condensed consolidated financial statements as discussed below:

Judgments

Identifying performance obligations

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

Revenues earned from multiple element arrangements offered by our fixed line and wireless businesses are split into separately identifiable performance obligations based on their relative stand-alone selling price in order to reflect the substance of the transaction. The transaction price represents the best evidence of stand-alone selling price for the services we offer since this is the observable price we charge if our services are sold separately. We account for mobile contracts in accordance with PFRS 15 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 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 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.

Principal versus agent consideration

We enter into contracts with its customers. The PLDT Group determined that it controls the goods before they are transferred to customers, and it has the ability to direct the use of the inventory. The following factors indicate that the PLDT Group controls the goods before they are being transferred to customers. Therefore, we determined that it is a principal in these contracts.

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

Based on the foregoing, the PLDT Group is considered the principal in its contracts with other service providers. It has the primary obligation to provide the services to the subscriber.

Revenue recognition

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 generally provided over the contract period of 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.

Significant financing component

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

In determining the interest to be applied to the amount of consideration, the we concluded that the interest rate implicit in the contract (i.e., the interest rate that discounts the cash selling price of the equipment to the amount paid in advance) is appropriate because this is commensurate with the rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception.

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.

- Evaluation of business models in managing financial instruments

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

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

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

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

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

We have determined that for cash and cash equivalents, investment in debt securities and other long-term investments (Note 12 – Debt Instruments at Amortized Cost/Investment in Debt Securities and Other Long-term Investments), and trade receivables, the business model is to collect the contractual cash flows until maturity. For receivables from MPIC, we have determined that its business model is to both collect contractual cash flows through collection and sale.

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

- Definition of default and credit-impaired financial assets

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

- Quantitative criteria

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

- Qualitative criteria

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

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

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

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

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

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

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

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

- Significant increase in credit risk

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

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

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

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

We monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increase in credit risk before an exposure is in default;

- the criteria do not align with the point in time when an asset becomes 30 days past due; and

- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

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

Determination of functional currency

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

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

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

ePLDT made various investments in PDRs issued by MediaQuest in relation to its direct interest in Satventures, Inc., or Satventures, and Hastings Holdings, Inc., or Hastings, and indirect interest in Cignal TV, Inc., or Cignal TV.

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

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

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

Accounting for investment in Multisys Technologies Corporation, or Multisys

On December 3, 2018, PGIH completed the closing of its investment in Multisys. PGIH paid Php523 million to the owner of Multisys for the acquisition of existing shares and invested Php800 million into Multisys as a deposit for future stock subscription pending the approval by the Philippine SEC of the capital increase of Multisys.

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

Leases

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

Accounting for 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, Investments in Associates and Joint Ventures. 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 December 31, 2017. Impairment losses charged in our consolidated income statements amounted to Php540 million and Php5,381 million for the years ended December 31, 2017 and 2016, respectively. See related discussion on Note 11 – Financial Assets at FVPL/Available-for-Sale Financial Investments – Investment of PLDT Online in Rocket Internet.

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.

Impairment of non-financial assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill and intangible assets with indefinite useful life, at a minimum, such assets are subject to an impairment test annually and whenever there is an indication that such assets may be impaired. This requires an estimation of the VIU of the CGUs to which these assets are allocated. The VIU calculation requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 14 – Goodwill and Intangible Assets – Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Life for the key assumptions used to determine the VIU of the relevant CGUs.

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

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

Total asset impairment recognized on noncurrent assets amounted to Php2,122 million, Php3,913 million and Php1,074 million for the years ended December 31, 2018, 2017 and 2016, respectively. See Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment, Note 9 – Property and Equipment – Impairment of Certain Wireless Network Equipment and Facilities and Note 10 – Investments in Associates and Joint Ventures.

The carrying values of our property and equipment, investments in associates and joint ventures, goodwill and intangible assets, and prepayments are separately disclosed in Note 9 – Property and Equipment, Note 10 – Investments in Associates and Joint Ventures, Note 14 – Goodwill and Intangible Assets and Note 18 – Prepayments, respectively.

Estimating useful lives of property and equipment

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

In 2017, we shortened the estimated useful lives of certain data network platform and other technology equipment resulting from the transformation projects to improve and simplify the network and systems applications. As a result, we recognized additional depreciation amounting to Php15,807 million and Php19,481 million as at December 31, 2018 and 2017, respectively.

The total depreciation and amortization of property and equipment amounted to Php47,240 million, Php51,915 million and Php34,455 million for the years ended December 31, 2018, 2017 and 2016, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php195,964 million and Php186,907 million as at December 31, 2018 and 2017, respectively. See Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information and Note 9 – Property and Equipment.

Estimating useful lives of intangible assets with finite lives

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

The total amortization of intangible assets with finite lives amounted to Php892 million, Php835 million and Php929 million for the years ended December 31, 2018, 2017 and 2016, respectively. Total carrying values of intangible assets with finite lives amounted to Php2,699 million and Php3,699 million as at December 31, 2018 and 2017, respectively. See Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Selling, General and Administrative Expenses and Note 14 – Goodwill and Intangible Assets.

Recognition of deferred income tax assets

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

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php3,931 million and Php5,495 million as at December 31, 2018 and 2017, respectively. Total consolidated provision from deferred income tax amounted to Php1,742 million for the year ended December 31, 2018, while total consolidated benefit from deferred income tax amounted to Php2,738 million and Php4,134 million for the years ended December 31, 2017 and 2016, respectively. Total consolidated recognized net deferred income tax assets amounted to Php27,697 million and Php30,466 million as at December 31, 2018 and 2017, respectively. See Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information and Note 7 – Income Taxes.

Estimating allowance for ECLs

a. Measurement of ECLs

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

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

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

- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the PLDT Group if the commitment is drawn down and the cash flows that we expect to receive.

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

b. Inputs, assumptions and estimation techniques

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

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

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

- Simplified approach for trade and other receivables and contract assets

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

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

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

- Incorporation of forward-looking information

The PLDT Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

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

The macroeconoemic factors are aligned with information used by the PLDT Group for other purposes such as strategic planning and budgeting.

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

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3 to 10 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The PLDT Group has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

Total provision for expected credit losses for trade and other receivables amounted to Php4,209 million for the year ended December 31, 2018. Trade and other receivables, net of allowance for expected credit losses, amounted to Php32,545 million as at December 31, 2018. See Note Operating Segment Information, Note 5 – Income and Expenses and Note 16 – Trade and Other Receivables.

Grouping of instruments for losses measured on collective basis

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

Trade receivables – Groupings for collective measurement

a. Retail subscribers;
b. Corporate subscribers;
c. Foreign administrations and domestic carriers; and
d. Dealers, agents and others.

The following credit exposures are assessed individually:

- All stage 3 assets, regardless of the class of financial assets; and
- The cash and cash equivalents, investment in debt securities and other long-term investments, and other financial assets.

Estimating allowance for doubtful accounts

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

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

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

Estimating pension benefit costs and other employee benefits

The cost of defined benefit and present value of the pension obligation are determined using the projected unit credit method. An actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. Further, our accrued benefit cost is affected by the fair value of the plan assets. Key assumptions used to estimate fair value of the unlisted equity investments included in the plan assets consist of revenue growth rate, directs costs, capital expenditures, discount rates and terminal growth rates. See Note 25 – Employee Benefits. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed every year-end.

Net consolidated pension benefit costs amounted to Php1,855 million, Php1,610 million and Php1,775 million for the years ended December 31, 2018, 2017 and 2016, respectively. The prepaid benefit costs amounted to

Php393 million and Php400 million as at December 31, 2018 and 2017, respectively. The accrued benefit costs amounted to Php7,182 million and Php8,997 million as at December 31, 2018 and 2017, respectively. See Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 18 – Prepayments and Note 25 – Employee Benefits.

On September 26, 2017, the Board of Directors of PLDT approved the TIP which intends to provide incentive compensation to key officers, executives and other eligible participants who are consistent performers and contributors to the Company's strategic and financial goals. The incentive compensation will be in the form of Performance Shares, PLDT common shares of stock, which will be released in three annual grants on the condition, among others, that pre-determined consolidated core net income targets are successfully achieved over three annual performance periods from January 1, 2017 to December 31, 2019. On September 26, 2017, the Board of Directors approved the acquisition of 860 thousand Performance Shares to be awarded under the TIP. On March 7, 2018, the 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 March 7, 2019, a total of 757 thousand PLDT common shares have been acquired by the Trustee, of which 204 thousand PLDT common shares have been released to the eligible participants on April 5, 2018 for the 2017 annual grant. The TIP is administered by the ECC of the Board. The expense accrued for the TIP amounted to Php208 million and Php827 million for the years ended December 31, 2018 and 2017, respectively, and is presented as equity reserves in our consolidated statement of financial position. See Note 5 – Income and Expenses – Compensation and Employee Benefits and Note 25 – Employee Benefits – Other Long-term Employee Benefits.

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which these are incurred if a reasonable estimate can be made. This requires an estimation of the cost to restore or dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration or dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php1,656 million and Php1,630 million as at December 31, 2018 and 2017, respectively. See Note 21 – Deferred Credits and Other Noncurrent Liabilities.

Provision for legal contingencies and tax assessments

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

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

Revenue recognition

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

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

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

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

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

Determination of fair values of financial assets and financial liabilities

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

Other than those whose carrying amounts are reasonable approximations of fair values, total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2018 amounted to Php4,917 million and Php143,392 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2017 amounted to Php13,846 million and Php157,711 million, respectively. See Note 27 – Financial Assets and Liabilities.

4. Operating Segment Information

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

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

- Wireless – mobile telecommunications services provided by Smart and DMPI, our mobile service providers; SBI and PDSI, our wireless broadband service providers; and certain subsidiaries of PLDT Global, our mobile virtual network operations, or MVNO, provider;

- Fixed Line – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, ClarkTel, SubicTel, Philcom Group, Maratel, BCC, PLDT Global and certain subsidiaries, and Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, cyber security services, managed information technology services and resellership through ePLDT, IPCDSI Group, AGS Group, Curo and ePDS; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation through Talas; and distribution of Filipino channels and content through PGNL and its subsidiaries; and
- Others – VIH and certain subsidiaries, our mobile applications and digital platforms developers and mobile financial services provider; PCEV, PGIH, PLDT Digital and its subsidiaries, and PGIC, our investment companies.

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

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

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

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

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

Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated in full upon consolidation.

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

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

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

The segment revenues, net income, and other segment information of our reportable operating segments as at December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016, and are as follows:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
	(in million pesos, except for EBITDA margin)				
December 31, 2018 (Unaudited)					
Revenues					
External customers	87,193	76,431	1,128	—	164,752
Service revenues	80,265	72,858	1,084	—	154,207
Non-service revenues	6,928	3,573	44	—	10,545
Inter-segment transactions	2,736	8,791	10	(11,537)	—
Service revenues	2,736	8,790	10	(11,536)	—
Non-service revenues	—	1	—	(1)	—
Total revenues	89,929	85,222	1,138	(11,537)	164,752
Results					
Depreciation and amortization	24,778	22,303	159	—	47,240
Asset impairment	3,319	4,746	—	—	8,065
Impairment of investments	60	—	112	—	172
Interest income	719	812	536	(124)	1,943
Equity share in net earnings (losses) of associates and joint ventures	62	171	(320)	—	(87)
Financing costs – net	1,865	5,195	131	(124)	7,067
Provision for income tax	1,333	1,336	1,173	—	3,842
Net income (loss) / Segment profit (loss)	5,725	6,059	7,971	(782)	18,973
EBITDA	34,235	30,875	(2,688)	1,605	64,027
EBITDA margin	41%	38%	(246%)	(14%)	(42%)
Core income	9,760	6,925	9,952	(782)	25,855
Assets and liabilities					
Operating assets	230,182	199,557	30,962	(61,075)	399,626
Investments in associates and joint ventures	—	43,426	12,001	—	55,427
Deferred income tax assets – net	16,879	12,479	(1,119)	(542)	27,697
Total assets	247,061	255,462	41,844	(61,617)	482,750
Operating liabilities	168,837	206,812	16,773	(29,319)	363,103
Deferred income tax liabilities – net	2,321	482	367	(189)	2,981
Total liabilities	171,158	207,294	17,140	(29,508)	366,084
Other segment information					
Capital expenditures, including capitalized interest (Note 9)	32,248	26,242	—	—	58,490

December 31, 2017 (Audited)					
Revenues					
External customers	91,288	67,389	1,249	—	159,926
Service revenues	86,128	63,811	1,226	—	151,165
Non-service revenues	5,160	3,578	23	—	8,761
Inter-segment transactions	1,284	10,952	30	(12,266)	—
Service revenues	1,284	10,946	30	(12,260)	—
Non-service revenues	—	6	—	(6)	—
Total revenues	92,572	78,341	1,279	(12,266)	159,926
Results					
Depreciation and amortization	36,776	15,001	138	—	51,915
Asset impairment	6,104	2,098	56	—	8,258
Impairment of investments	439	1,583	540	—	2,562
Equity share in net earnings (losses) of associates and joint ventures	(129)	44	2,991	—	2,906
Interest income	305	695	655	(243)	1,412
Financing costs – net	2,247	5,106	214	(197)	7,370
Provision for income tax	(2,787)	3,680	210	—	1,103
Net income (loss) / Segment profit (loss)	(2,215)	7,474	8,825	(618)	13,466
EBITDA	36,395	29,478	(1,307)	1,608	66,174
EBITDA margin	42%	39%	(104%)	(13%)	44%
Core income	9,812	8,846	9,628	(618)	27,668
Assets and liabilities					
Operating assets	211,983	174,217	34,504	(37,856)	382,848
Investments in associates and joint ventures	—	44,867	1,263	—	46,130
Deferred income tax assets – net	18,826	11,994	—	(354)	30,466
Total assets	230,809	231,078	35,767	(38,210)	459,444
Operating liabilities	153,622	196,451	13,624	(18,802)	344,895
Deferred income tax liabilities – net	2,656	286	424	—	3,366
Total liabilities	156,278	196,737	14,048	(18,802)	348,261

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

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

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

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

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

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

The following table shows the reconciliation of our consolidated basic and diluted core EPS to our consolidated basic and diluted EPS attributable to common equity holder of PLDT for the years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(Unaudited)		(Audited)			
Consolidated core EPS	119.39	119.39	127.79	127.79	128.66	128.66
Add (deduct) adjustments:						
Gains on derivative financial instruments – net, excluding hedge costs	4.08	4.08	2.34	2.34	4.99	4.99
Core income adjustment on equity share in net	(0.11)	(0.11)	(0.28)	(0.28)	(0.44)	(0.44)

losses associates and joint ventures						
Retroactive application of PAS 19	(0.80)	(0.80)	(11.86)	(11.86)	(25.52)	(25.52)
Investment written-off	(1.68)	(1.68)				
Foreign exchange losses – net	(3.57)	(3.57)	(1.74)	(1.74)	(10.40)	(10.40)
Loss in fair value of investments	(5.34)	(5.34)	—	—	—	—
MRP	(5.52)	(5.52)	—	—	—	—
Asset impairment	(9.82)	(9.82)	(13.12)	(13.12)	(4.96)	(4.96)
Depreciation due to shortened life of property and equipment	(14.06)	(14.06)	(41.52)	(41.52)	—	—
Other non-recurring income and others	4.71	4.71	—	—	—	—
Total adjustments	(32.11)	(32.11)	(66.18)	(66.18)	(36.33)	(36.33)
Consolidated EPS attributable to common equity holders of PLDT	87.28	87.28	61.61	61.61	92.33	92.33

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

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

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

There is no revenue transaction with a single external customer that accounted for 10% or more of our consolidated revenues from external customers for the years ended December 31, 2018, 2017 and 2016.

5. Income and Expenses

Disaggregation of Revenue

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

Revenue from Contracts with Customers

Set out is the disaggregation of PLDT Group's revenue for the years ended December 31, 2018, 2017 and 2016:

Revenue Streams	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
	(in million pesos)				
December 31, 2018 (Unaudited)					
Type of good or service					
Service revenue	83,001	81,648	1,094	(11,536)	154,207
Non-service revenue	6,928	3,574	44	(1)	10,545
Total revenue from contracts with customers	89,929	85,222	1,138	(11,537)	164,752
Timing of revenue recognition					
Transferred over time	83,001	81,648	1,094	(11,536)	154,207
Transferred at a point time	6,928	3,574	44	(1)	10,545
Total revenue from contracts with customers	89,929	85,222	1,138	(11,537)	164,752
December 31, 2017 (Audited)					
Type of good or service					
Service revenue	87,412	74,757	1,256	(12,260)	151,165
Non-service revenue	5,160	3,584	23	(6)	8,761
Total revenues	92,572	78,341	1,279	(12,266)	159,926
December 31, 2016 (Audited)					
Type of good or service					
Service revenue	99,854	69,006	748	(12,398)	157,210
Non-service revenue	4,233	3,722	99	(2)	8,052
Total revenues	104,087	72,728	847	(12,400)	165,262

Selling, General and Administrative Expenses

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

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

Other expenses	1,138	882	1,161
Total selling, general and administrative expenses	73,916	68,990	67,196

Compensation and Employee Benefits

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

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

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

Cost of Sales and Services

Cost of sales and services for the years ended December 31, 2018, 2017 and 2016 consist of the following:

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

Asset Impairment

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

	2018	2017	2016
	(Unaudited)	(Audited)	
	(in million pesos)		
Trade and other receivables (Note 16)	4,209	3,438	8,027
Property and equipment (Note 9)	1,958	3,913	—
Inventories and supplies (Note 17)	1,528	907	1,941
Contract assets (Note 27)	206	—	—
Goodwill and intangible assets (Note 14)	—	—	1,038
Other assets	164	—	36
Total asset impairment	8,065	8,258	11,042

Other Income (Expenses)

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

	2018	2017	2016
	(Unaudited)	(Audited)	
	(in million pesos)		
Gain on deconsolidation of Voyager	12,054	—	—
Interest income	1,943	1,412	1,046
Gains on derivative financial instruments – net (Note 27)	1,086	533	996
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(87)	2,906	1,181
Foreign exchange losses – net (Note 9)	(771)	(411)	(2,785)

Financing costs – net	(7,067)	(7,370)	(7,354)
Others – net (Notes 10, 11 and 13)	1,884	7,988	4,284
Total other income (expenses)	9,042	5,058	(2,632)

Interest Income

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

	2018	2017	2016
	(Unaudited)	(Audited)	
	(in million pesos)		
Interest income on loans and receivables (Note 15)	1,480	1,404	980
Interest income arising from revenue contracts with customers	457	—	—
Interest income on debt instruments at amortized cost (Note 12)	6	—	—
Interest income on HTM investments (Note 12)	—	8	36
Interest income on financial instruments at FVPL	—	—	30
Total interest income	1,943	1,412	1,046

Financing Costs – net

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

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

6. Components of Other Comprehensive Income

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

	Foreign currency translation differences of subsidiaries	Net gains (loss) on available-for-sale financial investments – net of tax	Net transactions on cash flow hedges – net of tax	Revaluation increment on investment properties – net of tax	Actuarial losses on defined benefit plans – net of tax	Share in the other comprehensive income of associates and joint ventures accounted for using the equity method	Financial instrument at FVOCI	Total other comprehensive loss attributable to equity holders of PLDT	Share of noncontrolling interests	Total other comprehensive loss – net of tax
	(in million pesos)									
Balances as at January 1, 2018	583	4,300	(369)	620	(24,467)	182	—	(19,151)	14	(19,137)
Change on initial application of PFRS 9	—	(4,309)	—	—	—	(182)	(136)	(4,627)	—	(4,627)

(Note 2)										
Balances as at January 1, 2018, as restated	583	(9)	(369)	620	(24,467)	—	(136)	(23,778)	14	(23,764)
Other comprehensive income (loss)	112	—	(271)	(2)	(1,222)	—	(29)	(1,412)	5	(1,407)
Balances as at December 31, 2018 (Unaudited)	695	(9)	(640)	618	(25,689)	—	(165)	(25,190)	19	(25,171)
Balances as at January 1, 2017	608	936	7	619	(23,376)	312	—	(20,894)	7	(20,887)
Other comprehensive income (loss)	(25)	3,364	(376)	1	(1,091)	306	—	2,179	7	2,186
Recyled to retained earnings	—	—	—	—	—	(436)	—	(436)	—	(436)
Balances as at December 31, 2017 (Audited)	583	4,300	(369)	620	(24,467)	182	—	(19,151)	14	(19,137)
Balances as at January 1, 2016	524	76	(3)	602	(19,805)	404	—	(18,202)	12	(18,190)
Other comprehensive income (loss)	84	860	10	17	(3,571)	151	—	(2,449)	(5)	(2,454)
Recyled to retained earnings	—	—	—	—	—	(243)	—	(243)	—	(243)
Balances as at December 31, 2016 (Audited)	608	936	7	619	(23,376)	312	—	(20,894)	7	(20,887)

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

7. Income Taxes

Corporate Income Tax

The major components of consolidated net deferred income tax assets and liabilities recognized in our consolidated statements of financial position as at December 31, 2018 and 2017 are as follows:

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

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

	2018 (Unaudited)	2017 (Audited)
	(in million pesos)	
Net deferred income tax assets:		
Unamortized past service pension costs	5,252	5,098
NOLCO	3,231	243
Customer list and trademark	4,670	6,760
Pension and other employee benefits	4,296	3,620
Accumulated provision for doubtful accounts	3,709	3,102
Unearned revenues	1,776	1,778
Provision for other assets	1,595	2,523
Unrealized foreign exchange losses	1,092	746
Accumulated write-down of inventories to net realizable values	916	669
MCIT	905	607
Fixed asset impairment/depreciation due to shortened life of property and equipment	1,870	5,597
Derivative financial instruments	(58)	(30)
Others	(1,557)	(247)
Total deferred income tax assets – net	27,697	30,466
Net deferred income tax liabilities:		
Intangible assets and fair value adjustment on assets acquired – net of amortization	2,175	2,387
Unrealized foreign exchange gains	366	269
Investment property	277	207
Undepreciated capitalized interest charges	7	8
Unamortized fair value adjustment on fixed assets from business combination	—	338
Others	156	157
Total deferred income tax liabilities – net	2,981	3,366

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

	2018 (Unaudited)	2017 (Audited)
	(in million pesos)	
Net deferred income tax assets – balance at beginning of the year	30,466	27,348
Net deferred income tax liabilities – balance at beginning of the year	(3,366)	(3,567)
Net balance at beginning of the year	27,100	23,781
Movement charged directly to other comprehensive income	591	507
Excess MCIT deducted against RCIT due	(3)	—
Adjustments due to adoption of PFRS 15	(1,166)	—
Benefit from (provision for) deferred income tax	(1,742)	2,738
Others	(64)	74

Net balance at end of the year	24,716	27,100
Net deferred income tax assets – balance at end of the year	27,697	30,466
Net deferred income tax liabilities – balance at end of the year	(2,981)	(3,366)

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

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

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

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

Provision for income tax for the years ended December 31, 2018, 2017 and 2016 consist of:

	2018 (Unaudited)	2017 (Audited)	2016
	(in million pesos)		
Current	2,100	3,841	6,043
Deferred	1,742	(2,738)	(4,134)
	3,842	1,103	1,909

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

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

Net movement in unrecognized deferred income tax assets and other adjustments	(1,368)	208	(4,495)
Actual provision for income tax	3,842	1,103	1,909

The breakdown of our consolidated deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of the OSD method) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets as at December 31, 2018 and 2017 are as follows:

	2018 (Unaudited)	2017 (Audited)
	(in million pesos)	
NOLCO	4,289	7,151
Accumulated provision for doubtful accounts	3,473	3,122
Provisions for other assets	2,075	3,801
Fixed asset impairment	1,512	74
Pension and other employee benefits	1,344	1,758
Asset retirement obligation	475	621
Unearned revenues	255	1,320
Gain on disposal of asset	106	—
Unrealized foreign exchange losses	78	105
MCIT	27	111
Accumulated write-down of inventories to net realizable values	17	304
Derivative financial instruments and others	7	149
Investment property	(616)	(460)
	13,042	18,056
Unrecognized deferred income tax assets	3,931	5,495

DMPI recognized deferred income tax assets to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Digitel and DMPI's unrecognized deferred income tax assets amounted to Php2,187 million and Php2,798 million as at December 31, 2018 and 2017, respectively.

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

The breakdown of our consolidated excess MCIT and NOLCO as at December 31, 2018 are as follows:

Date Incurred	Expiry Date	MCIT	NOLCO
		(in million pesos)	
December 31, 2016	December 31, 2019	108	1,133
December 31, 2017	December 31, 2020	113	2,203
December 31, 2018	December 31, 2021	711	11,724
		932	15,060

Consolidated tax benefits	932	4,518
Consolidated unrecognized deferred income tax assets	(27)	(1,287)
Consolidated recognized deferred income tax assets	905	3,231

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

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

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

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

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

8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the years ended December 31, 2018, 2017 and 2016:

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

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

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

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

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

9. Property and Equipment

Changes in property and equipment account for the years ended December 31, 2018 and 2017 are as follows:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, aircraft, furniture and other network equipment	Communications satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
	(in million pesos)									
As at December 31, 2016 (Audited)										
Cost	196,652	115,461	202,581	25,914	55,973	966	14,596	3,440	50,070	665,653
Accumulated depreciation, impairment and amortization	(148,622)	(96,793)	(138,189)	(16,992)	(48,300)	(966)	(12,338)	(265)	—	(462,465)
Net book value	48,030	18,668	64,392	8,922	7,673	—	2,258	3,175	50,070	203,188
Year ended December 31, 2017 (Audited)										
Net book value at beginning of the year	48,030	18,668	64,392	8,922	7,673	—	2,258	3,175	50,070	203,188
Additions	3,410	687	6,512	159	2,682	—	1,878	1	24,970	40,299
Disposals/Retirements	(8)	—	(123)	(38)	(316)	—	—	—	(134)	(619)
Reclassifications (Note 13)	5	3	—	3	(7)	—	—	14	(143)	(125)
Impairment losses recognized	—	—	(389)	—	—	—	—	—	(3,524)	(3,913)

during the year (Note 5)										
Transfers and others	7,612	3,945	8,031	1,285	1,959	—	1,343	3	(24,178)	—
Translation differences charged directly to cumulative translation adjustments	—	(1)	—	(1)	(4)	—	—	—	—	(6)
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	—	—	—	(2)	—	—	—	—	—	(2)
Depreciation and amortization	(11,594)	(5,340)	(28,242)	(1,274)	(4,106)	—	(1,357)	(2)	—	(51,915)
Net book value at end of the year	47,455	17,962	50,181	9,054	7,881	—	4,122	3,191	47,061	186,907
As at December 31, 2017 (Audited)										
Cost	207,220	119,642	209,504	27,076	58,964	—	17,595	3,458	47,061	690,520
Accumulated depreciation, impairment and amortization	(159,765)	(101,680)	(159,323)	(18,022)	(51,083)	—	(13,473)	(267)	—	(503,613)
Net book value	47,455	17,962	50,181	9,054	7,881	—	4,122	3,191	47,061	186,907
Year ended December 31, 2018 (Unaudited)										
Net book value at beginning	47,455	17,962	50,181	9,054	7,881	—	4,122	3,191	47,061	186,907

of the year										
Additions (Note 4)	1,278	565	758	120	1,158	—	2,107	—	52,504	58,490
Disposals/Retirements	(10)	(27)	(60)	(140)	(95)	—	—	—	(9)	(341)
Reclassifications (Note 13)	19	(1)	—	127	(25)	—	2	1,117	—	1,239
Transfers and others	10,409	8,237	37,881	265	1,465	—	1,176	—	(59,433)	—
Translation differences charged directly to cumulative translation adjustments	—	3	—	1	(3)	—	—	—	—	1
Deconsolidation of a subsidiary	—	—	(65)	(794)	(273)		—	—	—	(1,132)
Impairment losses recognized during the year (Note 5)	(299)	(292)	(858)	(480)	(29)	—	—	—	—	(1,958)
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	—	—	—	(2)	—	—	—	—	—	(2)
Depreciation and amortization	(11,381)	(10,480)	(17,499)	(2,162)	(3,380)	—	(2,336)	(2)	—	(47,240)
Net book value at end of the year	47,471	15,967	70,338	5,989	6,699	—	5,071	4,306	40,123	195,964
As at December 31, 2018 (Unaudited)										
Cost	217,773	128,321	217,164	26,546	58,711	—	20,823	4,576	40,123	714,037
Accumulated depreciation,	(170,302)	(112,354)	(146,826)	(20,557)	(52,012)	—	(15,752)	(270)	—	(518,073)

impairment and amortization										
Net book value	47,471	15,967	70,338	5,989	6,699	—	5,071	4,306	40,123	195,964

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Interest capitalized to property and equipment that qualified as borrowing costs amounted to Php1,524 million, Php816 million and Php566 million for the years ended December 31, 2018, 2017 and 2016, respectively. See Note 5 – Income and Expenses – Financing Costs – net. Our undepreciated interest capitalized to property and equipment that qualified as borrowing costs amounted to Php6,070 million and Php5,389 million as at December 31, 2018 and 2017, respectively. The average interest capitalization rate used was approximately 5% each for the years ended December 31, 2018, 2017 and 2016.

Our net foreign exchange differences, which qualified as borrowing costs, amounted to Php411 million, Php106 million and Php111 million for the years ended December 31, 2018, 2017 and 2016, respectively. Our undepreciated capitalized net foreign exchange losses amounted to Php757 million and Php424 million as at December 31, 2018 and 2017, respectively.

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

Cable and wire facilities	10 – 15 years
Central office equipment	3 – 15 years
Cellular facilities	3 – 10 years
Buildings	25 – 50 years
Vehicles, aircraft, furniture and other network equipment	3 – 7 years
Information origination and termination equipment	3 – 5 years
Leasehold improvements	3 – 5 years
Land improvements	10 years

Impairment of Certain Wireless Network Equipment and Facilities

In 2018, DMPI recognized an impairment loss amounting to Php862 million pertaining to network assets which were rendered obsolete as a result of the continued network convergence strategy of our Wireless business.

See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets.

10. Investments in Associates and Joint Ventures

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

	2018 (Unaudited)	2017 (Audited)
	(in million pesos)	
Carrying value of investments in associates:		
VIH	10,487	—
MediaQuest PDRs	9,262	10,835
Digitel Crossing, Inc., or DCI	591	510
Appcard, Inc.	122	234

Asia Outsourcing Beta Limited, or Beta	36	78
Phunware, Inc.	—	384
AF Payments, Inc., or AFPI	—	—
ACeS International Limited, or AIL	—	—
Asia Netcom Philippines Corp., or ANPC	—	—
	20,498	12,041
Carrying value of investments in joint ventures:		
VTI, Bow Arken and Brightshare	32,541	32,550
Multisys	2,388	—
Philippines Internet Holding S.à.r.l., or PHIH	—	1,539
Beacon Electric Asset Holdings, Inc., or Beacon	—	—
	34,929	34,089
Total carrying value of investments in associates and joint ventures	55,427	46,130

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

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

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

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

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

	2018 (Unaudited)	2017 (Audited)
	(in million pesos)	
Balance at beginning of the year	(1,239)	1,285
Equity share in net earnings (losses) of associates and joint ventures:	(87)	2,906
MediaQuest PDRs	90	(27)
DCI	81	71
AFPI	62	(130)
VTI, Bow Arken and Brightshare	(60)	55
VIH	(260)	—
Beta	—	2,050
Beacon	—	886
PHIH	—	1
Share in the other comprehensive loss of associates and joint ventures accounted for using the equity method	(1)	(312)
Disposals	(187)	(9,610)

Reversal of impairment	—	201
Realized portion of deferred gain on the transfer of Beacon and Manila Electric Company, or Meralco, shares	—	4,962
Dividends	—	(791)
Translation and other adjustments	(69)	120
Balance at end of the year	(1,583)	(1,239)

Investments in Associates

Investment of PCEV in VIH

See related discussion on Note 2 – Summary of Significant Accounting Policies – Loss of Control of PCEV over VIH.

Investment of ePLDT in MediaQuest PDRs

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

In June 2013, ePLDT's Board of Directors approved additional investments in PDRs of MediaQuest:

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest and provide ePLDT with a 40% economic interest in Satventures; and
- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings, a wholly-owned subsidiary of MediaQuest incorporated in the Philippines. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including equity interests in the three leading newspapers: The Philippine Star, Philippine Daily Inquirer, and Business World. See Note 25 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest.

The Php6 billion Cignal TV PDRs and Php3.6 billion Satventures PDRs were issued on September 27, 2013. These PDRs provided ePLDT an aggregate of 64% economic interest in Cignal TV.

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

On May 21, 2015, ePLDT's Board of Directors approved an additional Php800 million investment in Hastings PDRs and settlement of the Php200 million balance of the Php500 million Hastings PDR investment in 2014. Subsequently, on June 1, 2015, the Board of Trustees of the PLDT Beneficial Trust Fund and the Board of Directors of MediaQuest approved the issuance of Php3,250 million Hastings PDRs. This provided ePLDT with 70% economic interest in Hastings. See Note 25 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest.

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

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

Transfer of Hastings PDRs to PLDT Beneficial Trust Fund

On January 22, 2018, ePLDT's Board of Directors approved the assignment of the Hastings PDRs, representing a 70% economic interest in Hastings to the PLDT Beneficial Trust Fund for a total consideration of Php1,664 million. The assignment was completed on February 15, 2018 and subsequently ePLDT ceased to have any economic interest in Hastings. See Note 25 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest.

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

ePLDT's aggregate value of investment in MediaQuest PDRs amounted to Php9,262 million as at December 31, 2018 and Php10,835 million, net of allowance for impairment of Php1,784 million as at December 31, 2017. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Accounting for investment in MediaQuest through PDRs.

The table below presents the summarized financial information of Satventures as at December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016:

	2018 (Unaudited)	2017 (Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	20,712	20,055
Current assets	2,606	2,820
Noncurrent liabilities	3,297	3,292
Current liabilities	5,549	5,253
Equity	14,472	14,330
Carrying amount of interest in Satventures	9,262	9,171
Additional Information:		
Cash and cash equivalents	611	1,211
Current financial liabilities*	487	397
Noncurrent financial liabilities*	2,239	2,097

* Excluding trade, other payables and provisions.

	2018 (Unaudited)	2017 (Audited)	2016
	(in million pesos)		
Income Statements:			
Revenues	7,339	6,650	5,925
Depreciation and amortization	936	772	1,217
Interest income	8	3	2
Interest expense	274	249	259
Provision for (benefit from) income tax	112	71	(69)

Net income (loss)	142	4	(344)
Other comprehensive income	—	—	—
Total comprehensive income (loss)	142	4	(344)
Equity share in net income (loss) of Satventures	91	3	(220)

The table below presents the summarized financial information of Hastings as at Decmber 31, 2017 and for the years ended December 31, 2017 and 2016:

	2017 (Audited) (in million pesos)
Statements of Financial Position:	
Noncurrent assets	1,803
Current assets	2,360
Noncurrent liabilities	151
Current liabilities	336
Equity	4,650
Carrying amount of interest in Hastings	1,664
Additional Information:	
Cash and cash equivalents	1,304
Current financial liabilities*	—
Noncurrent financial liabilities*	—

*Excluding trade, other payables and provisions.

	2017	2016
	(Audited) (in million pesos)	
Income Statements:		
Revenues	2,129	2,394
Depreciation and amortization	153	153
Interest income	12	18
Interest expense	19	19
Provision for income tax	22	70
Net income (loss)	(43)	169
Other comprehensive income	—	—
Total comprehensive income (loss)	(43)	169
Equity share in net income (loss) of Hastings	(30)	118

Investment of Digitel in DCI and ANPC

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

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

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

Digitel provided full impairment loss on its investment in DCI and ANPC in prior years on the basis that DCI and ANPC have incurred significant recurring losses in the past. In 2011 and 2017, Digitel recorded a reversal of impairment loss amounting to Php92 million and Php201 million, respectively, following improvement in DCI's operations.

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

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

Following PLDT's acquisition of a controlling stake in Digitel, PNPI, on November 4, 2011, sent a notice to exercise its Call Right under Section 6.3 of the JVA, which provides for a Call Right exercisable by PNPI following the occurrence of a Digitel change in control. As at March 7, 2019, Digitel management is ready to conclude the transfer of its investment in DCI, subject to PNPI's ability to meet certain regulatory and valuation requirements. This investment is not classified as noncurrent asset held-for-sale as the transfer is assessed as not highly probable because certain aspects of the sale such as pricing are still subject for approval by both Digitel and PNPI management.

Investment of PGIC in Beta

On February 5, 2013, PLDT entered into a Subscription and Shareholders' Agreement with Asia Outsourcing Alpha Limited, or Alpha, wherein PLDT, through its indirect subsidiary PGIC, acquired from Alpha approximately 20% equity interest in Beta for a total cost of approximately US$40 million, which consists of preferred shares of US$39.8 million and ordinary shares of US$0.2 million. On various dates in 2013 and 2014, PGIC has bought and transferred-in a net in total of 27 ordinary shares and 9,643 preferred shares to certain employees of Beta for a total net payment of US$81 thousand. In 2014, Beta has divested its healthcare BPO business. PGIC received a total cash distribution of US$41.8 million from Beta through redemption of 35.3 million preferred shares and repayment of loan from PGIC. The equity interest of PGIC in Beta remained at 20% after the transfer with economic interest of 18.32%.

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

On July 22, 2016, Asia Outsourcing Gamma Limited, or AOGL, entered into a SPA with Relia, Inc., one of the largest BPO companies in Japan, relating to the acquisition of AOGL's Customer Relationship Management, or CRM, business under the legal entity SPi CRM, Inc. and Infocom Technologies, Inc., wholly-owned subsidiaries of SPi Technologies, Inc., for a total purchase consideration of US$180.9 million. AOGL is a wholly-owned subsidiary of Beta and the direct holding company of SPi Technologies, Inc. and Subsidiaries. The transaction was completed on September 30, 2016. As a result of the sale, PGIC received a cash distribution of US$11.2 million from Beta through redemption of its preferred shares and portion of its ordinary shares.

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

The carrying value of investment in common shares in Beta amounted to Php36 million and Php78 million as at December 31, 2018 and 2017, respectively. The economic interests of PGIC in Beta remained at 18.32% as at December 31, 2018 and 2017.

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

Investment of PLDT Capital in Phunware

See related discussion on Note 11 – Financial Assets at FVPL/Available-for-Sale Financial Investments – Investment of PLDT Capital in Phunware.

Investment of Smart in AFPI

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

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

Smart made the following investments in AFPI:

Date	Transaction	Number of Shares Subscribed (in millions)	Actual Capital Infusion (Php) (in millions)
February 2014	Smart subscription to AFPI Common Shares	503.2 AFPI Common Shares	25
May 2014	Capital infusion on unpaid subscription	—	275
March 2015	Capital infusion on unpaid subscription	—	160
November 2015	Smart subscription to AFPI Common Shares	122.5 AFPI Common Shares	—
February 2016	Capital infusion on unpaid subscription	—	130
April 2017	Smart subscription to AFPI Preferred Shares	100.0 AFPI Preferred Shares	—
June 2017	Capital infusion on unpaid subscription	—	100
February 2018	Smart subscription to AFPI Preferred Shares	60.0 AFPI Preferred Shares	—
March 2018	Capital infusion on unpaid subscription	—	60

In June 2017, Smart recognized Php439 million impairment representing the carrying value of investment in AFPI as at June 30, 2017. Consequently, Smart discontinued recognizing its equity share in net losses of AFPI.

In March 2018, Smart recognized additional impairment of Php60 million, representing the capital infusion made during the year. Unrecognized share in net losses of AFPI amounted to Php122 million for the year ended December 31, 2018. Accumulated share in net losses amounting to Php183 million and Php61 million as at December 31, 2018 and 2017, respectively, were not recognized as the Company does not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AFPI.

Investment of ACeS Philippines in AIL

As at December 31, 2018, ACeS Philippines held a 36.99% equity interest in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia. In

December 2014, AIL suffered a failure of the propulsion system on board the Garuda I Satellite, thus, AIL decided to decommission the operation of Garuda I Satellite in January 2015.

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

Share in net cumulative losses were not recognized as we do not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AIL.

Summarized financial information of individually immaterial associates

The following tables present the summarized financial information of our individually immaterial investments in associates as at December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016:

	2018 (Unaudited)	2017 (Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	529	349
Current assets	772	595
Equity	(1,482)	799
Noncurrent liabilities	441	66
Current liabilities	2,342	79

	2018	2017	2016
	(Unaudited)	(Audited)	
	(in million pesos)		
Income Statements:			
Revenues	116	107	1,960
Net income (loss)	(50)	59	526
Other comprehensive income	—	(1)	—
Total comprehensive income (loss)	(50)	58	526

We did not receive any dividends from our associates for the years ended December 31, 2018, 2017 and 2016.

We have no outstanding contingent liabilities or capital commitments with our associates as at December 31, 2018 and 2017.

Investments in Joint Ventures

Investments of PLDT in VTI, Bow Arken and Brightshare

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

The consideration in the amount of Php52.8 billion representing the purchase price for the equity interest and assigned advances of previous owners to VTI, Bow Arken and Brightshare was paid in three tranches: 50% upon signing of the SPAs on May 30, 2016, 25% on December 1, 2016 and the final 25% on May 30, 2017. The SPAs also provide that PLDT and Globe, through VTI, Bow Arken and Brightshare, would assume liabilities amounting to Php17.2 billion from May 30, 2016. In addition, the SPAs contain a price adjustment mechanism based on the variance in these assumed liabilities to be agreed among PLDT, Globe and previous owners on the results of the confirmatory due diligence procedures jointly performed by PLDT and Globe. On May 29, 2017, PLDT and Globe paid the previous owners the net amount of Php2.6 billion in relation to the aforementioned price adjustment based on the result of the confirmatory due diligence. See Note 27 – Financial Assets and Liabilities – Commercial Commitments.

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

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

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

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

As at December 31, 2018 and 2017, the amount of the advances outstanding to PLDT, to cover for the assumed liabilities and working capital requirements of the acquired companies, amounted to Php51 million and nil, respectively.

Purchase Price Allocation

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

The table below presents the summarized financial information of VTI, Bow Arken and Brightshare as at December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016:

	2018 (Unaudited)	2017 (Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	77,261	77,694
Current assets	3,070	2,807
Noncurrent liabilities	11,193	11,373
Current liabilities	2,678	1,936
Equity	66,459	67,192
Carrying amount of interest in VTI, Bow Arken and Brightshare	33,229	32,550
Additional Information:		
Cash and cash equivalents	2,191	1,961
Current financial liabilities*	607	—
Noncurrent financial liabilities*	—	—

*Excluding trade, other payables and provisions.

	2018 (Unaudited)	2017 (Audited)	2016
	(in million pesos)		
Income Statements:			
Revenues	2,505	2,532	1,189

Depreciation and amortization	1,171	1,168	842
Interest income	43	28	18
Provision for (benefit from) income tax	113	(42)	158
Net income (loss)	(120)	110	(2,055)
Other comprehensive income	—	—	—
Total comprehensive income (loss)	(120)	110	(2,055)
Equity share in net income (loss) of VTI, Bow Arken and Brightshare	(60)	55	(1,027)

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

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

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

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

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

In the Matter of the Petition against the PCC

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

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

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

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

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

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

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

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

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

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

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

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

On June 5, 2018, PLDT, through counsel, received the Supreme Court's Resolution dated April 24, 2018 noting the PLDT's Comment on the Petition for Review on Certiorari filed in compliance with the Supreme Court's Resolution dated January 30, 2018 and requiring the PCC to file a Consolidated Reply to the comments within ten days of notice. On June 20, 2018, PLDT, through counsel, received PCC's Urgent Omnibus Motion

(1) for Partial Reconsideration of the Resolution dated April 24, 2018; and (2) Additional Time dated June 11, 2018.

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

On July 26, 2018, the Supreme Court issued a Resolution dated June 19, 2018 where it resolved to grant PLDT's Motion for Leave to File and Admit the Attached Comment. In a Resolution dated July 3, 2018, the Supreme Court resolved to deny PCC's motion to reconsider the Resolution dated April 24, 2018 and grant the motion for extension of time to file its reply to PLDT's and Globe's Comments, with a warning that no further extension will be given.

In a Resolution dated June 5, 2018, the Supreme Court noted PCC's Consolidated Reply Ad Cautelam.

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

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

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

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

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

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

Investment of PGIH in Multisys

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

On December 3, 2018, PGIH completed the closing of its investment in Multisys. PGIH paid Php523 million to the owner of Multisys for the acquisition of existing shares and invested Php800 million into Multisys as a deposit for future stock subscription pending the approval by the Philippine SEC of the capital increase of Multisys.

As at December 31, 2018, the carrying value of the investment in Multisys amounted to Php2,388 million, including subscription payable of Php800 million.

On February 1, 2019, the Philippine SEC approved the capital increase of Multisys. This resulted to an increase in the total equity ownership of PGIH in Multisys to 45.73%.

Investment of iCommerce in PHIH

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

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

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

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

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

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

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

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

Investment of PCEV in Beacon

On March 1, 2010, PCEV, MPIC and Beacon, entered into an Omnibus Agreement, or OA, where PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity interest in Meralco.

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

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

PCEV's Investment in Beacon Shares

PCEV made the following investments in Beacon:

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

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

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

PCEV recognized a deferred gain of Php8,047 million and Php8,145 million on May 12, 2010 and October 25, 2011, respectively, for the difference between the transfer price of the Meralco shares to Beacon and the carrying amount in PCEV's books of the Meralco shares transferred since the transfer was between entities with common shareholders. The deferred gain, presented as a reduction in PCEV's investment in Beacon common shares, will only be realized upon the disposal of the Meralco shares to a third party.

On May 30, 2016, the Board of Directors of Beacon approved the increase in authorized capital stock of Beacon from 5,000 million to 6,000 million divided into 3,000 million common shares with a par value of Php1.00 per share, 2,000 million Class "A" preferred shares with a par value of Php1.00 per share and 1,000 million new Class "B" preferred shares with a par value of Php1.00 per share.

The amount raised by Beacon from the subscription of PCEV and MPIC to Class "B" Preferred Shares was used to fund the subscription to an aggregate 56% of the issued share capital of Global Business Power Corporation, or Global Power, through Beacon Powergen Holdings, Inc., or Beacon Powergen. Global Power is the leading power supplier in Visayas region and Mindoro Island.

On September 9, 2016 and April 20, 2017, the Board of Directors of Beacon approved the redemption of 198 million and 79 million Class "B" preferred shares held by PCEV, respectively. Beacon paid the redemption price equal to the aggregate issue price as well as cash dividends on the said preferred shares amounting to Php21 million and Php43 million, on September 30, 2016 and April 25, 2017, respectively.

Beacon's Dividend Declaration

A summary of PCEV's share on Beacon's dividend declarations before PCEV's divestment in 2017 are shown below:

Date of Declaration	Date of Payment	Holders	Amount (Php)	Share of PCEV (Php)
			(in millions)	
March 6, 2017	March 10, 2017	Class "A" Preferred	945	236
April 20, 2017	April 25, 2017	Class "A" Preferred	945	236
April 20, 2017	April 25, 2017	Class "B" Preferred	192	43
June 13, 2017	July 31, 2017	Class "A" Preferred	1,273	318
Total dividends declared as at December 31, 2017			3,355	833

Sale of Beacon's Meralco Shares to MPIC

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

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

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

On June 24, 2014, MPIC settled a portion of the consideration amounting to Php3,000 million and the balance amounting to Php10,243 million was paid on February 27, 2015.

As part of the April 14, 2015 sale, MPIC settled a portion of the consideration amounting to Php1,000 million on April 14, 2015 and Php17,000 million on June 29, 2015, both of which were used by Beacon to partially settle its outstanding loans. MPIC paid Beacon the balance of Php8,487 million on July 29, 2016.

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

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

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

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

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

As at January 1, 2018, the unpaid balance from MPIC is measured at FVOCI in accordance with the new classification under PFRS 9 with interest income to be accreted over the term of the receivable.

Subsequent to the sale of PCEV's remaining 25% interest in Beacon in June 2017, PCEV continued to hold its representation in the Board of Directors of Beacon and participate in the decision making. As set forth in the Share Purchase Agreement dated June 30, 2017: (i) PCEV shall be entitled to nominate one director to the Board of Directors of Beacon ("Seller's Director") and MPIC agrees to vote its shares in Beacon in favor of such Seller's Director; and (ii) MPIC shall cede to PCEV the right to vote all of the shares. The parties agreed that with respect to decisions or policies affecting dividend payouts to be made by Beacon, PCEV shall exercise its voting rights, and shall vote, in accordance with the recommendation of MPIC on such matter. Based on the foregoing, PCEV's previously joint control over Beacon has become a significant influence.

Sale of PCEV's Receivables from MPIC

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

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

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

PCEV's remaining receivables from MPIC amounted to Php4,353 million, net of Php2 million allowance for ECL, and Php15,552 million as at December 31, 2018 and 2017, respectively.

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

Summarized financial information of individually immaterial joint ventures

The table below presents the summarized financial information of our individually immaterial joint ventures as at December 31, 2018 and 2017:

	2018 (Unaudited)	2017 (Audited)
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	—	1
Current assets	—	145
Equity	—	146
Noncurrent liabilities	—	—
Current liabilities	—	—

Total net income and comprehensive income of our individually immaterial joint ventures amounted to Php322 thousand as at December 31, 2017.

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at December 31, 2018 and 2017.

11. Financial Assets at FVPL/Available-for-Sale Financial Investments

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

	2018 Financial assets at FVPL	2017 Available-for-sale financial investments
	(Unaudited)	(Audited)
	(in million pesos)	
Rocket Internet	3,128	12,848
iflix Limited, or iflix	844	1,841
Phunware, Inc., or Phunware	497	—
Club shares and others	294	239
Matrixx	—	237
	4,763	15,165

Investment of PLDT Online in Rocket Internet

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

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

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

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

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

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

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

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

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

Further details on investment in Rocket Internet for the years ended December 31, 2018, 2017 and 2016, and as at December 31, 2018 and 2017 are as follows:

	2018 (Unaudited)	2017 (Audited)	2016
Total market value as at beginning of the year (in million pesos)	12,848	10,058	14,587
Closing price per share at end of the year (in Euros)	20.18	21.13	19.13
Total market value as at end of the year (in million Euros)	52	213	193
Total market value as at end of the year (in million pesos)	3,128	12,848	10,058
Total cost of sold shares (in million pesos)	9,563	—	—
Net gains (losses) recognized during the year (in million pesos)	157	2,790	(4,529)
Recognized in profit or loss (in million pesos)	—	(540)	(5,381)
Recognized in other comprehensive loss (in million pesos)	—	3,330	852

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	2018 Financial assets at FVPL	2017 Available-for-sale Financial Investments
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of the year	12,848	10,058
Fair value adjustment in profit or loss	(157)	—
Disposal of investments	(9,563)	—
Impairment loss	—	(540)
Fair value adjustment in other comprehensive income	—	3,330
Balance at end of the year	3,128	12,848

Based on our judgment, the decline in fair value of our investment in Rocket Internet was considered significant as the cumulative net losses from changes in fair value represented more than 20% decline in value below cost. As a result, total cumulative impairment losses recognized on our investment in Rocket Internet amounted to Php11,045 million as at December 31, 2017. Impairment losses charged in our consolidated income statements amounted to Php540 million and Php5,381 million for the years ended December 31, 2017 and 2016, respectively.

Starting January 1, 2018, PLDT Group adopted the new classification of financial assets - equity instruments in accordance with PFRS 9. Equity instruments previously classified as available-for-sale financial investments in PAS 39 will now be classified and measured at FVPL. As a result, total cumulative valuation loss on our investment in Rocket Internet recognized in our consolidated income statements amounted to Php157 million as at December 31, 2018.

See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of available-for-sale equity investments.

As at March 6, 2019, closing price of Rocket Internet is €21.92.

Investment of PLDT Online in iflix

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

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

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

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

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

The fair value of PLDT Online's investment amounted to Php844 million and Php1,841 million as at December 31, 2018 and 2017, respectively.

Investment of PLDT Capital in Phunware

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

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

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

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

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

The fair value amount of PLDT Capital's investment amounted to Php497 million as at December 31, 2018.

Investment of PLDT Capital in Matrixx

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

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

12. Debt Instruments at Amortized Cost/Investment in Debt Securities and Other Long-term Investments

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

	2018 Debt instruments at amortized cost (Unaudited)	2017 Investment in debt securities and other long-term investments (Audited)
	(in million pesos)	
GT Capital Bond	150	150
Security Bank Corporation, or Security Bank, Time Deposits	—	100
	150	250
Less current portion (Note 27)	—	100
Noncurrent portion (Note 27)	150	150

GT Capital Bond

In February 2013, Smart purchased at par a seven-year GT Capital Bond with face value of Php150 million maturing on February 27, 2020. The bond has a gross coupon rate of 4.84% payable on a quarterly basis, and was recognized as HTM investment. Starting January 1, 2018, the bond was classified as debt instrument at amortized cost under PFRS 9. Interest income, net of withholding tax, recognized on this investment amounted to Php5.8 million each for the years ended December 31, 2018, 2017 and 2016. The carrying value of this investment amounted to Php150 million each as at December 31, 2018 and 2017.

Security Bank Time Deposits

In October 2012, PLDT and Smart invested US$2.5 million each in a five-year time deposit with Security Bank at a gross coupon rate of 4.00%, which matured on October 11, 2017. Interest income, net of withholding tax, recognized on this investment amounted to US$146 thousand, or Php7 million, and US$188 thousand, or Php8.9 million, for the years ended December 30, 2017 and 2016, respectively.

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In May 2013, PLDT invested US$2.0 million in a five-year time deposit with Security Bank at a gross coupon rate of 3.5%, which matured on May 31, 2018. Interest income, net of withholding tax, recognized on this investment amounted to US$25 thousand, or Php1.3 million, US$66 thousand, or Php3.3 million, and US$66 thousand, or Php3.1 million, for the years ended December 31, 2018, 2017 and 2016, respectively. The carrying value of this investment amounted to nil and Php100 million as at December 31, 2018 and 2017, respectively.

PSALM Bonds

In April 2013, Smart purchased, at a premium, PSALM Bonds with face value of Php200 million with yield-to-maturity at 4.25% gross, which matured on April 22, 2017. The bond had a gross coupon rate of 7.75% payable on a quarterly basis, and was recognized as HTM investment. Premium was amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php2.3 million and Php7.3 million for the years ended December 31, 2017 and 2016, respectively.

13. Investment Properties

Changes in investment properties account for the years ended December 31, 2018 and 2017 are as follows:

	Land	Land Improvements	Building	Total
	(in million pesos)			
December 31, 2018 (Unaudited)				
Balance at beginning of the year	1,322	8	305	1,635
Net gains (losses) from fair value adjustments charged to profit or loss	389	(10)	(1)	378
Transfers to property and equipment	(1,115)	—	(121)	(1,236)
Balance at end of the year	596	(2)	183	777
December 31, 2017 (Audited)				
Balance at beginning of the year	1,567	8	315	1,890
Net gains (losses) from fair value adjustments charged to profit or loss	4	—	(7)	(3)
Transfers to property and equipment	(10)	—	(3)	(13)
Disposals	(239)	—	—	(239)
Balance at end of the year	1,322	8	305	1,635

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

The valuation for land was based on a market approach valuation technique using price per square meter ranging from Php23 to Php475 thousand. The valuation for building and land improvements was based on a cost approach valuation technique using current material and labor costs for improvements based on external and independent reviewers.

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

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

Repairs and maintenance expenses related to investment properties that do not generate rental income amounted to Php38 million, Php27 million and Php23 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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

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

14. Goodwill and Intangible Assets

Changes in goodwill and intangible assets account for the years ended December 31, 2018 and 2017 are as follows:

	Intangible Asset with Indefinite Life	Intangible Assets with Finite Life					Total Intangible Assets with Finite Life			Total Goodwill and Intangible
	Trademark	Franchise	Customer List	Spectrum	Licenses	Others	Life	Total Intangible Assets	Goodwill	Assets
	(in million pesos)									
December 31, 2018 (Unaudited)										
Costs:										
Balance at beginning of the year	4,505	3,016	4,726	1,205	1,079	1,562	11,588	16,093	63,058	79,151
Additions	—	—	—	—	—	21	21	21	—	21
Disposals	—	—	—	—	—	(372)	(372)	(372)	—	(372)
Deconsolidation	—	—	—	—	—	(460)	(460)	(460)	(1,025)	(1,485)
Translation and other adjustments	—	—	—	—	—	24	24	24	—	24
Balance at end of the year	4,505	3,016	4,726	1,205	1,079	775	10,801	15,306	62,033	77,339
Accumulated amortization and impairment:										
Balance at beginning of the year	—	1,147	3,280	1,071	1,044	1,347	7,889	7,889	1,679	9,568
Disposals	—	—	—	—	—	(372)	(372)	(372)	—	(372)
Amortization during the	—	187	510	81	7	107	892	892	—	892

year (Notes 4 and 5)										
Deconsolidation	—	—	—	—	—	(331)	(331)	(331)	(1,025)	(1,356)
Translation and other adjustments	—	—	—	—	—	24	24	24	—	24
Balance at end of the year	—	1,334	3,790	1,152	1,051	775	8,102	8,102	654	8,756
Net balance at end of the year	4,505	1,682	936	53	28	—	2,699	7,204	61,379	68,583
Estimated useful lives (in years)	—	16	2 – 9	15	18	—	—	—	—	—
Remaining useful lives (in years)	—	9	1 – 2	1	4	—	—	—	—	—
December 31, 2017 (Audited)										
Costs:										
Balance at beginning of the year	4,505	3,016	4,726	1,205	1,079	1,379	11,405	15,910	63,058	78,968
Additions	—	—	—	—	—	138	138	138	—	138
Translation and other adjustments	—	—	—	—	—	45	45	45	—	45
Balance at end of the year	4,505	3,016	4,726	1,205	1,079	1,562	11,588	16,093	63,058	79,151
Accumulated amortization and impairment:										
Balance at beginning of the year	—	961	2,769	991	1,037	1,251	7,009	7,009	1,679	8,688
Amortization during the year (Notes 4 and 5)	—	186	511	80	7	51	835	835	—	835
Translation and other adjustments	—	—	—	—	—	45	45	45	—	45
Balance at end of the year	—	1,147	3,280	1,071	1,044	1,347	7,889	7,889	1,679	9,568
Net balance at end of the year	4,505	1,869	1,446	134	35	215	3,699	8,204	61,379	69,583
Estimated useful lives (in years)	—	16	2 – 9	15	18	1 – 10	—	—	—	—
	—	10	1 – 3	2	5	5 – 9	—	—	—	—

Remaining useful
lives (in years)

The consolidated goodwill and intangible assets of our reportable segments as at December 31, 2018 and 2017 are as follows:

	2018 (Unaudited)			2017 (Audited)		
	Wireless	Fixed Line	Total	Wireless	Fixed Line	Total
	(in million pesos)					
Trademark	4,505	—	4,505	4,505	—	4,505
Franchise	1,682	—	1,682	1,869	—	1,869
Customer list	936	—	936	1,446	—	1,446
Spectrum	53	—	53	134	—	134
Licenses	28	—	28	35	—	35
Others	—	—	—	215	—	215
Total intangible assets	7,204	—	7,204	8,204		