FINANCIAL REVIEW

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 included elsewhere in this Annual Report. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Digital Mobile Philippines, Inc., or DMPI, a wholly-owned subsidiary of Digital Telecommunications Philippines, Inc., or Digitel, our cellular service providers; Voyager Innovations, Inc., or Voyager, and certain subsidiaries, our mobile applications and digital platforms developers and mobile financial services provider; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite information and messaging services provider; 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., SBI, PDSI, Bonifacio Communications Corporation, PLDT Global and certain subsidiaries and Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, big data, managed IT services and resellership provided by ePLDT, Inc., or ePLDT, IP Converge Data Services, Inc., or IPCDSI, and subsidiary, or IPCDSI Group, ABM Global Solutions, Inc., or AGS, and its subsidiaries, or AGS Group, Curo Teknika, Inc. and ePDS, Inc., or ePDS; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation provided by Talas Data Intelligence, Inc., or Talas; distribution of Filipino channels and content by Pilipinas Global Network Limited and its subsidiaries; and

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

Adoption of New Standards and Interpretations

Our accounting policies are consistent with those of the previous financial year except for the adoption of certain amendments which are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments to the standards as at January 1, 2016 did not have any significant impact on our consolidated financial position or performance. Please see *Note 2 – Summary of Significant Accounting Policies* to the accompanying audited consolidated financial statements for further discussion.

Selected Financial Data and Key Performance Indicators

	2016	2015	2014
Financial Data:			
Service revenues	Php157,210	Php162,930	Php164,943
Net income	20,162	22,075	34,090
Core income	27,857	35,212	37,410
EBITDA	61,161	70,218	76,750
EBITDA margin[1]	39%	43%	47%
Operational Data:			
Number of mobile subscribers	62,763,209	68,612,118	72,511,422
Number of fixed line subscribers	2,438,473	2,303,454	2,207,889
Number of broadband subscribers	1,720,753	1,514,640	1,481,109

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

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

EBITDA

EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) – net. EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. EBITDA is presented because our management believes that it is widely used by investors in their analysis of the performance of PLDT and can assist them in their comparison of PLDT's performance with those of other companies in the technology, media and telecommunications sector. We also present EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Companies in the technology, media and telecommunications sector have historically reported EBITDA as a supplement to financial measures in accordance with PFRS. EBITDA should not be considered as an alternative to net income as an indicator of our performance, nor should EBITDA be considered as an alternative to cash flows from operations, as a measure of liquidity or as an alternative to any other measure determined in accordance with PFRS. Unlike net income, EBITDA does not include depreciation and amortization or financing costs and, therefore, does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using EBITDA as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax, net income, and operating, investing and financing cash flows. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in EBITDA. Our calculation of EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2016, 2015 and 2014 is presented in *Note 4 – Operating Segment Information* to the accompanying audited consolidated financial statements.

Core Income

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. Core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis for determining the level of dividend payouts to shareholders and a basis for granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with PFRS as an indicator of our performance. Unlike income before income tax, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and non-recurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2016, 2015 and 2014 is presented in *Note 4 – Operating Segment Information* to the accompanying audited consolidated financial statements.

Management's Financial Review

We use our EBITDA and our core income to assess our operating performance; a reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the years ended December 31, 2016, 2015 and 2014 is set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
		(in millions)	
EBITDA	Php61,161	Php70,218	Php76,750
Add (deduct) adjustments:			
Equity share in net earnings of associates and joint ventures	1,181	3,241	3,841
Interest income	1,046	799	752
Gains (losses) on derivative financial instruments – net	996	420	(101)
Amortization of intangible assets	(929)	(1,076)	(1,149)
Asset impairment	(1,074)	(5,788)	(3,844)
Provision for income tax	(1,909)	(4,563)	(10,058)
Foreign exchange losses – net	(2,785)	(3,036)	(382)
Impairment of investments	(5,515)	(5,166)	–
Financing costs – net	(7,354)	(6,259)	(5,320)
Depreciation and amortization	(34,455)	(31,519)	(31,379)
Other income – net	9,799	4,804	4,980
Total adjustments	(40,999)	(48,143)	(42,660)
Consolidated net income	Php20,162	Php22,075	Php34,090

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
		(in millions)	
Consolidated core income	Php27,857	Php35,212	Php37,410
Add (deduct) adjustments:			
Gains on derivative financial instruments – net, excluding hedge costs	1,539	762	208
Net income (loss) attributable to noncontrolling interests	156	10	(1)
Net tax effect of aforementioned adjustments	79	260	778
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	(95)	(179)	(79)
Asset impairment	(1,074)	(5,788)	(3,844)
Foreign exchange losses – net	(2,785)	(3,036)	(382)
Impairment of investments	(5,515)	(5,166)	–
Total adjustments	(7,695)	(13,137)	(3,320)
Consolidated net income	Php20,162	Php22,075	Php34,090

Summary Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expense), income (loss) before income tax, net income (loss), EBITDA, EBITDA margin and core income for the years ended December 31, 2016, 2015 and 2014. In each of the years ended December 31, 2016, 2015 and 2014, a majority of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

In 2016, we changed the classification of our revenue mix to provide for a more direct comparison to the current industry presentation by providing total mobile revenues through combining our cellular and mobile broadband revenues, previously presented under wireless broadband. Consequently, our fixed wireless Home Broadband was presented as separate line item in our wireless revenue mix. We also changed the categorization of our fixed line data and other network services to present separately our Home Broadband and Corporate data revenue mix.

Further, we reclassified our impairment on investments not directly affecting operations, significantly impairment of Rocket, from operating expenses to other expenses. Accordingly, prior years' revenue mixes were also reclassified to conform with the current year's presentation.

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(in millions)		
For the year ended December 31, 2016					
Revenues	**Php104,914**	**Php72,728**	**Php20**	**(Php12,400)**	**Php165,262**
Expenses	**93,204**	**61,285**	**42**	**(13,972)**	**140,559**
Other income (expenses)	**(3,517)**	**(291)**	**2,748**	**(1,572)**	**(2,632)**
Income before income tax	**8,193**	**11,152**	**2,726**	**–**	**22,071**
Provision for (benefit from) income tax	**(1,270)**	**3,018**	**161**	**–**	**1,909**
Net income/Segment profit	**9,463**	**8,134**	**2,565**	**–**	**20,162**
EBITDA	**32,661**	**26,950**	**(22)**	**1,572**	**61,161**
EBITDA margin[(1)]	**32%**	**39%**	**–**	**–**	**39%**
Core income	**11,402**	**7,746**	**8,709**	**–**	**27,857**
For the year ended December 31, 2015					
Revenues	115,513	68,865	–	(13,275)	171,103
Expenses	95,358	58,417	59	(14,566)	139,268
Other income (expenses)	(1,958)	(2,599)	651	(1,291)	(5,197)
Income before income tax	18,197	7,849	592	–	26,638
Provision for income tax	2,763	1,656	144	–	4,563
Net income/Segment profit	15,434	6,193	448	–	22,075
EBITDA	44,237	24,749	(59)	1,291	70,218
EBITDA margin[(1)]	40%	38%	–	–	43%
Core income	22,512	6,539	6,161	–	35,212
For the year ended December 31, 2014					
Revenues	118,879	66,178	–	(14,222)	170,835
Expenses	89,102	56,855	56	(15,556)	130,457
Other income (expenses)	(724)	217	5,611	(1,334)	3,770
Income before income tax	29,053	9,540	5,555	–	44,148
Provision for income tax	7,158	2,818	82	–	10,058
Net income/Segment profit	21,895	6,722	5,473	–	34,090
EBITDA	50,917	24,555	(56)	1,334	76,750
EBITDA margin[(1)]	44%	38%	–	–	47%
Core income	25,176	6,691	5,543	–	37,410

[(1)] *EBITDA margin for the year is measured as EBITDA divided by service revenues.*

Years Ended December 31, 2016 and 2015

Wireless

Revenues

We generated revenues of Php104,914 million from our wireless business in 2016, a decrease of Php10,599 million, or 9%, from Php115,513 million in 2015.

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

	2016	%	2015	%	Decrease Amount	Decrease %
			(in millions)			
Service Revenues:						
Mobile	**Php96,497**	**92**	Php105,655	91	(Php9,158)	(9)
Home Broadband	**2,772**	**3**	3,040	3	(268)	(9)
Digital platforms and mobile financial services	**728**	**1**	1,051	1	(323)	(31)
MVNO and others[(1)]	**585**	**–**	970	1	(385)	(40)
Total Wireless Service Revenues	**100,582**	**96**	110,716	96	(10,134)	(9)
Non-Service Revenues:						
Sale of mobile handsets, mobile SIM-packs and broadband data modems	**4,332**	**4**	4,797	4	(465)	(10)
Total Wireless Revenues	**Php104,914**	**100**	Php115,513	100	(Php10,599)	(9)

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

Service Revenues

Our wireless service revenues in 2016 decreased by Php10,134 million, or 9%, to Php100,582 million as compared with Php110,716 million in 2015, mainly as a result of lower revenues from mobile, home broadband, digital platforms and mobile financial services, and MVNO and other services. As a percentage of our total wireless revenues, service revenues accounted for 96% in each of 2016 and 2015.

Mobile Services

Our mobile service revenues amounted to Php96,497 million in 2016, a decrease of Php9,158 million, or 9%, from Php105,655 million in 2015. Mobile service revenues accounted for 96% and 95% of our wireless service revenues in 2016 and 2015, respectively.

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

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

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

Voice Services

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

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

					Decrease	
	2016	**%**	**2015**	**%**	**Amount**	**%**
			(in millions)			
Voice Services:						
Domestic	**Php28,666**	**77**	Php35,152	76	(Php6,486)	(18)
International	**8,428**	**23**	10,977	24	(2,549)	(23)
Total	**Php37,094**	**100**	Php46,129	100	(Php9,035)	(20)

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

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

SMS Services

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

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

					Decrease	
	2016	**%**	**2015**	**%**	**Amount**	**%**
			(in millions)			
SMS Services:						
Domestic[1]	**Php30,848**	**94**	Php35,445	93	(Php4,597)	(13)
International	**1,897**	**6**	2,537	7	(640)	(25)
Total	**Php32,745**	**100**	Php37,982	100	(Php5,237)	(14)

[1] *Includes revenues, net of discounts and content provider costs, from Smart Pasa Load, Sun Give-a-load and Dial*SOS; Music (Spinnr and Deezer, music subscription mainly ring back tunes and music downloads); Gaming (games subscriptions, downloads, and purchases); Videos (video subscriptions, downloads and video and movie streaming via iflix and Fox); Infotainment (subscriptions and downloads of broadcast materials that are intended both to entertain and to inform, as well as info-on-demand); financial services (revenues from Smart Money Clicks via Smart Menu and mobile banking); Communicate, (revenues from group chat, text and voice messaging services); and Other VAS (includes revenues from application program interface (API) downloads, info-on-demand and voice text services).*

Data Services

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

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

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

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

Mobile internet

Mobile internet service revenues increased by Php5,112 million, or 42%, to Php17,167 million in 2016 from Php12,055 million in 2015 as a result of the increase in smartphone ownership and greater data usage among our subscriber base leading to an increase in mobile internet browsing and prevalent use of mobile apps, social networking sites and other over-the-top, or OTT, services. Mobile internet services accounted for 18% and 11% of our mobile service revenues in 2016 and 2015, respectively. Data offerings such as *Smart Big Bytes Barkada*, *Shared Data*, *Giga Surf* and *App on Flexibundles* were also introduced during the year to boost data usage.

Mobile broadband

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

Other data

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

Prepaid and Postpaid Revenues, and Inbound Roaming and Others

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

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

Prepaid Revenues

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

Postpaid Revenues

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

Inbound Roaming and Others

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

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

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

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

[1] *Includes mobile broadband subscribers.*

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

	2016	**2015**
	(in %)	
Smart	**7.5**	6.4
Postpaid	**4.8**	3.3
Prepaid	**7.6**	6.6
TNT	**6.3**	5.7
Sun	**8.5**	10.3
Postpaid	**6.4**	4.3
Prepaid	**8.8**	11.3

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

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

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

Home Broadband

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

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

Digital Platforms and Mobile Financial Services

Revenues from digital platforms and mobile financial services, as reported by Voyager, decreased by Php323 million, or 31%, to Php728 million in 2016 from Php1,051 million in 2015 primarily due to lower revenues from PayMaya.

MVNO and Others

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

Non-Service Revenues

Our wireless non-service revenues consist of sales of mobile handsets, mobile SIM-packs and broadband data modems, tablets and accessories. Our wireless non-service revenues decreased by Php465 million, or 10%, to Php4,332 million in 2016 from Php4,797 million in 2015, primarily due to lower revenues from the sale of broadband data modems, partially offset by higher revenues from sale of mobile handsets attributed to *Smart Prepaid Android Phone Kits*.

Expenses

Expenses associated with our wireless business amounted to Php93,204 million in 2016, a decrease of Php2,154 million, or 2%, from Php95,358 million in 2015. A significant portion of the decrease was mainly attributable to lower selling and promotions, compensation and employee benefits, rent, taxes and licenses, and interconnection costs, partially offset by higher expenses related to depreciation and amortization, asset impairment, professional and other contracted services, and cost of sales. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 89% and 83% in 2016 and 2015, respectively.

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

	2016	%	2015	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	**Php18,984**	**20**	Php17,218	18	Php1,766	10
Cost of sales	**14,140**	**15**	13,811	15	329	2
Rent	**9,805**	**11**	10,657	11	(852)	(8)
Asset impairment	**9,284**	**10**	8,446	9	838	10
Repairs and maintenance	**8,367**	**9**	8,577	9	(210)	(2)
Interconnection costs	**8,035**	**9**	8,513	9	(478)	(6)
Compensation and employee benefits	**6,706**	**7**	7,725	8	(1,019)	(13)
Professional and other contracted services	**6,119**	**7**	5,613	6	506	9
Selling and promotions	**5,570**	**6**	7,712	8	(2,142)	(28)
Taxes and licenses	**2,675**	**3**	3,124	3	(449)	(14)
Insurance and security services	**1,149**	**1**	1,190	1	(41)	(3)
Amortization of intangible assets	**929**	**1**	1,076	1	(147)	(14)
Communication, training and travel	**809**	**1**	958	1	(149)	(16)
Cost of content	**289**	**–**	62	–	227	366
Other expenses	**343**	**–**	676	1	(333)	(49)
Total	**Php93,204**	**100**	Php95,358	100	(Php2,154)	(2)

Depreciation and amortization charges increased by Php1,766 million, or 10%, to Php18,984 million, primarily due to higher depreciable asset base.

Cost of sales increased by Php329 million, or 2%, to Php14,140 million, primarily due to higher average costs and increased smartphone and data-capable device issuances for *Smart Postpaid* subscribers, and increased availments for *Smart Prepaid Android Phone Kits*.

Rent expenses decreased by Php852 million, or 8%, to Php9,805 million, primarily due to lower domestic fiber optic network rental charges.

Asset impairment increased by Php838 million, or 10%, to Php9,284 million, primarily due to higher provision for doubtful accounts and inventory obsolescence, partly offset by an impairment provision for property and equipment in 2015.

Repairs and maintenance expenses decreased by Php210 million, or 2%, to Php8,367 million, mainly due to lower site and office electricity costs, lower maintenance costs on domestic cable and wire facilities, customer premises and telecoms equipment, partially offset by higher maintenance costs on site facilities and IT software as a result of our network expansion.

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

Compensation and employee benefits decreased by Php1,019 million, or 13%, to Php6,706 million, primarily due to lower salaries and employee benefits, provision for pension benefits and MRP costs. Employee headcount decreased to 7,343 as at December 31, 2016 as compared with 7,505 as at December 31, 2015.

Professional and other contracted service fees increased by Php506 million, or 9%, to Php6,119 million, primarily due to increase in managed services, facility usage costs and contracted services, partly offset by lower call center and consultancy fees.

Selling and promotion expenses decreased by Php2,142 million, or 28%, to Php5,570 million, primarily due to lower advertising and promotions, and public relations expenses, partially offset by higher commission expenses.

Taxes and licenses decreased by Php449 million, or 14%, to Php2,675 million, due to lower tax settlement, real property and other business-related taxes, partly offset by higher spectrum user fees for mobile service and radio equipment.

Insurance and security services decreased by Php41 million, or 3%, to Php1,149 million, primarily due to lower site security expenses, partially offset by higher office security expenses.

Amortization of intangible assets decreased by Php147 million, or 14%, to Php929 million, primarily due to decrease in the remaining carrying value of intangible assets.

Communication, training and travel expenses decreased by Php149 million, or 16%, to Php809 million, primarily due to lower training and travel expenses, and lower fuel costs for vehicles as a result of lower average fuel cost per liter.

Cost of content increased by Php227 million to Php289 million, primarily due to music licenses recognized as cost of service effective 2016.

Other expenses decreased by Php333 million, or 49%, to Php343 million, primarily due to lower various business and operational-related expenses.

Other Expenses

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

			Change	
	2016	**2015**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Financing costs – net	**(Php2,487)**	(Php1,799)	(Php688)	38
Foreign exchange losses – net	**(1,702)**	(1,622)	(80)	5
Equity share in net losses of associates	**(237)**	(81)	(156)	193
Interest income	**270**	308	(38)	(12)
Gain on derivative financial instruments – net	**485**	–	485	100
Other income – net	**154**	1,236	(1,082)	(88)
Total	**(Php3,517)**	(Php1,958)	(Php1,559)	80

Our wireless business' other expenses amounted to Php3,517 million in 2016, an increase of Php1,559 million, or 80%, from Php1,958 million in 2015, primarily due to the combined effects of the following: (i) a decrease in other income – net by Php1,082 million mainly due to reversal of asset retirement obligation in 2015 and lower gain on insurance claims, partly offset by higher income from consultancy services; (ii) higher net financing costs by Php688 million due to higher outstanding loan balance, higher weighted average interest rate, higher financing charges and higher weighted average of the Philippine peso relative to the U.S. dollar in 2016, partly offset by higher capitalized interest; (iii) higher equity share in net losses of associates by Php156 million due to equity share in net losses of PHIH and ECommerce Pay in 2016, and higher share in net losses of AFPI; (iv) higher foreign exchange losses by Php80 million on account of the revaluation of net foreign currency-denominated liabilities due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar in 2016 as against the same period in 2015; (v) lower interest income by Php38 million mainly due to lower weighted average interest rate, and a decrease in the principal amount of temporary cash investments, partly offset by higher weighted average rate of the Philippine peso relative to the U.S. dollar; and (vi) net gains on derivative financial instruments of Php485 million in 2016 on account of mark-to-market gains on foreign exchange derivatives due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar, partly offset by narrower dollar and peso interest rate differentials in 2016.

Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php1,270 million in 2016 as against provision for income tax of Php2,763 million in 2015, primarily due to lower taxable income and recognition of deferred tax benefit relating to Smart's acquisition of DMPI's subscriber base.

Net Income

As a result of the foregoing, our wireless business' net income decreased by Php5,971 million, or 39%, to Php9,463 million in 2016 from Php15,434 million in 2015.

EBITDA

Our wireless business' EBITDA decreased by Php11,576 million, or 26%, to Php32,661 million in 2016 from Php44,237 million in 2015. EBITDA margin decreased to 32% in 2016 from 40% in 2015.

Core Income

Our wireless business' core income decreased by Php11,110 million, or 49%, to Php11,402 million in 2016 from Php22,512 million in 2015 on account of lower revenues and higher other expenses, partially offset by lower operating expenses and benefit for income tax in 2016.

Fixed Line

Revenues

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

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

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

Service Revenues

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

Voice Services

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

The following table summarizes our voice service revenues for the years ended December 31, 2016 and 2015:

	2016	%	2015	%	Increase (Decrease) Amount	%
			(in millions)			
Voice						
Local exchange	**Php17,792**	**60**	Php17,076	56	Php716	4
International	**8,056**	**27**	9,219	31	(1,163)	(13)
Domestic	**3,782**	**13**	3,958	13	(176)	(4)
Total	**Php29,630**	**100**	Php30,253	100	(Php623)	(2)

Local Exchange

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2016 and 2015:

	2016	2015	Increase Amount	%
Total local exchange service revenues (in millions)	**Php17,792**	Php17,076	Php716	4
Number of fixed line subscribers	**2,438,473**	2,303,454	135,019	6
Number of fixed line LEC employees	**7,205**	7,039	166	2
Number of fixed line subscribers per employee	**338**	327	11	3

Revenues from our local exchange service increased by Php716 million, or 4%, to Php17,792 million in 2016 from Php17,076 million in 2015, primarily due to an increase in subscribers. The percentage contribution of local exchange revenues to our total fixed line service revenues was 26% in each of the years ended December 31, 2016 and 2015.

International

Our international service revenues decreased by Php1,163 million, or 13%, to Php8,056 million in 2016 from Php9,219 million in 2015, primarily due to lower call volumes for both inbound and outbound traffic as a result of the popularity of OTT service providers (such as *Facebook*, *Skype*, *Viber*, *WhatsApp*, and similar services.) over traditional long distance services, partially offset by the favorable effect of a higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php47.48 in 2016 from Php45.51 in 2015, and the net increase in average billing rates in dollar terms. The percentage contribution of international service revenues to our total fixed line service revenues accounted for 12% and 14% in 2016 and 2015, respectively.

Domestic

Our domestic service revenues decreased by Php176 million, or 4%, to Php3,782 million in 2016 from Php3,958 million in 2015, primarily due to a decrease in call volumes. The percentage contribution of domestic service revenues to our fixed line service revenues were 5% and 6% in 2016 and 2015, respectively.

Data Services

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

	2016	2015	Increase Amount	%
Data service revenues (in millions)	**Php37,711**	Php33,748	Php3,963	12
Home broadband	**14,896**	12,338	2,558	21
Corporate data and leased lines	**19,980**	18,806	1,174	6
Data Center and IT	**2,835**	2,604	231	9

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

Home Broadband

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

Corporate Data and Leased Lines

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

Data Center and IT

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

Miscellaneous Services

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

Non-service Revenues

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

Expenses

Expenses related to our fixed line business totaled Php61,285 million in 2016, an increase of Php2,868 million, or 5%, as compared with Php58,417 million in 2015. The increase was primarily due to higher expenses related to professional and other contracted services, depreciation and amortization, rent, asset impairment, repairs and maintenance, cost of content, selling and promotions, communication, training and travel, and other operating expenses, partly offset by lower expenses related to interconnection costs, compensation and employee benefits, taxes and licenses, and insurance and security services. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 84% and 85% in 2016 and 2015, respectively.

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

					Increase (Decrease)	
	2016	**%**	**2015**	**%**	**Amount**	**%**
			(in millions)			
Depreciation and amortization	**Php15,471**	**25**	Php14,301	25	Php1,170	8
Compensation and employee benefits	**13,238**	**22**	13,899	24	(661)	(5)
Repairs and maintenance	**7,480**	**12**	7,028	12	452	6
Interconnection costs	**5,940**	**10**	6,666	11	(726)	(11)
Professional and other contracted services	**5,641**	**9**	4,382	8	1,259	29
Rent	**3,373**	**6**	2,768	5	605	22
Cost of sales	**2,617**	**4**	2,596	4	21	1
Selling and promotions	**2,133**	**3**	2,036	4	97	5
Asset impairment	**1,758**	**3**	1,244	2	514	41
Taxes and licenses	**1,131**	**2**	1,425	2	(294)	(21)
Insurance and security services	**697**	**1**	715	1	(18)	(3)
Communication, training and travel	**612**	**1**	549	1	63	11
Cost of content	**287**	**–**	163	–	124	76
Other expenses	**907**	**2**	645	1	262	41
Total	**Php61,285**	**100**	Php58,417	100	Php2,868	5

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

Compensation and employee benefits expenses decreased by Php661 million, or 5%, to Php13,238 million, primarily due to lower MRP costs by Php1,344 million, or 92%, to Php110 million in 2016, and lower provision for pension benefits, partially offset by higher salaries and employee benefits. Employee headcount increased to 10,695 as at December 31, 2016 as compared with 9,671 as at December 31, 2015.

Repairs and maintenance expenses increased by Php452 million, or 6%, to Php7,480 million, primarily due to higher repairs and maintenance costs on cable and wire facilities, and higher maintenance costs on IT hardware and software, and buildings, partially offset by lower office and site electricity charges.

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

Professional and other contracted service expenses increased by Php1,259 million, or 29%, to Php5,641 million, primarily due to higher consultancy, contracted service, and technical service fees, partially offset by lower bill printing, collection agency and legal fees.

Rent expenses increased by Php605 million, or 22%, to Php3,373 million, primarily due to higher international leased circuit, office building and pole rental charges.

Cost of sales increased by Php21 million, or 1%, to Php2,617 million, primarily due to higher sale of *FabTab for myDSL* retention, *PLP* units, computer-bundled sales, and sales of *TVolution* units, partially offset by lower sale of *UNO* equipment, *Telpad* units, managed IT equipment, set top boxes and managed PABX solutions.

Selling and promotion expenses increased by Php97 million, or 5%, to Php2,133 million, primarily due to higher cost of events, and advertising and promotions expenses, partly offset by lower expenses on commissions and public relations.

Asset impairment increased by Php514 million, or 41%, to Php1,758 million, mainly due to higher provision for inventory obsolescence and doubtful accounts.

Taxes and licenses decreased by Php294 million, or 21%, to Php1,131 million as a result of lower tax settlement and other business-related taxes.

Insurance and security services decreased by Php18 million, or 3%, to Php697 million, primarily due to lower insurance and bond premiums, office security services and life insurance premiums.

Communication, training and travel expenses increased by Php63 million, or 11%, to Php612 million, mainly due to higher local training and travel, an increase in communication charges, and an increase in fuel consumption, partly offset by a decrease in average cost per liter of fuel.

Cost of content increased by Php124 million, or 76%, to Php287 million, primarily due to various partnership with content providers during the year.

Other expenses increased by Php262 million, or 41%, to Php907 million, primarily due to higher various business and operational-related expenses.

Other Expenses

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

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

Our fixed line business' other expenses amounted to Php291 million in 2016, a decrease of Php2,308 million, or 89% from Php2,599 million in 2015 mainly due to the combined effects of the following: (i) an increase in other income – net by Php2,210 million due to gain on sale of property and lower loss on sale of fixed assets and materials; (ii) lower foreign exchange losses by Php406 million due to lower net foreign currency-denominated liabilities, partly offset by higher level of depreciation of the Philippine peso relative to the U.S. dollar; (iii) higher net gain on derivative financial instruments by Php91 million on account of mark-to-market gains on foreign exchange derivatives due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar, partly offset by narrower dollar and peso interest rate differentials in 2016; (iv) an increase in interest income by Php87 million due to an increase in principal amount of temporary cash investments, higher weighted average interest rates and higher weighted average rate of the Philippine peso relative to the U.S. dollar in 2016; (v) equity share in net losses of associates of Php40 million in 2016 as against equity share in net earnings of associates of Php38 million in 2015 mainly due to the share in higher net losses of Cignal TV, partly offset by higher share in net earnings of Hastings; (vi) higher financing costs by Php408 million mainly due to higher outstanding loan balance, higher weighted average interest rate and the higher level of depreciation of the Philippine peso relative to the U.S. dollar in 2016, partially offset by lower financing charges and higher capitalized interest.

Provision for Income Tax

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

Net Income

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

EBITDA

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

Core Income

Our fixed line business' core income increased by Php1,207 million, or 18%, to Php7,746 million in 2016 from Php6,539 million in 2015, primarily as a result of higher revenues and lower other expenses, partially offset by higher operating expenses and provision for income tax.

Others

Expenses

Expenses related to our other business totaled Php42 million in 2016, a decrease of Php17 million, or 29%, as compared with Php59 million in 2015 primarily due to lower cash operating expenses.

Other Income

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

			Change	
	2016	2015	Amount	%
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates and joint ventures	**Php1,458**	Php3,284	(Php1,826)	(56)
Interest income	**306**	99	207	209
Financing costs – net	**(187)**	(179)	(8)	4
Foreign exchange losses – net	**(597)**	(522)	(75)	14
Other income (expenses) – net	**1,768**	(2,031)	3,799	(187)
Total	**Php2,748**	Php651	Php2,097	322

Other income increased by Php2,097 million to Php2,748 million in 2016 from Php651 million in 2015 primarily due to the combined effects of the following: (i) other income of Php1,768 million in 2016 as against other expenses of Php2,031 million in 2015 due to higher gain on sale of Beacon shares by PCEV in 2016 as against the gain on sale of Meralco shares by Beacon in 2015, partly offset by higher impairment loss on our investment in Rocket resulting from the decline in fair value; (ii) an increase in interest income by Php207 million; (iii) higher financing costs by Php8 million; (ii) higher foreign exchange losses by Php75 million; and (v) lower equity share in net earnings of associates by Php1,826 million mainly from lower equity share in Beacon and equity share in net losses of VTI in 2016, partly offset by higher equity share in net earnings of Beta due to the sale of its SPi CRM business.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php2,565 million in 2016, an increase of Php2,117 million from Php448 million in 2015.

Core Income

Our other business segment's core income amounted to Php8,709 million in 2016, an increase of Php2,548 million, or 41%, as compared with Php6,161 million in 2015 mainly as a result of higher other income and lower cash operating expenses.

Years Ended December 31, 2015 and 2014

Wireless

Revenues

We reported consolidated revenues of Php171,103 million in 2015, an increase of Php268 million as compared with Php170,835 million in 2014, primarily due to higher revenues from corporate data and leased lines, home broadband, data center and IT, and miscellaneous services from our fixed line business, and higher non-service revenues, partially offset by lower mobile, wireless home broadband, digital platforms and mobile financial services, and MVNO and other revenues from our wireless businesses.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2015 and 2014 by service:

					Increase (Decrease)	
	2015	%	2014	%	Amount	%
			(in millions)			
Service Revenues:						
Mobile	Php105,655	91	Php108,780	92	(Php3,125)	(3)
Home Broadband	3,040	3	4,019	3	(979)	(24)
Digital platforms and mobile financial services	1,051	1	1,056	1	(5)	–
MVNO and others[1]	970	1	1,182	1	(212)	(18)
Total Wireless Service Revenues	110,716	96	115,037	97	(4,321)	(4)
Non-Service Revenues:						
Sale of mobile handsets, mobile SIM-packs and broadband data modems	4,797	4	3,842	3	955	25
Total Wireless Revenues	Php115,513	100	Php118,879	100	(Php3,366)	(3)

[1] *Includes service revenues generated by MVNO's of PLDT Global subsidiaries.*

Service Revenues

Our wireless service revenues in 2015 decreased by Php4,321 million, or 4%, to Php110,716 million as compared with Php115,037 million in 2014, mainly as a result of lower revenues from mobile, home broadband, digital platforms and mobile financial services, and MVNO and other services. As a percentage of our total wireless revenues, service revenues accounted for 96% and 97% in 2015 and 2014, respectively.

Mobile Services

Our mobile service revenues amounted to Php105,655 million in 2015, a decrease of Php3,125 million, or 3%, from Php108,780 million in 2015. Mobile service revenues accounted for 95% of our wireless service revenues in each of 2015 and 2014.

					Increase (Decrease)	
	2015	%	2014	%	Amount	%
			(in millions)			
Mobile Services:						
Voice	Php46,129	44	Php51,785	48	(Php5,656)	(11)
SMS	37,982	36	41,459	38	(3,477)	(8)
Data	20,179	19	14,413	13	5,766	40
Inbound roaming and others[1]	1,365	1	1,123	1	242	22
Total	Php105,655	100	Php108,780	100	(Php3,125)	(3)

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

Voice Services

Mobile revenues from our voice services, which include all voice traffic, decreased by Php5,656 million, or 11%, to Php46,129 million in 2015 from Php51,785 million in 2014 resulting from lower domestic and international voice revenues due to the availability of alternative calling options and other OTT services such as *Viber*, *Facebook Messenger*, *GoogleTalk*, *WhatsApp* and similar services. Mobile voice services accounted for 44% and 48% of our mobile service revenues in 2015 and 2014, respectively.

The following table shows the breakdown of our mobile voice revenues for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Decrease Amount	%
			(in millions)			
Voice Services:						
Domestic	Php35,152	76	Php37,600	73	(Php2,448)	(7)
International	10,977	24	14,185	27	(3,208)	(23)
Total	Php46,129	100	Php51,785	100	(Php5,656)	(11)

Domestic voice service revenues decreased by Php2,448 million, or 7%, to Php35,152 million in 2015 from Php37,600 million in 2014, due to lower domestic outbound and inbound voice service revenues.

International voice service revenues decreased by Php3,208 million, or 23%, to Php10,977 million in 2015 from Php14,185 million in 2014 primarily due to lower international inbound and outbound voice service revenues as a result of lower international voice traffic, partially offset by the effect of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar.

SMS Services

Mobile revenues from our SMS services, which include all SMS-related services and VAS, decreased by Php3,477 million, or 8%, to Php37,982 million in 2015 from Php41,459 million in 2014 mainly from lower bucket-priced and unlimited SMS revenues. Mobile SMS services accounted for 36% and 38% of our mobile service revenues in 2015 and 2014, respectively.

The following table shows the breakdown of our mobile SMS service revenues for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Decrease Amount	%
			(in millions)			
SMS Services:						
Domestic[1]	Php35,445	93	Php38,270	92	(Php2,825)	(7)
International	2,537	7	3,189	8	(652)	(20)
Total	Php37,982	100	Php41,459	100	(Php3,477)	(8)

[1] *Includes revenues, net of discounts and content provider costs, from Smart Pasa Load, Sun Give-a-load and Dial*SOS; Music (Spinnr and Deezer, music subscription mainly ring back tunes and music downloads); Gaming (games subscriptions, downloads, and purchases); Videos (video subscriptions, downloads and video and movie streaming via iflix and Fox); Infotainment (subscriptions and downloads of broadcast materials that are intended both to entertain and to inform, as well as info-on-demand); financial services (revenues from Smart Money Clicks via Smart Menu and mobile banking); Communicate, (revenues from group chat, text and voice messaging services); and Other VAS (includes revenues from application program interface (API) downloads, info-on-demand and voice text services).*

Data Services

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php5,766 million, or 40%, to Php20,179 million in 2015 from Php14,413 million in 2014.

The following table shows the breakdown of our mobile data revenues for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Increase Amount	%
			(in millions)			
Data Services:						
Mobile internet[1]	Php12,055	60	Php8,253	57	Php3,802	46
Mobile broadband	7,951	39	6,000	42	1,951	33
Other data	173	1	160	1	13	8
Total	Php20,179	100	Php14,413	100	Php5,766	40

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

Mobile internet

Mobile internet service revenues increased by Php3,802 million, or 46%, to Php12,055 million in 2015 from Php8,253 million in 2014 as a result of the increase in smartphone ownership and greater data adoption among our subscriber base leading to an increase in mobile internet browsing and prevalent use of mobile apps, social networking sites and other OTT services. Mobile internet services accounted for 11% and 8% of our mobile service revenues in 2015 and 2014, respectively.

Mobile broadband

Mobile broadband revenues amounted to Php7,951 million in 2015, an increase of Php1,951 million, or 33%, from Php6,000 million in 2014 primarily due to higher mobile broadband traffic.

Other data

Revenues from our other data services, which include domestic leased lines and share in revenues from *PLDT WeRoam*, increased by Php13 million, or 8%, to Php173 million in 2015 from Php160 million in 2014.

Prepaid and Postpaid Revenues, and Inbound Roaming and Others

The following table shows the breakdown of our mobile service revenues for the years ended December 31, 2015 and 2014:

			Increase (Decrease)	
	2015	2014	Amount	%
		(in millions)		
Mobile service revenues	Php105,655	Php108,780	(Php3,125)	(3)
By service type				
Prepaid	76,143	82,298	(6,155)	(7)
Postpaid	28,147	25,359	2,788	11
Inbound roaming and others	1,365	1,123	242	22

Prepaid Revenues

Revenues generated from our mobile prepaid services amounted to Php76,143 million in 2015, a decrease of Php6,155 million, or 7%, as compared with Php82,298 million in 2014. Mobile prepaid service revenues accounted for 72% and 76% of mobile service revenues in 2015 and 2014, respectively. The decrease in revenues from our mobile prepaid services was primarily driven by lower mobile prepaid subscriber base resulting to lower voice and text messaging revenues, partially offset by an increase in mobile internet revenues.

Postpaid Revenues

Revenues generated from mobile postpaid service amounted to Php28,147 million in 2015, an increase of Php2,788 million, or 11%, as compared with Php25,359 million in 2014, and accounted for 27% and 23% of mobile service revenues in 2015 and 2014, respectively. The increase in our mobile postpaid service revenues was primarily driven by a growing postpaid subscriber base.

Inbound Roaming and Others

Mobile revenues from inbound roaming and other services increased by Php242 million, or 22%, to Php1,365 million in 2015 from Php1,123 million in 2014.

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

The following table shows our mobile subscriber base as at December 31, 2015 and 2014:

			Increase (Decrease)	
	2015	2014	Amount	%
Mobile subscriber base	68,612,118	72,511,422	(3,899,304)	(5)
Smart[(1)]	26,921,211	27,894,947	(973,736)	(3)
Postpaid	*1,502,678*	*1,222,764*	*279,914*	*23*
Prepaid	*25,418,533*	*26,672,183*	*(1,253,650)*	*(5)*
TNT	28,054,160	28,149,360	(95,200)	–
Sun [(1)]	13,636,747	16,467,115	(2,830,368)	(17)
Postpaid	*2,045,580*	*2,054,480*	*(8,900)*	*–*
Prepaid	*11,591,167*	*14,412,635*	*(2,821,468)*	*(20)*
Home broadband subscriber base	258,776	331,781	(73,005)	(22)
Total wireless subscribers	68,870,894	72,843,203	(3,972,309)	(5)

[(1)] *Includes mobile broadband subscribers.*

The following table summarizes our average monthly churn rates for the years ended December 31, 2015 and 2014:

	2015	2014
	(in %)	
Smart	6.4	5.7
Postpaid	3.3	2.9
Prepaid	6.6	5.8
TNT	5.7	5.8
Sun	10.3	8.8
Postpaid	4.3	2.0
Prepaid	11.3	9.7

The following table summarizes our average monthly ARPUs for the years ended December 31, 2015 and 2014:

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2015	2014	Amount	%	2015	2014	Amount	%
Prepaid								
Smart	*Php129*	*Php144*	*(Php15)*	*(10)*	*Php118*	*Php130*	*(Php12)*	*(9)*
TNT	*91*	*97*	*(4)*	*(4)*	*84*	*88*	*(4)*	*(5)*
Sun	*74*	*76*	*(2)*	*(3)*	*68*	*69*	*(1)*	*(1)*
Postpaid								
Smart	*993*	*1,054*	*(61)*	*(6)*	*982*	*1,045*	*(63)*	*(6)*
Sun	*444*	*475*	*(31)*	*(7)*	*441*	*472*	*(31)*	*(7)*

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

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

Home Broadband

Revenues from our home broadband services decreased by Php979 million, or 24%, to Php3,040 million in 2015 from Php4,019 million in 2014 due to lower home broadband subscribers mainly due to migration of Canopy and WiMax to TD-LTE and other PLDT fixed broadband plans.

Digital Platforms and Mobile Financial Services

Revenues from digital platforms and mobile financial services, as reported by Voyager, decreased by Php5 million to Php1,051 million in 2015 from Php1,056 million in 2014.

MVNO and Others

Revenues from our other services decreased by Php212 million, or 18%, to Php970 million in 2015 from Php1,182 million in 2014, primarily due to a decrease in the number of ACeS Philippines' subscribers, lower revenue contribution from MVNOs of PLDT Global, partially offset by the impact of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php45.51 for the year ended December 31, 2015 from Php44.40 for the year ended December 31, 2014 on our U.S. dollar and U.S. dollar-linked other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of sales of mobile handsets, SIM-packs and broadband data modems, tablets and accessories. Our wireless non-service revenues increased by Php955 million, or 25%, to Php4,797 million in 2015 from Php3,842 million in 2014, primarily due to increased availments for broadband Pocket WiFi, HOMEBro LTE, broadband tablets accessories and computer packages, as well as higher postpaid mobile activation and retention packages, partly offset by lower quantity of broadband Plug-It modems issued.

Expenses

Expenses associated with our wireless business amounted to Php95,358 million in 2015, an increase of Php6,256 million, or 7%, from Php89,102 million in 2014. A significant portion of the increase was attributable to higher expenses related to asset impairment, cost of sales, depreciation and amortization, compensation and employee benefits, professional and other contracted services, interconnection costs, taxes and licenses, and other operating expenses, partially offset by lower selling and promotions, rent, communications, training and travel, repairs and maintenance, insurance and security services, and amortization of intangible assets. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 86% and 77% in 2015 and 2014, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2015 and 2014 and the percentage of each expense item in relation to the total:

	2015	%	2014	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php17,218	18	Php16,375	18	Php843	5
Cost of sales	13,811	15	11,632	13	2,179	19
Rent	10,657	11	11,008	12	(351)	(3)
Repairs and maintenance	8,577	9	8,666	10	(89)	(1)
Interconnection costs	8,513	9	8,229	9	284	3
Asset impairment	8,446	9	5,620	6	2,826	50
Compensation and employee benefits	7,725	8	6,944	8	781	11
Selling and promotions	7,712	8	8,512	10	(800)	(9)
Professional and other contracted services	5,613	6	5,299	6	314	6
Taxes and licenses	3,124	3	2,944	3	180	6
Insurance and security services	1,190	1	1,274	2	(84)	(7)
Amortization of intangible assets	1,076	1	1,149	1	(73)	(6)
Communication, training and travel	958	1	1,072	1	(114)	(11)
Cost of content	62	–	–	–	62	100
Other expenses	676	1	378	1	298	79
Total	Php95,358	100	Php89,102	100	Php6,256	7

Depreciation and amortization charges increased by Php843 million, or 5%, to Php17,218 million, primarily due to a higher depreciable asset base and accelerated depreciation on service delivery platforms equipment.

Cost of sales increased by Php2,179 million, or 19%, to Php13,811 million, primarily due to increased modems and devices issued for *Pocket WiFi*, *HOMEBro LTE*, broadband accessories mainly tablets, as well as an increase in handset costs attributable to higher mobile postpaid activation and retention, partially offset by lower quantity of broadband Plug-It modems issued.

Rent expenses decreased by Php351 million, or 3%, to Php10,657 million, primarily due to lower leased circuit and dark fiber rental charges, as well as lower site, office building and pole rentals.

Repairs and maintenance expenses decreased by Php89 million, or 1%, to Php8,577 million mainly due to lower site fuel consumption costs and maintenance costs on IT hardware, partially offset by higher maintenance and technical support costs on expanded network and site facilities, an increase in site electricity and higher maintenance costs on IT software.

Interconnection costs increased by Php284 million, or 3%, to Php8,513 million, primarily due to an increase in interconnection charges on domestic voice and SMS services, partially offset by lower interconnection cost on international voice and SMS services.

Asset impairment increased by Php2,826 million, or 50%, to Php8,446 million, primarily due to higher fixed asset impairment provision, provision for inventory obsolescence and provision for doubtful accounts.

Compensation and employee benefits increased by Php781 million, or 11%, to Php7,725 million, primarily due to higher salaries, manpower rightsizing program, or MRP, costs, and provision for pension, partly offset by lower incentives and employee benefits. Employee headcount decreased to 7,505 as at December 31, 2015 as compared with 7,786 as at December 31, 2014.

Selling and promotion expenses decreased by Php800 million, or 9%, to Php7,712 million primarily due to lower costs of events, advertising, commissions and public relations expenses.

Professional and other contracted service fees increased by Php314 million, or 6%, to Php5,613 million, primarily due to an increase in facility usage costs, legal and other service fees, partly offset by lower consultancy, audit and contracted service fees.

Taxes and licenses increased by Php180 million, or 6%, to Php3,124 million due to higher business-related taxes and tax settlements in 2015.

Insurance and security services decreased by Php84 million, or 7%, to Php1,190 million, primarily due to lower site and office security expenses, as well as lower group health insurance premiums.

Amortization of intangible assets decreased by Php73 million, or 6%, to Php1,076 million, primarily due to lower license fees.

Communication, training and travel expenses decreased by Php114 million, or 11%, to Php958 million, primarily due to lower fuel costs for vehicles as a result of lower average fuel cost per liter, partially offset by higher travel expenses.

Cost of content amounted to Php62 million in 2015 primarily due to fees on iflix and Fox starting June 2015 for access to movie collections and international channels.

Other expenses increased by Php298 million, or 79%, to Php676 million, primarily due to higher various business and operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2015 and 2014:

			Change	
	2015	2014	Amount	%
		(in millions)		
Other Income (Expenses):				
Financing costs – net	(Php1,799)	(Php1,646)	(Php153)	9
Foreign exchange losses – net	(1,622)	(464)	(1,158)	250
Equity share in net losses of associates	(81)	(11)	(70)	636
Loss on derivative financial instruments – net	–	(34)	34	(100)
Interest income	308	217	91	42
Other income – net	1,236	1,214	22	2
Total	(Php1,958)	(Php724)	(Php1,234)	170

Our wireless business' other expenses amounted to Php1,958 million in 2015, an increase of Php1,234 million, or 170%, from Php724 million in 2014, primarily due to the combined effects of the following: (i) higher net foreign exchange losses by Php1,158 million on account of the revaluation of net foreign currency-denominated liabilities due to higher depreciation of the Philippine peso relative to the U.S. dollar; (ii) higher net financing costs by Php153 million primarily due to higher outstanding loan balances, higher weighted average interest rates on loans, an increase in accretion on financial liabilities and lower capitalized interest, partly offset by lower financing charges; (iii) higher equity share in net losses of AFPI by Php70 million; (iv) an increase in other income – net by Php22 million mainly due to higher income from consultancy and higher gain on sale of fixed assets, partly offset by lower gain on insurance claims; and (v) higher interest income by Php91 million mainly due to higher weighted average peso and dollar interest rates, increase in principal amount of temporary cash investments and the depreciation of the Philippine peso to the U.S. dollar.

Provision for Income Tax

Provision for income tax decreased by Php4,395 million, or 61%, to Php2,763 million in 2015 from Php7,158 million in 2014 primarily due to lower taxable income and recognition of deferred tax assets. The effective tax rates for our wireless business were 15% and 25% in 2015 and 2014, respectively.

Net Income

As a result of the foregoing, our wireless business' net income decreased by Php6,461 million, or 30%, to Php15,434 million in 2015 from Php21,895 million in 2014.

EBITDA

Our wireless business' EBITDA decreased by Php6,680 million, or 13%, to Php44,237 million in 2015 from Php50,917 million in 2014.

Core Income

Our wireless business' core income decreased by Php2,664 million, or 11%, to Php22,512 million in 2015 from Php25,176 million in 2014 on account of higher wireless-related operating and other expenses and lower wireless revenues, partially offset by lower provision for income tax.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php68,865 million in 2015, an increase of Php2,687 million, or 4%, from Php66,178 million in 2014.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2015 and 2014 by service segment:

	2015	%	2014	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Voice	Php30,253	44	Php32,356	49	(Php2,103)	(6)
Data	33,748	49	30,332	46	3,416	11
Miscellaneous	1,474	2	1,419	2	55	4
	65,475	95	64,107	97	1,368	2
Non-Service Revenues:						
Sale of computers, phone units and SIM-packs, and point-product sales	3,390	5	2,071	3	1,319	64
Total Fixed Line Revenues	Php68,865	100	Php66,178	100	Php2,687	4

Service Revenues

Our fixed line service revenues increased by Php1,368 million, or 2%, to Php65,475 million in 2015 from Php64,107 million in 2014 due to higher revenues from our data and miscellaneous services, partially offset by lower voice service revenues.

Voice Services

Revenues from our voice services decreased by Php2,103 million, or 6%, to Php30,253 million in 2015 from Php32,356 million in 2014 due to lower international and domestic voice revenues, partly offset by higher local exchange service revenues.

The following table shows information of our voice service revenues for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Increase (Decrease) Amount	%
			(in millions)			
Voice						
Local exchange	Php17,076	56	Php16,587	51	Php489	3
International	9,219	31	11,404	35	(2,185)	(19)
Domestic	3,958	13	4,365	14	(407)	(9)
Total	Php30,253	100	Php32,356	100	(Php2,103)	(6)

Local Exchange

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2015 and 2014:

	2015	2014	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php17,076	Php16,587	Php489	3
Number of fixed line subscribers	2,303,454	2,207,889	95,565	4
Number of fixed line LEC employees	7,039	7,405	(366)	(5)
Number of fixed line subscribers per employee	327	298	29	10

Revenues from our local exchange service increased by Php489 million, or 3%, to Php17,076 million in 2015 from Php16,587 million in 2014, primarily due to an increase in subscribers. The percentage contribution of local exchange revenues to our total fixed line service revenues was 26% in each of the years ended December 31, 2015 and 2014.

International

Our international service revenues decreased by Php2,185 million, or 19%, to Php9,219 million in 2015 from Php11,404 million in 2014, primarily due to lower call volumes for both inbound and outbound traffic as a result of the popularity of OTT service providers (such as *Facebook, Skype, Viber, WhatsApp*, and similar services) over traditional long distance services, partially offset by the favorable effect of a higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php45.51 in 2015 from Php44.40 in 2014, and the net increase in average billing rates in dollar terms. The percentage contribution of international service revenues to our total fixed line service revenues accounted for 14% and 18% in 2015 and 2014, respectively.

Domestic

Our domestic service revenues decreased by Php407 million, or 9%, to Php3,958 million in 2015 from Php4,365 million in 2014, primarily due to a decrease in call volumes. The percentage contribution of domestic service revenues to our fixed line service revenues were 6% and 7% in 2015 and 2014, respectively.

Data Services

The following table shows information of our data service revenues for the years ended December 31, 2015 and 2014:

			Increase	
	2015	2014	Amount	%
Data service revenues (in millions)	Php33,748	Php30,332	Php3,416	11
Home broadband	12,338	10,935	1,403	13
Corporate data and leased lines	18,806	17,325	1,481	9
Data Center and IT	2,604	2,072	532	26

Our data services posted revenues of Php33,748 million in 2015, an increase of Php3,416 million, or 11%, from Php30,332 million in 2014, primarily due to higher home broadband revenues from DSL and *Fibr*, an increase in corporate data and leased lines primarily i-Gate, Fibernet, Metro Ethernet and *Shops.Work*, and higher data center and IT revenues. The percentage contribution of this service segment to our fixed line service revenues was 52% and 47% in 2015 and 2014, respectively.

Home Broadband

Home broadband data revenues amounted to Php12,338 million in 2015, an increase of Php1,403 million, or 13%, from Php10,935 million in 2014 primarily due to an increase in the number of subscribers, which includes home and corporate subscribers, by 150,496, or 14%, to 1,255,864 subscribers as at December 31, 2015 from 1,105,368 subscribers as at December 31, 2014. Home broadband revenues accounted for 36% of total data service revenues in each of 2015 and 2014.

Corporate data and leased lines

Corporate data and leased line services contributed Php18,806 million in 2015, an increase of Php1,481 million, or 9%, as compared with Php17,325 million in 2014 mainly due to sustained market traction of broadband data services such as DSL and *Fibr*, as a result of higher internet connectivity requirements, i-Gate, and key Private Networking Solutions such as IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data and leased line revenues accounted for 56% and 57% of total data services in 2015 and 2014, respectively.

Data Center and IT

As at December 31, 2015, ePLDT Group had a total of 3,150 rack capacity in six locations covering Metro Manila, Subic and Cebu. Data center revenues increased by Php532 million, or 26%, to Php2,604 million in 2015 from Php2,072 million in 2014 mainly due to higher revenues from colocation, cloud and big data services. Cloud services include cloud contact center, cloud IaaS, cloud SaaS, managed security services and cloud professional services. The percentage contribution of this service segment to our total data service revenues was 8% and 7% in 2015 and 2014, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees. These service revenues increased by Php55 million, or 4%, to Php1,474 million in 2015 from Php1,419 million in 2014 mainly due to higher outsourcing and management fees, partly offset by royalties from directory services in 2015. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 2% in each of 2015 and 2014.

Non-service Revenues

Non-service revenues increased by Php1,319 million, or 64%, to Php3,390 million in 2015 from Php2,071 million in 2014, primarily due to higher sale of *PLP* units and *FabTAB* for *myDSL* retention, managed IT equipment and *Home IP* Cameras, partially offset by lower sale of *UNO* equipment and several managed *PABX*.

Expenses

Expenses related to our fixed line business totaled Php58,417 million in 2015, an increase of Php1,562 million, or 3%, as compared with Php56,855 million in 2014. The increase was primarily due to higher expenses related to compensation and employee benefits, asset impairment, cost of sales, professional and other contracted services, repairs and maintenance, and rent, partly offset by lower expenses related to interconnection costs, depreciation and amortization, taxes and licenses, communication, training and travel, and other operating expenses. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 85% and 86% in 2015 and 2014, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2015 and 2014 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2015	%	2014	%	Amount	%
			(in millions)			
Depreciation and amortization	Php14,301	25	Php15,004	27	(Php703)	(5)
Compensation and employee benefits	13,899	24	11,825	21	2,074	18
Repairs and maintenance	7,028	12	6,956	12	72	1
Interconnection costs	6,666	11	8,030	14	(1,364)	(17)
Professional and other contracted services	4,382	8	4,171	7	211	5
Rent	2,768	5	2,706	5	62	2
Cost of sales	2,596	4	1,903	3	693	36
Selling and promotions	2,036	4	2,126	4	(90)	(4)
Taxes and licenses	1,425	2	1,568	3	(143)	(9)
Asset impairment	1,244	2	426	1	818	192
Insurance and security services	715	1	717	1	(2)	–
Communication, training and travel	549	1	643	1	(94)	(15)
Cost of content	163	–	–	–	163	100
Other expenses	645	1	780	1	(135)	(17)
Total	Php58,417	100	Php56,855	100	Php1,562	3

Depreciation and amortization charges decreased by Php703 million, or 5%, to Php14,301 million due to lower depreciable asset base as a result of higher accelerated depreciation in 2014.

Compensation and employee benefits expenses increased by Php2,074 million, or 18%, to Php13,899 million primarily due to higher MRP costs, salaries and employee benefits and provision for pension. Employee headcount decreased to 9,671 as at December 31, 2015 as compared with 9,710 as at December 31, 2014 mainly due to lower PLDT headcount as a result of the MRP in 2015.

Repairs and maintenance expenses increased by Php72 million, or 1%, to Php7,028 million primarily due to higher repairs and maintenance costs on cable and wire facilities, and an increase in site electricity expenses, partially offset by lower office electricity charges and lower maintenance costs on buildings.

Interconnection costs decreased by Php1,364 million, or 17%, to Php6,666 million primarily due to lower international interconnection/settlement costs as a result of a decrease in international inbound calls that terminated to other domestic carriers, and lower international outbound calls, and data interconnection/settlement costs, particularly Fibernet and Infonet.

Professional and other contracted service expenses increased by Php211 million, or 5%, to Php4,382 million primarily due to higher contracted service fees, mailing and courier charges, and legal fees, partially offset by lower consultancy fees.

Rent expenses increased by Php62 million, or 2%, to Php2,768 million primarily due to higher leased circuit, and office building rental charges, partially offset by lower customer premises equipment rental charges.

Cost of sales increased by Php693 million, or 36%, to Php2,596 million primarily due to higher sale of equipment for *PLDT UNO* and *Telpad* units, higher computer-bundled sales, *FabTAB* for *myDSL* retention, and several managed *PABX* and *OnCall* solution.

Selling and promotion expenses decreased by Php90 million, or 4%, to Php2,036 million primarily due to lower cost of events and public relations, partially offset by higher advertising and commissions expenses.

Taxes and licenses decreased by Php143 million, or 9%, to Php1,425 million as a result of lower business-related taxes, partly offset by a higher tax settlement in 2015.

Asset impairment increased by Php818 million to Php1,244 million mainly due to higher provision for uncollectible receivables in 2015, partly offset by fixed asset impairment provision in 2014.

Insurance and security services decreased by Php2 million to Php715 million primarily due to lower insurance and bond premiums, partially offset by higher expenses on office security services and group health insurance premiums.

Communication, training and travel expenses decreased by Php94 million, or 15%, to Php549 million mainly due to lower fuel consumption costs, partly offset by higher training and travel, and communication, and mailing and courier charges.

Cost of content, which includes settlement to Cignal TV for bundled service offerings and share in *iflix* and Fox contracts, amounted to Php163 million in 2015.

Other expenses decreased by Php135 million, or 17%, to Php645 million primarily due to lower various business and operational-related expenses.

Other Income (Expenses)

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2015 and 2014:

			Change	
	2015	2014	Amount	%
		(in millions)		
Other Income (Expenses):				
Financing costs – net	(Php4,509)	(Php3,724)	(Php785)	21
Foreign exchange losses – net	(892)	(39)	(853)	2,187
Equity share in net earnings (losses) of associates	38	63	(25)	(40)
Gains on derivative financial instruments – net	420	11	409	3,718
Interest income	620	350	270	77
Other income – net	1,724	3,556	(1,832)	(52)
Total	(Php2,599)	Php217	(Php2,816)	(1,298)

Our fixed line business' other expenses amounted to Php2,599 million in 2015, a change of Php2,816 million as against other income of Php217 million in 2014 mainly due to the combined effects of the following: (i) a decrease in other income – net by Php1,832 million due to gain on purchase price adjustment in 2014 in relation to the acquisition of Digitel, gain on fair value adjustment of investment property in 2014 and higher loss on sale of fixed assets in 2015; (ii) higher foreign exchange losses by Php853 million on account of revaluation of net foreign currency-denominated liabilities due to higher depreciation of the Philippine peso relative to the U.S. dollar; (iii) higher financing costs by Php785 million mainly due to higher outstanding loan balances, higher weighted average interest rates on loans, effect of a higher weighted average exchange rate of the Philippine peso to the U.S. dollar and lower capitalized interest; (iv) lower equity share in net earnings of associates by Php25 million mainly due to the share in net losses of Cignal TV; (v) an increase in interest income by Php270 million due to higher weighted average peso and dollar interest rates, increase in principal amount of dollar temporary cash investments and the depreciation of the Philippine peso to the U.S. dollar; and (vi) higher gain on derivative financial instruments by Php409 million on account of mark-to-market gain on long-term currency swaps and forward purchase contracts due to higher level of depreciation of the Philippine peso relative to the U.S. dollar and wider dollar and peso interest rate differentials.

Provision for Income Tax

Provision for income tax amounted to Php1,656 million in 2015, a decrease of Php1,162 million, or 41%, from Php2,818 million in 2014 primarily due to lower taxable income and reversal of deferred tax liability. The effective tax rates for our fixed line business were 21% and 30% in 2015 and 2014, respectively.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php6,193 million in 2015, a decrease of Php529 million, or 8%, as compared with Php6,722 million in 2014.

EBITDA

Our fixed line business' EBITDA increased by Php194 million, or 1%, to Php24,749 million in 2015 from Php24,555 million in 2014.

Core Income

Our fixed line business' core income decreased by Php152 million, or 2%, to Php6,539 million in 2015 from Php6,691 million in 2014, primarily as a result of higher fixed line operating expenses and higher other expenses, partially offset by higher fixed line revenues and lower provision for income tax.

Others

Expenses

Expenses related to our other business totaled Php59 million in 2015, an increase of Php3 million, or 5%, as compared with Php56 million in 2015 primarily due to lower cash operating expenses.

Other Income

The following table summarizes the breakdown of other income – net for other business segment for the years ended December 31, 2015 and 2014:

	2015	2014	Change Amount	Change %
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates and joint ventures	Php3,284	Php3,789	(Php505)	(13)
Interest income	99	295	(196)	(66)
Losses on derivative financial instruments – net	–	(78)	78	(100)
Financing costs – net	(179)	(60)	(119)	198
Foreign exchange losses – net	(522)	121	(643)	(531)
Other income – net	(2,031)	1,544	(3,575)	(232)
Total	Php651	Php5,611	(Php4,960)	(88)

Other income decreased by Php4,960 million, or 88%, to Php651 million in 2015 from Php5,611 million in 2014 primarily due to the combined effects of the following: (i) higher other expenses – net by Php3,575 million due to recognition of impairment loss resulting from the fair value decline of our investment in Rocket, partly offset by higher realized portion of deferred gain on the sale of Meralco shares; (ii) foreign exchange losses of Php522 million in 2015 as against foreign exchange gains of Php121 million in 2014; (iii) lower equity share in net earnings of associates by Php505 million mainly due to equity share in net losses of Cignal TV in 2015 and a decrease in the equity share in net earnings of Beta; (iv) a decrease in interest income by Php196 million; (v) an increase in financing costs by Php119 million for the year ended December 31, 2015; and (vi) losses on derivative financial instruments of Php78 million in 2014.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php448 million, a decrease of Php5,025 million, or 92%, in 2015 from Php5,473 million in 2014.

Core Income

Our other business segment's core income amounted to Php6,161 million in 2015, an increase of Php618 million, or 11%, as compared with Php5,543 million in 2014 mainly as a result of higher other income.

Years Ended December 31, 2014 and 2013

Wireless

Revenues

We generated revenues from our wireless business of Php118,879 million in 2014, a decrease of Php444 million from Php119,323 million in 2013.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2014 and 2013 by service:

	2014	%	2013	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Mobile	Php108,780	92	Php110,701	93	(Php1,921)	(2)
Home Broadband	4,019	3	4,314	4	(295)	(7)
Digital platforms and mobile financial services	1,056	1	292	–	764	262
MVNO and others[1]	1,182	1	1,372	1	(190)	(14)
Total Wireless Service Revenues	115,037	97	116,679	98	(1,642)	(1)
Non-Service Revenues:						
Sale of mobile handsets, mobile SIM-packs and broadband data modems	3,842	3	2,644	2	1,198	45
Total Wireless Revenues	Php118,879	100	Php119,323	100	(Php444)	–

[1] *Includes service revenues generated by MVNO's of PLDT Global subsidiaries.*

Service Revenues

Our wireless service revenues in 2015 decreased by Php1,642 million, or 1%, to Php115,037 million as compared with Php116,679 million in 2014, mainly as a result of lower revenues from mobile, home broadband, MVNO and other services, partially offset by higher digital platforms and mobile financial service revenues. As a percentage of our total wireless revenues, service revenues accounted for 97% and 98% in 2014 and 2013, respectively.

Mobile Services

Our mobile service revenues amounted to Php108,780 million in 2014, a decrease of Php1,921 million, or 2%, from Php110,701 million in 2014. Mobile service revenues accounted for 95% of our wireless service revenues in each of 2014 and 2013.

	2014	%	2013	%	Increase (Decrease) Amount	%
			(in millions)			
Mobile Services:						
Voice	Php51,785	48	Php52,027	47	(Php242)	–
SMS	41,459	38	47,290	43	(5,831)	(12)
Data	14,413	13	10,231	9	4,182	41
Inbound roaming and others[1]	1,123	1	1,153	1	(30)	(3)
Total	Php108,780	100	Php110,701	100	(Php1,921)	(2)

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

Voice Services

Mobile revenues from our voice services, which include all voice traffic, decreased by Php242 million to Php51,785 million in 2014 from Php52,027 million in 2013 primarily due to the decline in international voice revenues, partially offset by higher domestic voice revenues. Mobile voice services accounted for 48% and 47% of our mobile service revenues in 2014 and 2013, respectively.

The following table shows the breakdown of our mobile voice revenues for the years ended December 31, 2014 and 2013:

	2014	%	2013	%	Increase (Decrease) Amount	%
			(in millions)			
Voice Services:						
Domestic	Php37,600	73	Php35,917	69	Php1,683	5
International	14,185	27	16,110	31	(1,925)	(12)
Total	Php51,785	100	Php52,027	100	(Php242)	–

Domestic voice service revenues increased by Php1,683 million, or 5%, to Php37,600 million in 2014 from Php35,917 million in 2013, primarily due to an increase in domestic outbound voice service revenues, partially offset by lower domestic inbound voice service revenues.

International voice service revenues decreased by Php1,925 million, or 12%, to Php14,185 million in 2014 from Php16,110 million in 2013 primarily due to lower international inbound and outbound voice service revenues.

SMS Services

Mobile revenues from our SMS services, which include all SMS-related services and VAS, decreased by Php5,831 million, or 12%, to Php41,459 million in 2015 from Php47,290 million in 2014 mainly from lower bucket-priced/unlimited and standard SMS revenues. Mobile SMS services accounted for 38% and 43% of our mobile service revenues in 2014 and 2013, respectively.

The following table shows the breakdown of our mobile SMS service revenues for the years ended December 31, 2014 and 2013:

					Decrease	
	2014	%	2013	%	Amount	%
			(in millions)			
SMS Services:						
Domestic[1]	Php38,270	92	Php43,772	93	(Php5,502)	(13)
International	3,189	8	3,518	7	(329)	(9)
Total	Php41,459	100	Php47,290	100	(Php5,831)	(12)

[1] *Includes revenues, net of discounts and content provider costs, from Smart Pasa Load, Sun Give-a-load and Dial*SOS; Music (Spinnr and Deezer, music subscription mainly ring back tunes and music downloads); Gaming (games subscriptions, downloads, and purchases); Videos (video subscriptions, downloads and video and movie streaming via iflix and Fox); Infotainment (subscriptions and downloads of broadcast materials that are intended both to entertain and to inform, as well as info-on-demand); financial services (revenues from Smart Money Clicks via Smart Menu and mobile banking); Communicate, (revenues from group chat, text and voice messaging services); and Other VAS (includes revenues from application program interface (API) downloads, info-on-demand and voice text services).*

Data Services

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php4,182 million, or 41%, to Php14,413 million in 2014 from Php10,231 million in 2013.

The following table shows the breakdown of our mobile data revenues for the years ended December 31, 2014 and 2013:

					Increase	
	2014	%	2013	%	Amount	%
			(in millions)			
Data Services:						
Mobile internet	Php8,253	57	Php4,968	49	Php3,285	66
Mobile broadband	6,000	42	5,118	50	882	17
Other data[1]	160	1	145	1	15	10
Total	Php14,413	100	Php10,231	100	Php4,182	41

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

Mobile internet

Mobile internet service revenues increased by Php3,285 million, or 66%, to Php8,253 million in 2014 from Php4,968 million in 2013 as a result of higher traffic for mobile internet browsing mainly due to widened utilization of mobile applications, social networking sites and other OTT services. Mobile internet services accounted for 8% and 4% of our mobile service revenues in 2014 and 2013, respectively.

Mobile broadband

Mobile broadband revenues amounted to Php6,000 million in 2014, an increase of Php882 million, or 17%, from Php5,118 million in 2013 primarily due to higher mobile broadband traffic and higher subscriber base.

Other data

Revenues from our other data services, which include domestic leased lines and share in revenues from PLDT *WeRoam*, increased by Php15 million, or 10%, to Php160 million in 2014 from Php145 million in 2013.

Prepaid and Postpaid Revenues, and Inbound Roaming and Others

The following table shows the breakdown of our mobile service revenues for the years ended December 31, 2014 and 2013:

	2014	2013	Increase (Decrease) Amount	%
		(in millions)		
Mobile service revenues	Php108,780	Php110,701	(Php1,921)	(2)
By service type				
Prepaid	82,298	87,423	(5,125)	(6)
Postpaid	25,359	22,125	3,234	15
Inbound roaming and others	1,123	1,153	(30)	(3)

Prepaid Revenues

Revenues generated from our mobile prepaid services amounted to Php82,298 million in 2014, a decrease of Php5,125 million, or 6%, as compared with Php87,423 million in 2013. Mobile prepaid service revenues accounted for 76% and 79% of mobile service revenues in 2014 and 2013, respectively. The decrease in revenues from our mobile prepaid services was primarily driven by lower mobile prepaid subscriber base resulting to lower voice and SMS revenues, partially offset by an increase in mobile internet revenues.

Postpaid Revenues

Revenues generated from mobile postpaid service amounted to Php25,359 million in 2014, an increase of Php3,234 million, or 15%, as compared with Php22,125 million in 2013, and accounted for 23% and 20% of mobile service revenues in 2014 and 2013, respectively. The increase in our mobile postpaid service revenues was primarily driven by the growth of our Smart postpaid subscriber base.

Inbound Roaming and Others

Mobile revenues from inbound roaming and other services decreased by Php30 million, or 3%, to Php1,123 million in 2014 from Php1,153 million in 2013.

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

The following table shows our wireless subscriber base as at December 31, 2014 and 2013:

	2014	2013	Increase (Decrease) Amount	%
Mobile subscriber base	72,511,422	72,063,359	448,063	1
Smart	27,894,947	26,971,498	923,449	3
Postpaid	*1,222,764*	*1,002,949*	*219,815*	*22*
Prepaid	*26,672,183*	*25,968,549*	*703,634*	*3*
TNT	28,149,360	29,485,017	(1,335,657)	(5)
Sun	16,467,115	15,606,844	860,271	6
Postpaid	*2,054,480*	*1,723,042*	*331,438*	*19*
Prepaid	*14,412,635*	*13,883,802*	*528,833*	*4*
Home Broadband	331,781	436,094	(104,313)	(24)
Total Wireless Subscribers	72,843,203	72,499,453	343,750	–

(1) *Includes mobile broadband subscribers.*

The following table summarizes our average monthly churn rates for the years ended December 31, 2014 and 2013:

	2014	2013
	(in %)	
Smart	5.7	5.2
Postpaid	2.9	2.8
Prepaid	5.8	5.3
TNT	5.8	5.0
Sun	8.8	9.8
Postpaid	2.0	3.5
Prepaid	9.7	10.5

The following table summarizes our average monthly ARPUs for the years ended December 31, 2014 and 2013:

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2014	2013	Amount	%	2014	2013	Amount	%
Prepaid								
Smart	*Php144*	*Php164*	*(20)*	*(12)*	*Php130*	*Php144*	*(Php15)*	*(10)*
TNT	*97*	*96*	*1*	*1*	*88*	*85*	*3*	*4*
Sun	*76*	*73*	*3*	*4*	*69*	*65*	*1*	*2*
Postpaid								
Smart	*1,054*	*1,119*	*(65)*	*(6)*	*1,045*	*1,107*	*(29)*	*(3)*
Sun	*475*	*487*	*(12)*	*(2)*	*472*	*484*	*(7)*	*(1)*

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

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

Home Broadband

Revenues from our home broadband services decreased by Php295 million, or 7%, to Php4,019 million in 2014 from Php4,314 million in 2013 due to lower home broadband subscribers.

Digital Platforms and Mobile Financial Services

Revenues from digital platforms and mobile financial services, as reported by Voyager, increased by Php764 million to Php1,056 million in 2014 from Php292 million in 2013 mainly attributable to PayMaya's share in Smart Money's peer-to-peer transaction fees and revenues.

MVNO and Others

Revenues from our other services decreased by Php190 million, or 14%, to Php1,182 million in 2015 from Php1,372 million in 2014, primarily due to a decrease in the number of ACeS Philippines' subscribers and lower revenue contribution from MVNO of PLDT Global, partially offset by the effect of higher weighted average exchange rate of Php44.40 for the year ended December 31, 2014 from Php42.44 for the year ended December 31, 2013 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of sales of mobile handsets, mobile SIM-packs and broadband data modems, tablets and accessories. Our wireless non-service revenues increased by Php1,198 million, or 45%, to Php3,842 million in 2014 from Php2,644 million in 2013 primarily due to increased availments for broadband *Pocket Wifi*, broadband accessories and computer packages, as well as higher mobile activation and retention packages, partly offset by lower quantity of broadband *Plug-It* modems issued.

Expenses

Expenses associated with our wireless business amounted to Php89,102 million in 2014, an increase of Php4,428 million, or 5%, from Php84,674 million in 2013. A significant portion of this increase was attributable to higher expenses related to asset impairment, cost of sales, rent, repairs and maintenance, selling and promotions, taxes and licenses, professional and other contracted services, and amortization of intangible assets, partially offset by lower compensation and employee benefits, and other operating expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 75% and 71% in 2014 and 2013, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2014 and 2013 and the percentage of each expense item in relation to the total:

	2014	%	2013	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php16,375	18	Php16,358	19	Php17	–
Cost of sales	11,632	13	10,182	12	1,450	14
Rent	11,008	12	10,148	12	860	8
Repairs and maintenance	8,666	10	7,861	9	805	10
Selling and promotions	8,512	10	7,944	10	568	7
Interconnection costs	8,229	9	8,141	10	88	1
Compensation and employee benefits	6,944	8	8,730	10	(1,786)	(20)
Asset impairment	5,620	6	3,918	5	1,702	43
Professional and other contracted services	5,299	6	4,841	6	458	9
Taxes and licenses	2,944	3	2,410	3	534	22
Insurance and security services	1,274	2	1,156	1	118	10
Amortization of intangible assets	1,149	1	1,018	1	131	13
Communication, training and travel	1,072	1	1,029	1	43	4
Other expenses	378	1	938	1	(560)	(60)
Total	Php89,102	100	Php84,674	100	Php4,428	5

Depreciation and amortization charges increased by Php17 million to Php16,375 million, primarily due to a higher depreciable asset base.

Cost of sales increased by Php1,450 million, or 14%, to Php11,632 million primarily due to increased handset and modem issuances for mobile and broadband activation and retention, and higher average cost of mobile handsets/SIM-packs and broadband modems.

Rent expenses increased by Php860 million, or 8%, to Php11,008 million, primarily due to an increase in site and leased circuit rental charges as a result of our expanded network, and an increase in office building rental.

Repairs and maintenance expenses increased by Php805 million, or 10%, to Php8,666 million mainly due to higher site maintenance and technical support on mobile and broadband network facilities as a result of our expanded network, higher electricity and fuel consumption, and higher IT hardware, partially offset by lower building maintenance costs.

Selling and promotion expenses increased by Php568 million, or 7%, to Php8,512 million, primarily due to higher costs of events, premium items and prizes, as well as higher commissions expense, partially offset by lower advertising costs and public relations expense.

Interconnection costs increased by Php88 million, or 1%, to Php8,229 million, primarily due to an increase in interconnection charges on international roaming and domestic SMS services, partially offset by lower interconnection cost on domestic voice and international SMS services.

Compensation and employee benefits expenses decreased by Php1,786 million, or 20%, to Php6,944 million, primarily due to lower MRP and LTIP costs, and salaries and employee benefits, partly offset by higher provision for pension benefits. Employee headcount increased to 7,786 as at December 31, 2014 as compared with 7,745 as at December 31, 2013.

Asset impairment increased by Php1,702 million, or 43%, to Php5,620 million, primarily due to higher impairment on certain network equipment and higher provision for uncollectible receivables.

Professional and other contracted service fees increased by Php458 million, or 9%, to Php5,299 million, primarily due to an increase in audit, outsourced and contracted service fees, market research and collection agency fees, partly offset by lower consultancy service fees.

Taxes and licenses increased by Php534 million, or 22%, to Php2,944 million due to higher business-related taxes.

Insurance and security services increased by Php118 million, or 10%, to Php1,274 million, primarily due to higher group health insurance, bond premiums, and site security expenses, partly offset by lower office security expenses.

Amortization of intangible assets increased by Php131 million, or 13%, to Php1,149 million, primarily due to license fees paid for exclusive partnership and use of music catalogues.

Communication, training and travel expenses increased by Php43 million, or 4%, to Php1,072 million, primarily due to higher fuel consumption costs for vehicles, and freight and hauling, partially offset by lower communication charges and local training expenses.

Other expenses decreased by Php560 million, or 60%, to Php378 million, primarily due to lower various business and operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2014 and 2013:

	2014	2013	Change Amount	Change %
		(in millions)		
Other Income (Expenses):				
Financing costs – net	(Php1,646)	(Php3,232)	Php1,586	(49)
Foreign exchange losses – net	(464)	(1,814)	1,350	(74)
Equity share in net losses of associates	(11)	(54)	43	(80)
Loss on derivative financial instruments – net	(34)	(18)	(16)	89
Interest income	217	324	(107)	(33)
Other income – net	1,214	928	286	31
Total	(Php724)	(Php3,866)	Php3,142	(81)

Our wireless business' other expenses amounted to Php724 million in 2014, a decrease of Php3,142 million, or 81%, from Php3,866 million in 2013, primarily due to the combined effects of the following: (i) lower net financing costs by Php1,586 million primarily due to a decrease on accretion on financial liabilities as a result of lower amortization of debt discount, and lower average interest rates on loans, partly offset by lower capitalized interest; (ii) lower net foreign exchange losses by Php1,350 million on account of the revaluation of net foreign currency-denominated liabilities due to lower level of depreciation of the Philippine peso relative to the U.S. dollar; (iii) an increase in other income by Php286 million mainly due to net gain on insurance claims; (iv) lower equity share in net losses of associates by Php43 million; (v) higher net losses on derivative financial instruments by Php16 million mainly due to the forward contracts that matured in the second quarter of 2014 where the Philippine peso appreciated relative to the U.S. dollar as against a depreciation of the Philippine peso relative to the U.S. dollar in 2013; and (vi) a decrease in interest income by Php107 million mainly due to lower weighted average peso and dollar interest rates on account of low interest rate environment.

Provision for Income Tax

Provision for income tax decreased by Php1,704 million, or 19%, to Php7,158 million in 2014 from Php8,862 million in 2013 primarily due to lower taxable income and recognition of deferred income tax. The effective tax rates for our wireless business were 25% and 29% in 2014 and 2013, respectively.

Net Income

As a result of the foregoing, our wireless business' net income decreased by Php26 million to Php21,895 million in 2014 from Php21,921 million recorded in 2013.

EBITDA

Our wireless business' EBITDA decreased by Php3,786 million, or 7%, to Php50,917 million in 2014 from Php54,703 million in 2013.

Core Income

Our wireless business' core income decreased by Php1,323 million, or 5%, to Php25,176 million in 2014 from Php26,499 million in 2013 on account of higher wireless-related operating expenses and a decrease in wireless revenues, partially offset by a decrease in other expenses and lower provision for income tax.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php66,178 million in 2014, an increase of Php3,647 million, or 6%, from Php62,531 million in 2013.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2014 and 2013 by service segment:

	2014	%	2013	%	Increase Amount	%
			(in millions)			
Service Revenues:						
Voice	Php32,356	49	Php32,279	51	Php77	–
Data	30,332	46	27,472	44	2,860	10
Miscellaneous	1,419	2	1,083	2	336	31
	64,107	97	60,834	97	3,273	5
Non-Service Revenues:						
Sale of computers, phone units and SIM-packs, and point-product sales	2,071	3	1,697	3	374	22
Total Fixed Line Revenues	Php66,178	100	Php62,531	100	Php3,647	6

Service Revenues

Our fixed line service revenues increased by Php3,273 million, or 5%, to Php64,107 million in 2015 from Php60,834 million in 2014 due to higher revenues from our data, miscellaneous and voice services.

Voice Services

Revenues from our voice services increased by Php77 million to Php32,356 million in 2014 from Php32,279 million in 2013 due to higher local exchange service revenues, partly offset by lower international and domestic voice revenues.

	2014	%	2013	%	Increase (Decrease) Amount	%
			(in millions)			
Voice						
Local exchange	Php16,587	51	Php16,274	51	Php313	2
International	11,404	35	11,422	35	(18)	–
Domestic	4,365	14	4,583	14	(218)	(5)
Total	Php32,356	100	Php32,279	100	Php77	–

Local Exchange

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2014 and 2013:

	2014	2013	Increase Amount	%
Total local exchange service revenues (in millions)	Php16,587	Php16,274	Php313	2
Number of fixed line subscribers	2,207,889	2,069,419	138,470	7
Number of fixed line LEC employees	7,405	7,350	55	1
Number of fixed line subscribers per employee	298	282	19	7

Revenues from our local exchange service increased by Php313 million, or 2%, to Php16,587 million in 2014 from Php16,274 million in 2013, primarily due to an increase in subscriber base. The percentage contribution of local exchange revenues to our total fixed line service revenues were 26% and 27% in 2014 and 2013, respectively.

International

Our international service revenues decreased by Php18 million to Php11,404 million in 2014 from Php11,422 million in 2013, primarily due to lower call volumes for both inbound and outbound traffic as a result of the popularity of OTT service providers (such as *Facebook*, *Skype*, *Viber*, *WhatsApp*, and similar services) over traditional long distance services, partially offset by the favorable effect of a higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php44.40 in 2014 from Php42.44 in 2013, and the net increase in average billing and settlement rates in dollar terms. The percentage contribution of international service revenues to our total fixed line service revenues accounted for 18% and 19% in 2014 and 2013, respectively.

Domestic

Our domestic service revenues decreased by Php218 million, or 5%, to Php4,365 million in 2014 from Php4,583 million in 2013, primarily due to a decrease in call volumes. The percentage contribution of domestic service revenues to our fixed line service revenues were 7% and 8% in 2014 and 2013, respectively.

Data Services

The following table shows information of our data service revenues for the years ended December 31, 2014 and 2013:

	2014	2013	Increase Amount	%
Data service revenues (in millions)	Php30,332	Php27,472	Php2,860	10
Home broadband	10,935	9,567	1,368	14
Corporate data and leased lines	17,325	16,137	1,188	7
Data Center and IT	2,072	1,768	304	17

Our data services posted revenues of Php30,332 million in 2014, an increase of Php2,860 million, or 10%, from Php27,472 million in 2013, primarily due to higher fixed broadband revenues from DSL and *Fibr*, an increase in corporate data and leased lines primarily i-Gate, Fibernet, Metro Ethernet and *Shops.Work*, and higher data center and IT revenues. The percentage contribution of this service segment to our fixed line service revenues was 47% and 45% in 2014 and 2013, respectively.

Home Broadband

Home broadband data revenues amounted to Php10,935 million in 2014, an increase of Php1,368 million, or 14%, from Php9,567 million in 2013 primarily due to an increase in the number of subscribers, which includes home and corporate subscribers, by 125,984, or 13%, to 1,105,368 subscribers as at December 31, 2014 from 979,384 subscribers as at December 31, 2013. Home broadband revenues accounted for 36% and 35% of total data service revenues in 2014 and 2013, respectively.

Corporate data and leased lines

Corporate data and leased line services contributed Php17,325 million in 2014, an increase of Php1,188 million, or 7%, as compared with Php16,137 million in 2013 mainly due to sustained market traction of broadband data services such as DSL and *Fibr*, as a result of higher internet connectivity requirements, and key Private Networking Solutions such as IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data and leased line revenues accounted for 57% and 59% of total data services in 2014 and 2013, respectively.

Data Center and IT

Data centers provide co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. As at December 31, 2014, ePLDT Group has a total of 2,340 rack capacity in three locations covering Metro Manila, Subic and Cebu. Data center revenues increased by Php304 million, or 17%, to Php2,072 million in 2014 from Php1,768 million in 2013 mainly due to higher revenues from co-location and managed services. The percentage contribution of this service segment to our total data service revenues were 7% and 6% in 2014 and 2013, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees. These service revenues increased by Php336 million, or 31%, to Php1,419 million in 2014 from Php1,083 million in 2013 mainly due to higher outsourcing and management fees, partly offset by royalties from directory services in 2014. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 2% in each of 2014 and 2013.

Non-service Revenues

Non-service revenues increased by Php374 million, or 22%, to Php2,071 million in 2014 from Php1,697 million in 2013, primarily due to higher revenues as a result of the launching of 2-in-1 wireless HOME bundles, *FabTAB* for *myDSL* retention and *TVolution* units and from the sale of several managed PABX and *OnCall* solution, *Telpad* units and equipment for *PLDT UNO*, a managed unified communications offering, partially offset by lower *PLP* units and computer-bundled sales.

Expenses

Expenses related to our fixed line business totaled Php56,855 million in 2014, an increase of Php881 million, or 2%, as compared with Php55,974 million in 2013. The increase was primarily due to higher expenses related to depreciation and amortization, repairs and maintenance, professional and other contracted services, selling and promotions, cost of sales, communication, training and travel, and taxes and licenses, partly offset by lower expenses related to asset impairment, compensation and employee benefits, interconnection costs and rent. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 86% and 90% in 2014 and 2013, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2014 and 2013 and the percentage of each expense item to the total:

	2014	%	2013	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php15,004	27	Php13,946	25	Php1,058	8
Compensation and employee benefits	11,825	21	12,668	23	(843)	(7)
Interconnection costs	8,030	14	8,196	15	(166)	(2)
Repairs and maintenance	6,956	12	5,930	10	1,026	17
Professional and other contracted services	4,171	7	3,794	7	377	10
Rent	2,706	5	2,794	5	(88)	(3)
Selling and promotions	2,126	4	1,860	3	266	14
Cost of sales	1,903	3	1,665	3	238	14
Taxes and licenses	1,568	3	1,515	3	53	3
Insurance and security services	717	1	762	1	(45)	(6)
Communication, training and travel	643	1	546	1	97	18
Asset impairment	426	1	1,624	3	(1,198)	(74)
Amortization of intangible assets	–	–	2	–	(2)	(100)
Other expenses	780	1	672	1	108	16
Total	Php56,855	100	Php55,974	100	Php881	2

Depreciation and amortization charges increased by Php1,058 million, or 8%, to Php15,004 million due to higher depreciable asset base.

Compensation and employee benefits expenses decreased by Php843 million, or 7%, to Php11,825 million, primarily due to lower MRP, LTIP costs, and salaries and employee benefits, partially offset by higher provision for pension benefits. Employee headcount decreased to 9,710 in 2014 as compared with 10,154 in 2013 mainly due to a decrease in ePLDT Group's headcount.

Interconnection costs decreased by Php166 million, or 2%, to Php8,030 million, primarily due to lower national interconnection/settlement costs due to lower national sent paid calls that terminated to other domestic carriers and data interconnection/settlement costs particularly Fibernet and Infonet, partially offset by higher international interconnection/settlement costs as a result of higher average settlement rate to other domestic carriers.

Repairs and maintenance expenses increased by Php1,026 million, or 17%, to Php6,956 million, primarily due to higher repairs and maintenance costs on cable and wire facilities, as well as central office/telecoms equipment, an increase in office electricity expenses, higher IT software and hardware maintenance costs, and higher site gas and fuel, partially offset by lower repairs and maintenance costs for buildings.

Professional and other contracted service expenses increased by Php377 million, or 10%, to Php4,171 million, primarily due to higher contracted, payment facility and technical service fees, partially offset by lower consultancy, legal fees, outsource costs and bill printing fees.

Rent expenses decreased by Php88 million, or 3%, to Php2,706 million, primarily due to decrease in leased circuit rental charges.

Selling and promotion expenses increased by Php266 million, or 14%, to Php2,126 million, primarily due to higher advertising, commissions, and events costs partially offset by lower public relations expenses.

Cost of sales increased by Php238 million, or 14%, to Php1,903 million, primarily due to the launching of 2-in-1 wireless HOME bundles, *FabTab* for *myDSL* retention and *TVolution* units, and higher sale of *Telpad*, partially offset by lower *PLP* units sold.

Taxes and licenses increased by Php53 million, or 3%, to Php1,568 million as a result of higher business-related taxes.

Insurance and security services decreased by Php45 million, or 6%, to Php717 million, primarily due to lower insurance and bond premiums, partially offset by higher expenses on office security services and group health insurance premiums.

Communication, training and travel expenses increased by Php97 million, or 18%, to Php643 million mainly due to higher training and travel, and communication, and mailing and courier charges, partly offset by lower fuel consumption costs.

Asset impairment decreased by Php1,198 million, or 74%, to Php426 million mainly due to lower provision for uncollectible receivables, partly offset by fixed asset impairment on certain transmission facilities in 2014.

Amortization of intangible assets amounted to Php2 million in 2013.

Other expenses increased by Php108 million, or 16%, to Php780 million, primarily due to higher various business and operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2014 and 2013:

	2014	2013	Change Amount	Change %
		(in millions)		
Other Income (Expenses):				
Financing costs – net	(Php3,724)	(Php3,390)	(Php334)	10
Foreign exchange losses – net	(39)	(1,503)	1,464	(97)
Equity share in net earnings (losses) of associates	63	(86)	149	(173)
Gains on derivative financial instruments – net	11	523	(512)	(98)
Interest income	350	392	(42)	(11)
Other income – net	3,556	4,618	(1,062)	(23)
Total	Php217	Php554	(Php337)	(61)

Our fixed line business' other income amounted to Php217 million in 2013, a decrease of Php337 million, or 61%, from Php554 million in 2013 due to the combined effects of the following: (i) a decrease in other income by Php1,062 million due to gain on sale of Philweb shares in 2013 and lower gain on insurance claims, partially offset by higher gain on fair value adjustment on investment properties and gain on purchase price adjustment in relation with the acquisition of Digitel recognized in 2014; (ii) lower gain on derivative financial instruments by Php512 million due to narrower dollar and peso interest rate differentials in 2014 as compared with 2013, and losses on matured Euro/U.S. dollar forward purchase contracts due to the appreciation of the U.S. dollar relative to the Euro; (iii) higher financing costs by Php334 million mainly due to higher outstanding debt balance and the effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, partly offset by lower financing charges, lower average interest rate, and higher capitalized interest; (iv) a decrease in interest income by Php42 million due to lower weighted average peso and dollar interest rates, partly offset by higher amount of placements and the depreciation of the Philippine peso to the U.S. dollar; (v) lower foreign exchange losses by Php1,464 million on account of revaluation of net foreign currency-denominated liabilities due to lower level of depreciation of the Philippine peso relative to the U.S. dollar; and (vi) equity share in net earnings of associates of Php63 million in 2014 as against equity share in net losses of associates of Php86 million in 2013 mainly due the increase in the share in net earnings of Cignal TV.

Provision for Income Tax

Provision for income tax amounted to Php2,818 million in 2014, an increase of Php3,516 million, from a tax benefit of Php698 million in 2013 primarily due to higher taxable income and the recognition of deferred tax assets in 2013. The effective tax rates for our fixed line business were 30% and negative 10% in 2014 and 2013, respectively.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php6,722 million in 2014, a decrease of Php1,087 million, or 14%, as compared with Php7,809 million in 2013.

EBITDA

Our fixed line business' EBITDA increased by Php3,317 million, or 16%, to Php24,555 million in 2014 from Php21,238 million in 2013.

Core Income

Our fixed line business' core income decreased by Php2,370 million, or 26%, to Php6,691 million in 2014 from Php9,061 million in 2013, primarily as a result of higher provision for income tax, higher fixed line expenses and an increase in other expenses, partially offset by higher fixed line revenues.

Others

Expenses

Expenses related to our other business totaled Php56 million in 2014, a decrease of Php51 million as compared with Php5 million in 2013 primarily due to lower cash operating expenses.

Other Income

The following table summarizes the breakdown of other income – net for other business segment for the years ended December 31, 2014 and 2013:

			Change	
	2014	2013	Amount	%
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates and joint ventures	Php3,789	Php2,882	Php907	31
Interest income	295	249	46	18
Foreign exchange gains – net	121	424	(303)	(71)
Financing costs – net	(60)	–	(60)	(100)
Gains (losses) on derivative financial instruments – net	(78)	6	(84)	(1,400)
Other income – net	1,544	36	1,508	4,189
Total	Php5,611	Php3,597	Php2,014	56

Other income increased by Php2,014 million, or 56%, to Php5,611 million in 2014 from Php3,597 million in 2013 primarily due to the combined effects of the following: (i) higher other income by Php1,508 million due to the realized portion of deferred gain on the transfer of Meralco shares; (ii) higher equity share in net earnings of associates by Php907 million mainly due to the increase in equity share in the net earnings of Beacon and Beta; (iii) an increase in interest income by Php46 million; (iv) financing costs of Php60 million in 2014; (v) losses on derivative financial instruments of Php78 million in 2014 as against gains on derivative financial instruments of Php6 million in 2013; and (vi) decrease in net foreign exchange gains of Php303 million.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php5,473 million, an increase of Php1,965 million, or 56%, in 2014 from Php3,508 million in 2013.

Core Income

Our other business segment's core income amounted to Php5,543 million in 2014, an increase of Php2,433 million, or 78%, as compared with Php3,110 million in 2013 mainly as a result of higher other income.

Plans

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

Our 2017 estimated consolidated capital expenditures is approximately Php46 billion, of which approximately Php29 billion is estimated to be spent by our wireless segment and approximately Php17 billion is estimated to be spent by our fixed line segment. Our capital spending is focused on our ambition to deliver the best customer experience through reliable products, services and touch points.

We plan to expand our LTE network in line with our commitment to provide coverage to substantially all of the country's cities and municipalities by end 2018. There will be more focus on the expansion and upgrade of our fixed access networks for cable fortification and resiliency in various locations. By end of the year 2017, we target 4.4 million homes equipped for our fiber access network, and having modernized 1.7 million lines of our copper network to enable fiber-like speeds. The expansion of our national and domestic networks will follow the roll-out of our access networks in an effort to ensure the best end-to-end customer experience.

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

Our capital expenditure budget includes projects addressing the following objectives:

(1) Commercial Objectives – these include the expansion of capacity and footprint of wired and wireless, as well as new platforms to expand service offerings;

(2) Technical Objectives – these include the transformation of service delivery platform of the group in order to realize operating and cost efficiencies, the provision of greater resilience and redundancy for the network, as well as investments in additional cable systems; and

(3) IT/Support Systems – these include the upgrade of our IT and support systems.

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

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2016, 2015 and 2014 as well as our consolidated capitalization and other consolidated selected financial data as at December 31, 2016 and 2015:

	2016	2015	2014
		(in millions)	
Cash Flows			
Net cash flows from operations	**Php48,976**	Php69,744	Php66,015
Net cash used in investing activities	**(41,982)**	(39,238)	(51,686)
Capital expenditures	***42,825***	*43,175*	*34,759*
Net cash used in financing activities	**(15,341)**	(11,385)	(19,897)
Net increase (decrease) in cash and cash equivalents	**(7,733)**	19,796	(5,246)
	2016	**2015**	**2014**
Capitalization			
Interest-bearing financial liabilities:			
Long-term financial liabilities:	**Php151,759**	Php143,982	Php115,399
Obligations under finance lease	**–**	–	1
Long-term debt	**Php151,759**	Php143,982	115,400
Current portion of interest-bearing financial liabilities:			
Long-term debt maturing within one year	**33,273**	16,910	14,724
Obligations under finance lease maturing within one year	**–**	1	5
	33,273	16,911	14,729
Total interest-bearing financial liabilities	**185,032**	160,893	130,129
Total equity attributable to equity holders of PLDT	**108,175**	113,608	134,364
	Php293,207	Php274,501	Php264,493
Other Selected Financial Data			
Total assets	**Php475,119**	Php455,095	Php436,295
Property and equipment – net	**203,188**	195,782	191,984
Cash and cash equivalents	**38,722**	46,455	26,659
Short-term investments	**2,738**	1,429	643

Our consolidated cash and cash equivalents and short-term investments totaled Php41,460 million as at December 31, 2016. Principal sources of consolidated cash and cash equivalents in 2016 were cash flows from operating activities amounting to Php48,976 million, proceeds from availment of long-term debt of Php40,569 million, proceeds from disposal of investment in Beacon of Php17,000 million; dividends received of Php4,409 million, proceeds from disposal of property and equipment of Php1,889 million, interest received of Php947 million and net proceeds from redemption of investment in debt securities of Php589 million. These funds were used principally for: (1) capital expenditures, including capitalized interest, of Php42,825 million; (2) cash dividend payments of Php22,987 million; (3) payment for purchase of investment in VTI, Bow Arken and Brightshare by Php21,524 million; (4) debt principal and interest payments of Php19,650 million and Php6,512 million, respectively; (5) reduction in capital expenditures under long-term financing of Php6,040 million; (6) net payment for purchase of short-term investments of Php1,177 million; (7) net payment for purchase of available-for-sale investments of Php998 million; and (8) settlement of derivative financial instruments of Php541 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php47,884 million as at December 31, 2015. Principal sources of consolidated cash and cash equivalents in 2015 were cash flows from operating activities amounting to Php69,744 million, proceeds from availment of long-term debt of Php44,367 million, dividends received of Php5,544 million, interest received of Php939 million, proceeds from disposal of property, plant and equipment of Php334 million, net additions to capital expenditures under long-term financing of Php311 million and proceeds from redemption of investment in debt securities of Php292 million. These funds were used principally for: (1) capital outlays, including capitalized interest, of Php43,175 million; (2) dividend payments of Php32,532 million;

(3) debt principal and interest payments of Php17,084 million and Php5,407 million, respectively; (4) purchase of investment in associates and joint ventures of Php1,274 million; (5) payment for purchase of available-for-sale investments of Php925 million; (6) net payment for purchase of short-term investments of Php725 million; and (7) settlement of derivative financial instruments of Php638 million.

Operating Activities

Our consolidated net cash flows provided by operating activities decreased by Php20,768 million, or 30%, to Php48,976 million in 2016 from Php69,744 million in 2015, primarily due to lower collection efficiency, lower operating income, higher level of settlement of accounts payable and other liabilities, and higher prepayments, partially offset by lower pension contribution and lower corporate taxes paid.

Our consolidated net cash flows from operations increased by Php3,729 million, or 6%, to Php69,744 million in 2015 from Php66,015 million in 2014, primarily due to higher level of collection of outstanding receivables, lower level of settlement of accounts payable and lower corporate taxes paid, partially offset by lower operating income, settlement of LTIP in 2015, higher pension contribution and higher prepayments.

Cash flows provided by operating activities of our wireless business decreased by Php21,931 million, or 47%, to Php24,988 million in 2016 from Php46,919 million in 2015 primarily due to lower operating income, lower collection efficiency, higher level of settlement of accounts payable and other liabilities, and higher prepayments, partially offset by lower pension contribution and lower corporate taxes paid. Cash flows provided by operating activities of our fixed line business increased by Php2,329 million, or 10%, to Php24,885 million in 2016 from Php22,556 million in 2015, primarily due to higher operating income and lower pension contribution, partly offset by lower collection efficiency and higher prepayments. Cash flows used in operating activities of our other business amounted to Php829 million in 2016 as against cash flows provided by operating activities of Php740 million in 2015 due to operating loss in 2016.

Cash flows from operations of our wireless business decreased by Php2,965 million, or 6%, to Php46,919 million in 2015 from Php49,884 million in 2014 primarily due to lower operating income, settlement of LTIP in 2015, higher pension contribution and higher prepayments, partially offset by lower corporate taxes paid, lower level of settlement of accounts payable and higher level of collection of outstanding receivables. Cash flows from operations of our fixed line business increased by Php4,411 million, or 24%, to Php22,556 million in 2015 from Php18,145 million in 2014, primarily due to higher level of collection of accounts receivable, lower level of settlement of accounts payable and higher operating income, partially offset by the settlement of LTIP in 2015, higher pension contribution and higher level of settlement of other liabilities. Cash flows from operations of our other business amounted to Php740 million in 2015 as against cash flows used in operations of Php1,818 million in 2014 primarily due to higher level of collection of accounts receivables, lower settlement of accounts payable and higher operating income, partly offset by higher level of settlement of accrued expenses and other liabilities.

Investing Activities

Consolidated net cash flows used in investing activities amounted to Php41,982 million in 2016, an increase of Php2,744 million, or 7%, from Php39,238 million in 2015, primarily due to the combined effects of the following: (1) higher net payment for purchase of investment in joint ventures and associates by Php3,250 million specifically for the purchase of SMC's telecommunications business, partly offset by the sale of PCEV's share in Beacon; (2) lower dividends received by Php1,135 million; (3) higher net payment for purchase of short-term investments by Php452 million; (4) higher net payment for purchase of available-for-sale investments by Php73 million; (5) lower payment for purchase of investments – net of cash acquired by Php131 million; (6) proceeds from redemption of investment in debt securities by Php297 million; (7) lower capital expenditures by Php350 million; and (8) higher proceeds from disposal of property and equipment by Php1,555 million.

Consolidated net cash flows used in investing activities amounted to Php39,238 million in 2015, a decrease of Php12,448 million, or 24%, from Php51,686 million in 2014, primarily due to the combined effects of the following: (1) lower purchase of available-for-sale financial investments by Php18,786 million; (2) higher dividends received by Php3,689 million; (3) higher interest received by Php357 million; (4) higher capital expenditures by Php8,416 million; (5) net proceeds from redemption of investment in debt securities by Php1,310 million; (6) higher payment for purchase of investment in joint ventures and associates by Php974 million; and (7) higher payment for purchase of short-term investments by Php806 million.

Our consolidated capital expenditures, including capitalized interest, in 2016 totaled Php42,825 million, a decrease of Php350 million, or 1%, as compared with Php43,175 million in 2015, primarily due to PLDT's lower capital spending, partially offset by Smart Group's higher capital spending. Smart Group's capital spending, increased by Php1,782 million, or 6%, to Php32,089 million in 2016 from Php30,307 million in 2015, primarily focused on expanding 3G, 4G and LTE coverage and reach, as well as capacity and service enhancements. PLDT's capital spending decreased by

Php3,201 million, or 28%, to Php8,058 million in 2016 from Php11,259 million in 2015. The capex spending was used to finance the continuous facility roll-out and expansion of our domestic fiber optic network, cable fortification and resiliency, and acquisition of new platforms to complement introduction of new products and services, as well as expansion of our data center business. The balance represented other subsidiaries' capital spending.

Our consolidated capital expenditures, including capitalized interest, in 2015 totaled Php43,175 million, an increase of Php8,416 million, or 24%, as compared with Php34,759 million in 2014, primarily due to Smart Group's and PLDT's higher capital spending. Smart Group's capital spending, which increased by Php7,266 million, or 32%, to Php30,307 million in 2015 from Php23,041 million in 2014, primarily focuses on expanding coverage and reach, as well as service enhancement. PLDT's capital spending, which increased by Php562 million, or 5%, to Php11,259 million in 2015 from Php10,697 million in 2014, was principally used to finance the facility roll-out and expansion of our domestic fiber optic network, cable fortification and resiliency in various locations and acquisition of new platforms to complement introduction of new products and services. The balance represented 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 Php15,341 million in 2016, an increase of Php3,956 million, or 35%, from Php11,385 million in 2015, resulting largely from the combined effects of the following: (1) net settlement of capital expenditures under long-term financing by Php6,351 million; (2) lower proceeds from availment of long-term debt by Php3,798 million; (3) higher payments of long-term debt by Php2,566 million; (4) higher interest payments by Php1,105 million; (5) lower settlement of derivative financial instruments of Php97 million; and (6) lower cash dividends paid by Php9,545 million.

On a consolidated basis, net cash flows used in financing activities amounted to Php11,385 million in 2015, a decrease of Php8,512 million, or 43%, from Php19,897 million in 2014, resulting largely from the combined effects of the following: (1) lower cash dividend payments by Php7,368 million; (2) higher proceeds from availment of long-term debt by Php3,038 million; (3) net additions to capital expenditures under long-term financing by Php395 million; (4) higher net payments of long-term debt by Php1,358 million; (5) higher interest payments by Php671 million; and (6) proceeds from issuance of capital stock of Php166 million in 2014.

Debt Financing

Proceeds from availment of long-term debt for the year ended December 31, 2016 amounted to Php40,569 million, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and refinancing maturing loan obligations. Payments of principal and interest on our total debt amounted to Php19,650 million and Php6,512 million, respectively, for the year ended December 31, 2016.

Proceeds from availment of long-term debt for the year ended December 31, 2015 amounted to Php44,367 million, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and refinancing maturing loan obligations. Payments of principal and interest on our total debt amounted to Php17,084 million and Php5,407 million, respectively, for the year ended December 31, 2015.

Our consolidated long-term debt increased by Php24,140 million, or 15%, to Php185,032 million as at December 31, 2016 from Php160,892 million as at December 31, 2015 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 and prepayments. As at December 31, 2016, the long-term debt levels of PLDT and Smart increased by 17% and 21% to Php109,867 million and Php74,851 million, respectively, while DMPI's decreased by 94% to Php314 million, as compared with December 31, 2015.

Our consolidated long-term debt increased by Php30,769 million, or 24%, to Php160,892 million as at December 31, 2015 from Php130,123 million as at December 31, 2014 primarily due to drawings from our term loan facilities and the effect of the depreciation of the Philippine peso relative to the U.S. dollar to Php47.12 as at December 31, 2015 from Php44.74 as at December 31, 2014, partially offset by debt amortizations and prepayments. As at December 31, 2015, the long-term debt levels of PLDT and Smart increased by 19% and 45% to Php94,124 million and Php61,864 million, respectively, while DMPI's long-term debt level decreased by 43% to Php4,904 million, as compared with December 31, 2014.

See *Note 21 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying audited consolidated financial statements for a more detailed discussion of our debt covenants.

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. Furthermore, certain of DMPI's debt instruments contain provisions wherein DMPI may be declared in default in case of a change in control in DMPI.

As at December 31, 2016 and 2015, we are in compliance with all of our debt covenants.

See *Note 21 – Interest-bearing Financial Liabilities – Derivative Financial Instruments* to the accompanying audited consolidated financial statements for a more detailed discussion of our debt covenants.

Financing Requirements

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

The following table shows the dividends declared to shareholders from the earnings for the years ended December 31, 2016 and 2015:

	Date			Amount	
Earnings	Approved	Record	Payable	Per share	Total Declared
				(in millions, except per share amount)	
2016					
Common					
Regular Dividend	**August 2, 2016**	**August 16, 2016**	**September 1, 2016**	**Php49.00**	**Php10,587**
	March 7, 2017	**March 21, 2017**	**April 6, 2017**	**28.00**	**6,050**
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[1]	**January 26, 2016**	**February 24, 2016**	**March 15, 2016**	**–**	**12**
	May 3, 2016	**May 24, 2016**	**June 15, 2016**	**–**	**12**
	August 2, 2016	**August 18, 2016**	**September 15, 2016**	**–**	**12**
	November 14, 2016	**November 28, 2016**	**December 15, 2016**	**–**	**12**
Voting Preferred Stock	**February 29, 2016**	**March 30, 2016**	**April 15, 2016**	**–**	**3**
	June 14, 2016	**June 30, 2016**	**July 15, 2016**	**–**	**3**
	August 30, 2016	**September 20, 2016**	**October 15, 2016**	**–**	**2**
	December 6, 2016	**December 20, 2016**	**January 15, 2017**	**–**	**3**
Charged to Retained Earnings					**Php16,696**
2015					
Common					
Regular Dividend	August 4, 2015	August 27, 2015	September 25, 2015[2]	Php65.00	Php14,044
	February 29, 2016	March 14, 2016	April 1, 2016	57.00	12,315
Preferred					
10% Cumulative Convertible Preferred Stock	May 5, 2015	May 19, 2015	May 30, 2015	1.00	–
Series IV Cumulative Non-convertible Redeemable Preferred Stock[1]	January 27, 2015	February 26, 2015	March 15, 2015	–	12
	May 5, 2015	May 26, 2015	June 15, 2015	–	12
	August 4, 2015	August 20, 2015	September 15, 2015	–	13
	November 3, 2015	November 20, 2015	December 15, 2015	–	12
Voting Preferred Stock	March 3, 2015	March 19, 2015	April 15, 2015	–	2
	June 9, 2015	June 26, 2015	July 15, 2015	–	3
	August 25, 2015	September 15, 2015	October 15, 2015	–	2
	December 1, 2015	December 18, 2015	January 15, 2016	–	3
Charged to Retained Earnings					Php26,418

(1) Dividends were declared based on total amount paid up.
(2) Payment was moved to September 28, 2015 in view of Proclamation No. 1128, Series of 2015, dated September 15, 2015, declaring September 25, 2015 a regular holiday.

See Item 5. "Market for Registrant's Common Equity and Related Stockholder Matters – Dividends" and *Note 20 – Equity* to the accompanying audited consolidated financial statements for a detailed discussion of our dividend payments.

Credit Ratings

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

PLDT's current credit ratings are as follows:

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

On May 20, 2016, Moody's affirmed PLDT's foreign currency bond rating and local currency issuer rating at "Baa2". Both ratings are considered "investment grade." The outlook in both ratings is stable.

On June 1, 2016, S&P affirmed our long-term foreign issuer credit rating at "BBB+", with a stable outlook. This rating is considered as "investment grade." On the S&P Asean regional scale, PLDT's rating affirmed at "axA+".

On August 31, 2016, Fitch affirmed PLDT's long-term foreign currency issuer default rating and senior notes at "BBB" and its National Rating at "AAA (phl)", both with a stable outlook. Fitch also affirmed PLDT's long-term local currency issuer default rating at "BBB+" but with a revised outlook to negative. The ratings reflect PLDT's market leadership position in the Philippine telecommunications industry across the wireless, fixed line and broadband segments.

On January 6, 2014, CRISP rated PLDT's inaugural peso retail bonds as "AAA" issuer rating with a "stable" outlook, the highest on the scale. CRISP cited PLDT's dominant market leadership, strong historical financial performance and excellent management and governance as key considerations for providing their rating.

Changes in Financial Conditions

Our total assets amounted to Php475,119 million, Php455,095 million, Php436,295 million and Php399,638 million as at December 31, 2016, 2015, 2014 and 2013, respectively. The increase in 2016 was significantly due to additions in property and equipment, and investments in VTI, Bow Arken and Brightshare. Likewise, the increase in 2015 was mainly due to higher cash and cash equivalents, additional investments, and higher property and equipment. In 2014, the increase in total assets was primarily due to the acquisition of Rocket Internet SE combined with higher trade and other receivables.

Our total liabilities amounted to Php366,582 million, Php341,197 million, Php301,627 million and Php262,312 million as at December 31, 2016, 2015, 2014 and 2013, respectively. The increases in our total liabilities were significantly due to higher total interest-bearing financial liabilities of Php185,032 million, Php160,893 million, Php130,129 million and Php104,101 million as at December 31, 2016, 2015, 2014 and 2013, respectively, coupled with increases in accounts payable and accrued liabilities as a result of higher equipment acquisitions and additional investments during the same years.

Off-Balance Sheet Arrangements

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

Equity Financing

On August 5, 2014, the PLDT Board of Directors approved the amendment of our dividend policy, increasing the dividend payout rate to 75% from 70% of our core earnings per share as regular dividends. In 2016, in view of our elevated capital expenditures to support the build-out of a resilient and reliable data network, lower EBITDA primarily due to higher subsidies to grow the data business and defend market share and the resources required to support the acquisition of SMC's telecommunications business, we have lowered our regular dividend payout to 60% of our core income. In declaring dividends, we take into consideration the interest of our shareholders, as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs. However, in the event that no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends of up to the balance of our core earnings or to undertake share buybacks. We were able to pay out approximately 100% of our core earnings for seven consecutive years from 2007 to 2013, approximately 90% of our core earnings for 2014, 75% of our core earnings for 2015 and 60% of our core earnings in 2016. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, are not available for distribution unless realized in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, Philippines, as the dividend-disbursing agent, converts the Philippine peso dividends into U.S. dollars at the prevailing exchange rates and remits the dollar dividends abroad, net of any applicable withholding tax.

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

Consolidated cash dividend payments paid to shareholders amounted to Php22,987 million, Php32,532 million and Php39,900 million as at December 31, 2016, 2015 and 2014, respectively.

Market Information

Common Capital Stock and ADSs

The shares of common stock of PLDT are listed and traded on the PSE. On October 19, 1994, an ADR facility was established, pursuant to which Citibank, N.A., as the depositary, issued ADRs evidencing ADSs with each ADS representing one PLDT common share with a par value of Php5.00 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary of PLDT's ADR facility. The ADSs are listed on the NYSE and are traded on the NYSE under the symbol of "PHI".

The public ownership level of PLDT common shares listed on the PSE as at March 31, 2017 is 53.81%.

As at March 31, 2017, 10,260 stockholders were Philippine persons and held approximately 52.46% of PLDT's common capital stock. In addition, as at March 31, 2017, there were a total of approximately 40 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 271 holders.

For the period from January 1 to March 31, 2017, a total of 8.05 million shares of PLDT's common capital stock were traded on the PSE. During the same period, the volume of trading was 6.97 million ADSs on the NYSE.

High and low sales prices for PLDT's common shares on the PSE and ADSs on the NYSE for each of the full quarterly period during 2016 and 2015 and for the first quarter through April 19, 2017 and were as follows:

	Philippine Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
2017				
First Quarter	Php1,655.00	Php1,360.00	US$32.59	US$27.60
January	1,618.00	1,360.00	31.98	27.65
February	1,535.00	1,386.00	30.46	27.60
March	1,655.00	1,400.00	32.59	27.71
Second Quarter				
April (until April 19, 2017)	1,799.00	1,626.00	36.16	35.31
2016				
First Quarter	**2,360.00**	**1,675.00**	**50.48**	**35.52**
Second Quarter	**2,150.00**	**1,621.00**	**45.88**	**34.26**
Third Quarter	**2,170.00**	**1,666.00**	**46.13**	**34.64**
Fourth Quarter	**1,740.00**	**1,260.00**	**36.11**	**25.50**
2015				
First Quarter	3,214.00	2,780.00	72.93	60.95
Second Quarter	2,984.00	2,748.00	66.48	61.21
Third Quarter	2,950.00	2,168.00	68.00	45.46
Fourth Quarter	2,430.00	1,959.00	50.86	39.70

Holders

As at March 31, 2017, there were 11,763 holders of record of PLDT's common shares. Listed below were the top 20 common shareholders, including their nationalities, the number of shares held, the amount of their holdings, and the approximate percentages of their respective shareholdings to PLDT's total outstanding common stocks:

	Name of Holder of Record	Nationality	Number of Shares Held	Amount of Holding	Approximate % to Total Outstanding Common Stock
1.	PCD Nominee Corporation	Various – Foreign	30,025,008	Php150,125,040	
		Various – Filipino	36,550,079	182,750,395	30.81
2.	J. P. Morgan Hong Kong Nominees Limited	Chinese	36,567,542	182,837,710	16.93
3.	Philippine Telecommunications Investment Corporation	Filipino	26,034,263	130,171,315	12.05
4.	NTT DOCOMO, Inc.	Japanese	22,796,902	113,984,510	10.55
5.	Metro Pacific Resources, Inc.	Filipino	21,556,676	107,783,380	9.98
6.	JG Summit Holdings, Inc.	Filipino	17,208,753	86,043,765	7.96
7.	NTT Communications Corporation	Japanese	12,633,487	63,167,435	5.85
8.	Social Security System, or SSS	Filipino	8,338,379	41,691,895	3.86
9.	Pan-Malayan Management & Inv Corp.	Filipino	640,000	3,200,000	0.30
10.	Malayan Insurance Co., Inc.	Filipino	253,000	1,265,000	0.12
11.	Manuel V. Pangilinan	Filipino	250,450	1,252,250	0.12
12.	Alfonso T. Yuchengco	Filipino	118,458	592,290	0.05
13.	Albert F. &/or Margaret Gretchen V. del Rosario	Filipino	106,780	533,900	0.05
14.	Edward A. Tortorici &/or Anita R. Tortorici	American	96,874	484,370	0.04
15.	Express Holdings, Inc.	Filipino	86,723	433,615	0.04
16.	Enrique T. Yuchengco, Inc.	Filipino	59,868	299,340	0.03
17.	James L. Go	Filipino	57,914	289,570	0.03
18.	Mechatrends Contractors Corporation	Filipino	50,000	250,000	0.02
19.	JDC Investment Realty Enterprises, Inc.	Filipino	47,708	238,540	0.02
20.	Hare & Company	American	34,511	172,555	0.02
			213,513,375	**Php1,067,566,875**	

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

On June 8, 2015, 870 shares of Series JJ 10% Cumulative Convertible Preferred Stock were issued in a transaction exempt from the registration requirement under Section 6 of the Revised Securities Act/Section 10 of the SRC. See *Note 20 – Equity* to the accompanying audited consolidated financial statements for further discussion.

Dividends

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2014, 2015 and 2016:

	Date			Amount	
Earnings	Approved	Record	Payable	Per share	Total Declared
					(in millions)
2014	August 5, 2014	August 28, 2014	September 26, 2014	Php69	Php14,908
2014	March 3, 2015	March 17, 2015	April 16, 2015	61	13,179
2014	March 3, 2015	March 17, 2015	April 16, 2015	26	5,618
				156	33,705
2015	August 4, 2015	August 27, 2015	September 25, 2015[1]	65	14,044
2015	February 29, 2016	March 14, 2016	April 1, 2016	57	12,315
				122	26,359
2016	**August 2, 2016**	**August 16, 2016**	**September 1, 2016**	**49**	**10,587**
2016	**March 7, 2017**	**March 21, 2017**	**April 6, 2017**	**28**	**6,050**
				Php77	**Php16,637**

(1) *Payment was moved to September 28, 2015 in view of Proclamation No. 1128, Series of 2015, dated September 15, 2015 declaring September 25, 2015 as a regular holiday.*

Contractual Obligations and Commercial Commitments

Contractual Obligations

See Item 11. "Quantitative and Qualitative Disclosures About Market Risks – Liquidity Risk" for a table summarizing the maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at December 31, 2016 and 2015.

For a detailed discussion of our consolidated contractual undiscounted obligations as at December 31, 2016 and 2015, see *Note 28 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php6,788 million and Php46 million as at December 31, 2016 and 2015, respectively. These commitments will expire within one year. The amount in 2016 includes standby letters of credit issued in relation with PLDT's acquisition of VTI, Bow Arken and Brightshare as at December 31, 2016.

Quantitative and Qualitative Disclosures about Market Risks

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. We also monitor the market price risk arising from all financial instruments.

See *Note 28 – Financial Assets and Liabilities – Financial Risk Management Objectives and Policies* to the accompanying consolidated financial statements for a detailed discussion.

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in 2016 and 2015 were 1.8% and 1.4%, respectively. Moving forward, we currently expect inflation to rise following the impact of peso depreciation on oil prices.

Information on Independent Auditors and Other Related Matters

Independent Auditors' Fees and Services

The following table summarizes the fees paid or accrued for services rendered by SGV & Co., our independent auditors for the years ended December 31, 2016 and 2015:

	2016	2015
	(in millions)	
Audit Fees	**Php43**	Php42
All Other Fees	**23**	18
Total	**Php66**	Php60

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

Audit-Related Fees. Other than the audit fees, we did not have any other audit-related fees for the years ended December 31, 2016 and 2015.

Tax Fees. We did not have any tax fees for the years ended December 31, 2016 and 2015.

All Other Fees. This category consists primarily of fees with respect to our Sarbanes-Oxley Act 404 assessment in 2016 and 2015, and other non-audit engagements.

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

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

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

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

AUDIT COMMITTEE REPORT

March 24, 2017

The Board of Directors
PLDT Inc.

Further to our compliance with applicable corporate governance laws and rules, our Audit Committee (AC) confirmed in its report for 2016 that:

- Each voting member of the AC is an independent director as determined by the Board of Directors;
- The AC had eight regular meetings and three special meetings during the year;
- The AC has reviewed and approved for retention the existing AC charter until the next review in 2017;
- Based on a review of SGV & Co. (SGV)'s performance and qualifications, including consideration of management's recommendation, the AC approved the appointment of SGV as the PLDT Group's independent auditor;
- The AC has discussed with the PLDT's internal audit group the annual plan for their regular audits and the results of their examinations;
- The AC has discussed with SGV the overall scope and plan for their integrated audit of the PLDT Group's financial statements and internal controls over external financial reporting, and the results of their examinations;
- The AC has reviewed and approved all audit and non-audit services provided by SGV to the PLDT Group, and the related fees for such services, and concluded that the non-audit fees are not significant to impair SGV's independence;
- The AC has discussed with SGV the matters required to be discussed by the prevailing applicable Auditing Standard, and has received written disclosures and the letter from SGV as required by the prevailing applicable Independence Standards (Statement as to Independence) and has discussed with SGV its independence from the PLDT Group and the PLDT Group's Management;
- The AC has discussed with the PLDT Group's Enterprise Risk Management (ERM) Officer updates on the ERM activities, the PLDT Group top key enterprise risks for 2016 and the status of risk responses, as identified by Management, and the status of agreed action plans relative to the results of Internal Audit's groupwide review of the ERM process;
- In the performance of its oversight responsibilities, the AC has reviewed and discussed the unaudited consolidated quarterly financial statements and reports in the first three quarters of 2016 and the audited consolidated financial statements of the PLDT Group as at and for the year ended December 31, 2016 with the PLDT Group's Management, which has the primary responsibility for the financial statements, and with SGV, the PLDT Group's independent auditors, who are responsible for expressing an opinion on the conformity of the PLDT Group's audited consolidated financial statements with PFRS; and
- Based on the reviews and discussions referred to above, in reliance on the PLDT Group's management and SGV and subject to the limitations of the AC's role, the AC recommended to the Board of Directors and the Board has approved, the inclusion of the PLDT Group's consolidated financial statements as at and for the year ended December 31, 2016 in the PLDT Group's annual report to the stockholders and to the Philippine SEC on Form 17-A.

Respectfully submitted,

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

March 24, 2017

The management of PLDT Inc. and Subsidiaries (the PLDT Group) is responsible for the preparation and fair presentation of our consolidated financial statements, including the schedules attached therein, as at December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of our consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

MANUEL V. PANGILINAN
Chairman of the Board
President and Chief Executive Officer

ANABELLE LIM-CHUA
Senior Vice President and Chief Financial Officer

JUNE CHERYL A. CABAL-REVILLA
First Vice President and Controller

SUBSCRIBED AND SWORN to before me this 24th day of March 2017 affiants exhibiting to me their Passport, as follows:

Name	Passport No.	Date of Expiry	Place of Issue
Manuel V. Pangilinan	EC1452578	June 19, 2019	DFA, Manila
Anabelle Lim-Chua	EC0996611	May 2, 2019	DFA, Manila
June Cheryl A. Cabal-Revilla	EC7874126	May 31, 2021	DFA, Manila

Notary Public
PORTIA SHIRLEY V. VALENCIA-BONDOC
Notary Public for the City of Makati
Until December 31, 2017
Appointment No. M-79
Roll of Attorneys No. 54048
PTR O.R. No. 5917872 January 9, 2017 Makati City
IBP Lifetime No. 902360 April 2, 2012
9/F MGO Bldg. Legazpi St., Legazpi Village
Makati City, MM

Doc. No. 033;
Page No. 8;
Book No. V;
Series of 2017.

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of PLDT Inc. and its subsidiaries (the PLDT Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the PLDT Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Revenue recognition

The PLDT Group mainly provides wireless and fixed line telecommunications services to a large number of subscribers. Its revenue recognition processes utilize complex and highly automated revenue and billing systems. The substantial amount of the wireless and fixed line service revenues, the significant volume of data and transactions processed through various systems and the heavy reliance on automated processes and controls over the capture, measurement and recording of transactions make revenue recognition a key audit matter in our audit.

The PLDT Group's wireless and fixed line service revenues are disclosed in Note 4 to the consolidated financial statements.

Audit response

We involved our internal specialist in evaluating the design and testing the relevant controls over the capture, measurement and recording of wireless (prepaid and postpaid) and fixed line revenues. For selected transactions, we compared the customer billing data against the details in the billing systems for wireless and fixed line postpaid revenues. We also tested the recording of usage revenue and ending balance reconciliation of unearned income for wireless prepaid revenues. In addition, we performed a fluctuation analysis of the wireless and fixed line service revenues by considering the relevant underlying data.

Acquisition of equity interest in Vega Telecom, Inc.

On May 30, 2016, PLDT acquired 50% equity interest in the telecommunications business of San Miguel Corporation through Vega Telecom, Inc. (VTI) for Php26.0 billion, subject to an agreed price adjustment mechanism. Based on the memorandum of agreement (MOA) between PLDT and Globe Telecom, Inc. (Globe) which sets out the resulting rights and obligations, the management and corporate governance structure as well as other basic principles and policies over VTI, PLDT assessed that it has joint control over VTI and accounted for its interest as an investment in a joint venture. As at December 31, 2016, the purchase price allocation for this investment has not been finalized, pending the final valuation of intangible assets and fixed assets for which management has engaged an external valuation specialist. These intangible assets and fixed assets would account for a substantial portion of the net assets acquired. The accounting for this acquisition is a key audit matter because of the significant cost of the investment and the significant management judgment involved in assessing joint control, identifying the assets and liabilities acquired and valuing the intangible assets and estimating their useful lives.

The PLDT Group's disclosures on the accounting for the investment in VTI are included in Notes 3 and 10 to the consolidated financial statements.

Audit response

We obtained an understanding of the PLDT Group's investment processes and tested the relevant controls. In assessing management's determination of the cost of investment, we read the share purchase agreement. We also reviewed the MOA between PLDT and Globe in evaluating management's assessment of joint control in VTI and the accounting for VTI as investment in joint venture. We assessed the identification of the assets and liabilities acquired based on our knowledge of VTI's business operations and evaluated the estimated useful lives assigned to the identified intangible assets using relevant market and industry data. Furthermore, we evaluated the competence, capabilities and objectivity of the external valuation specialist. We also involved our internal specialist in evaluating the methodologies used by PLDT in determining the provisional values of the intangible assets. We assessed the methodologies used by checking whether the valuation technique is appropriate for the nature of the intangible assets and whether the approach is generally acceptable. We also reviewed the PLDT Group's disclosures with respect to the acquisition of VTI.

Recoverability of goodwill and intangible asset with indefinite useful life

Under PFRSs, the PLDT Group is required to annually test the amount of goodwill and intangible asset with indefinite useful life, specifically the "Sun Cellular" trademark of Digitel Mobile Philippines, Inc., for impairment. As of December 31, 2016, the PLDT Group's goodwill attributable to the Wireless, Fixed Line and Voyager cash-generating units (CGUs) amounted to Php56,571 million, Php4,808 million and Php980 million, respectively. Meanwhile, the PLDT Group's intangible asset with indefinite life amounted to Php4,505 million. For the year ended December 31, 2016, the PLDT Group recognized full impairment on the goodwill attributed to the Voyager CGU amounting to Php980 million. We consider this as a key audit matter because management's assessment process requires significant judgment and is based on assumptions such as revenue growth rate, operating margin, capital expenditures, discount rate and the long-term growth rate.

The PLDT Group's disclosures about goodwill and intangible assets are included in Note 15 to the consolidated financial statements.

Audit response

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

Valuation of accrued pension benefit costs

PLDT has a defined benefit pension plan covering all permanent and regular employees. The PLDT Group's accrued pension benefit costs and net periodic benefit costs amounted to Php11,917 million and Php1,537 million, respectively. The amount of accrued pension benefit costs is calculated as the difference between the present value of the defined benefit obligation and the fair value of plan assets. The valuation of defined benefit obligation involves significant management judgment in the use of assumptions. The valuation also requires the assistance of an external actuary whose calculations depend on certain assumptions, such as future salary rate increase, attrition and mortality rates, as well as discount rate, which could have a material impact on the results. The related plan assets include significant unquoted equity investments, which are measured at fair value using the discounted cash flow model. The model uses significant assumptions on revenue growth rate, operating margin, capital expenditures, discount rate and the long-term growth rate as inputs. Thus, we considered the valuation of accrued pension benefit costs as a key audit matter.

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

Audit response

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

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

Smart Communications, Inc.'s legislative franchise

As discussed in Note 2 to the consolidated financial statements, Smart Communications, Inc. (Smart) is enfranchised under Republic Act (RA) 7294 to establish and operate integrated telecommunications in the Philippines. The franchise is due to expire on April 15, 2017. As of March 24, 2017, the bills to extend Smart's franchise for another 25 years have been approved in the Philippine Congress and Senate and have been submitted to the Office of the President of the Philippines. We consider this as a key audit matter because the PLDT Group's assessment on the potential outcome of the franchise renewal and the potential impact of the expiration of Smart's franchise on the PLDT Group's operations, financial position and performance requires a significant level of judgment.

Audit response

We obtained the PLDT Group's assessments on the potential outcome of the franchise renewal and the basis for such assessments. We also obtained an understanding of the terms and provisions of RA 7294 and the process involved in renewing Smart's franchise. In addition, we evaluated the PLDT Group's assessment of the potential outcome by considering the country's current economic and business environment, historical evidence on franchise renewals for a similar industry in the Philippines, current laws and regulations, and the results of the legislative process. We obtained management's assessment of the potential impact of the expiration of the franchise to the PLDT Group's consolidated financial statements, and management's plans to address this. We then evaluated the feasibility of management's plans by considering the PLDT Group's existing organizational structure, businesses and resources.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and the Annual Report for the year ended December 31, 2016, which are expected to be made available to us after that date.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ramon D. Dizon.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-085-577
BIR Accreditation No. 08-001998-17-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908692, January 3, 2017, Makati City

March 24, 2017

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016 and 2015
(in million pesos)

	2016	2015
ASSETS		
Noncurrent Assets		
Property and equipment (Notes 9 and 22)	**203,188**	195,782
Investments in associates and joint ventures (Notes 10 and 25)	**56,858**	48,703
Available-for-sale financial investments (Notes 6, 11 and 28)	**12,189**	15,711
Investment in debt securities and other long-term investments – net of current portion (Notes 12 and 28)	**374**	952
Investment properties (Notes 6 and 13)	**1,890**	1,825
Goodwill and intangible assets (Notes 14 and 15)	**70,280**	72,117
Deferred income tax assets – net (Note 7)	**27,348**	21,941
Derivative financial assets – net of current portion (Note 28)	**499**	145
Prepayments – net of current portion (Note 19)	**7,056**	3,475
Advances and other noncurrent assets – net of current portion (Notes 25 and 28)	**9,473**	3,003
Total Noncurrent Assets	**389,155**	363,654
Current Assets		
Cash and cash equivalents (Note 16)	**38,722**	46,455
Short-term investments (Note 28)	**2,738**	1,429
Trade and other receivables (Note 17)	**24,436**	24,898
Inventories and supplies (Note 18)	**3,744**	4,614
Current portion of derivative financial assets (Note 28)	**242**	26
Current portion of investment in debt securities and other long-term investments (Note 12)	**326**	51
Current portion of prepayments (Note 19)	**7,505**	5,798
Current portion of advances and other noncurrent assets (Note 20)	**8,251**	8,170
Total Current Assets	**85,964**	91,441
TOTAL ASSETS	**475,119**	455,095
EQUITY AND LIABILITIES		
Equity		
Non-voting serial preferred stock (Notes 8 and 20)	**360**	360
Voting preferred stock (Note 20)	**150**	150
Common stock (Notes 8 and 20)	**1,093**	1,093
Treasury stock (Notes 8 and 20)	**(6,505)**	(6,505)
Capital in excess of par value (Note 20)	**130,488**	130,517
Retained earnings (Note 20)	**3,483**	6,195
Other comprehensive loss (Note 6)	**(20,894)**	(18,202)
Total Equity Attributable to Equity Holders of PLDT (Note 28)	**108,175**	113,608
Noncontrolling interests (Note 6)	**362**	290
TOTAL EQUITY	**108,537**	113,898

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(continued)*

AS AT DECEMBER 31, 2016 and 2015
(in million pesos)

	2016	2015
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 21 and 25)	**151,759**	143,982
Deferred income tax liabilities – net (Note 7)	**3,567**	3,704
Derivative financial liabilities – net of current portion (Note 28)	**2**	736
Customers' deposits (Note 28)	**2,431**	2,430
Pension and other employee benefits (Note 26)	**11,206**	10,197
Deferred credits and other noncurrent liabilities (Notes 22 and 28)	**15,604**	21,482
Total Noncurrent Liabilities	**184,569**	182,531
Current Liabilities		
Accounts payable (Note 23)	**52,950**	52,679
Accrued expenses and other current liabilities (Note 24)	**92,219**	84,286
Current portion of interest-bearing financial liabilities (Note 21)	**33,273**	16,911
Provision for claims and assessments (Note 27)	**897**	897
Dividends payable (Notes 20 and 28)	**1,544**	1,461
Current portion of derivative financial liabilities (Note 28)	**225**	306
Income tax payable (Note 7)	**905**	2,126
Total Current Liabilities	**182,013**	158,666
TOTAL LIABILITIES	**366,582**	341,197
TOTAL EQUITY AND LIABILITIES	**475,119**	455,095

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(in million pesos, except earnings per common share amounts which are in pesos)

	2016	2015	2014
REVENUES			
Service revenues	**157,210**	162,930	164,943
Non-service revenues (Note 5)	**8,052**	8,173	5,892
	165,262	171,103	170,835
EXPENSES			
Depreciation and amortization (Note 9)	**34,455**	31,519	31,379
Compensation and employee benefits (Notes 5 and 26)	**19,928**	21,606	18,749
Cost of sales (Notes 5, 18 and 25)	**16,753**	16,389	13,512
Repairs and maintenance (Notes 13, 18 and 25)	**15,212**	15,035	14,988
Asset impairment (Note 5)	**11,042**	9,690	6,046
Interconnection costs	**9,573**	10,317	10,420
Professional and other contracted services (Note 25)	**9,474**	8,234	7,748
Selling and promotions (Note 25)	**7,687**	9,747	10,619
Rent (Note 25)	**6,912**	6,376	6,692
Taxes and licenses (Note 27)	**3,782**	4,592	4,563
Insurance and security services (Note 25)	**1,739**	1,797	1,884
Communication, training and travel (Note 25)	**1,253**	1,349	1,552
Amortization of intangible assets (Note 15)	**929**	1,076	1,149
Cost of content	**576**	225	–
Other expenses	**1,244**	1,316	1,156
	140,559	139,268	130,457
	24,703	31,835	40,378
OTHER INCOME (EXPENSES)			
Equity share in net earnings of associates and joint ventures (Note 10)	**1,181**	3,241	3,841
Interest income (Note 5)	**1,046**	799	752
Gains (losses) on derivative financial instruments – net (Note 28)	**996**	420	(101)
Foreign exchange losses – net (Notes 9 and 28)	**(2,785)**	(3,036)	(382)
Financing costs – net (Note 5)	**(7,354)**	(6,259)	(5,320)
Other income (expenses) – net (Notes 11 and 13)	**4,284**	(362)	4,980
	(2,632)	(5,197)	3,770
INCOME BEFORE INCOME TAX	**22,071**	26,638	44,148
PROVISION FOR INCOME TAX (Note 7)	**1,909**	4,563	10,058
NET INCOME	**20,162**	22,075	30,320
ATTRIBUTABLE TO:			
Equity holders of PLDT (Note 8)	**20,006**	22,065	34,091
Noncontrolling interests (Note 8)	**156**	10	(1)
	20,162	22,075	34,090
Earnings Per Share Attributable to Common Equity Holders of PLDT (Note 8)			
Basic	**92.33**	101.85	157.51
Diluted	**92.33**	101.85	157.51

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(in million pesos)

	2016	2015	2014
NET INCOME	**20,162**	22,075	34,090
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)			
Net gains (losses) on available-for-sale financial investments:	**860**	(8,135)	8,144
Impairment recognized in profit or loss (Notes 5 and 11)	**5,381**	5,124	–
Unrealized gains (losses) from changes in fair value recognized during the year (Note 11)	**(4,520)**	(13,258)	8,144
Income tax related to fair value adjustments charged directly to equity (Note 7)	**(1)**	(1)	–
Share in the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Note 10)	**151**	(14)	34
Foreign currency translation differences of subsidiaries	**79**	45	(3)
Net transactions on cash flow hedges:	**10**	31	(74)
Net fair value gains (losses) on cash flow hedges (Note 28)	**76**	5	(94)
Income tax related to fair value adjustments charged directly to equity (Note 7)	**(66)**	26	20
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent years	**1,100**	(8,073)	8,101
Revaluation increment on investment properties:	**17**	(1)	364
Fair value adjustment to property and equipment transferred to investment properties during the year (Note 13)	**26**	–	476
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)	**(7)**	1	(110)
Actuarial losses on defined benefit obligations:	**(3,571)**	(1,598)	(4,874)
Remeasurement in actuarial losses on defined benefit obligations	**(5,112)**	(2,356)	(6,952)
Income tax related to remeasurement adjustments (Note 7)	**1,541**	758	2,078
Share in the other comprehensive loss of associates and joint ventures accounted for using the equity method (Note 10)	**–**	(235)	(391)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent years	**(3,554)**	(1,834)	(4,901)
Total Other Comprehensive Income (Loss) – Net of Tax	**(2,454)**	(9,907)	3,200
TOTAL COMPREHENSIVE INCOME	**17,708**	12,168	37,290
ATTRIBUTABLE TO:			
Equity holders of PLDT	**17,557**	12,148	37,287
Noncontrolling interests	**151**	20	3
	17,708	12,168	37,290

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings	Other Comprehensive (Loss) Income	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
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 20)	–	–	–	–	(22,961)	–	(22,961)	(81)	(23,042)
Acquisition and dilution of noncontrolling interests	–	–	–	(29)	–	–	(29)	2	(27)
Balances as at December 31, 2016	**510**	**1,093**	**(6,505)**	**130,488**	**3,483**	**(20,894)**	**108,175**	**362**	**108,537**
Balances as at January 1, 2015	**510**	**1,093**	**(6,505)**	**130,521**	**17,030**	**(8,285)**	**134,364**	**304**	**134,668**
Total comprehensive income:	–	–	–	–	22,065	(9,917)	12,148	20	12,168
Net income (Note 8)	–	–	–	–	22,065	–	22,065	10	22,075
Other comprehensive income (loss) (Note 6)	–	–	–	–	–	(9,917)	(9,917)	10	(9,907)
Cash dividends (Note 20)	–	–	–	–	(32,900)	–	(32,900)	(21)	(32,921)
Acquisition and dilution of noncontrolling interests	–	–	–	(4)	–	–	(4)	(13)	(17)
Balances as at December 31, 2015	**510**	**1,093**	**(6,505)**	**130,517**	**6,195**	**(18,202)**	**113,608**	**290**	**113,898**
Balances as at January 1, 2014	**510**	**1,093**	**(6,505)**	**130,562**	**22,968**	**(11,481)**	**137,147**	**179**	**137,326**
Total comprehensive income:	–	–	–	–	34,091	3,196	37,287	3	37,290
Net income (Note 8)	–	–	–	–	34,091	–	34,091	(1)	34,090
Other comprehensive income (Note 6)	–	–	–	–	–	3,196	3,196	4	3,200
Cash dividends (Note 20)	–	–	–	–	(40,029)	–	(40,029)	(29)	(40,058)
Issuance of capital stock (Note 20)	–	–	–	–	–	–	–	163	163
Acquisition and dilution of noncontrolling interests	–	–	–	(41)	–	–	(41)	(12)	(53)
Balances as at December 31, 2014	**510**	**1,093**	**(6,505)**	**130,521**	**17,030**	**(8,285)**	**134,364**	**304**	**134,668**

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(in million pesos)

	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	22,071	26,638	44,148
Adjustments for:			
Depreciation and amortization (Note 9)	34,455	31,519	31,379
Asset impairment (Note 5)	11,042	9,690	6,046
Interest on loans and other related items – net (Note 5)	6,956	5,919	4,987
Impairment of investments (Note 11)	5,515	5,166	–
Foreign exchange losses – net (Notes 9 and 28)	2,785	3,036	382
Pension benefit costs (Notes 5 and 26)	1,775	1,888	1,702
Amortization of intangible assets (Note 15)	929	1,076	1,149
Accretion on financial liabilities – net (Note 5)	230	231	165
Losses (gains) on derivative financial instruments – net (Note 28)	(996)	(420)	101
Interest income (Note 5)	(1,046)	(799)	(752)
Equity share in net earnings of associates and joint ventures (Note 10)	(1,181)	(3,241)	(3,841)
Losses (gains) on disposal of property and equipment (Note 9)	(1,360)	298	42
Gain on disposal of investment in joint ventures	(7,365)	(2,838)	(1,448)
Incentive plans (Note 26)	–	–	168
Others	(400)	(1,968)	(950)
Operating income before changes in assets and liabilities	73,410	76,195	83,278
Decrease (increase) in:			
Trade and other receivables	(7,060)	(1,863)	(10,547)
Inventories and supplies	(917)	(1,122)	(507)
Prepayments	(5,634)	(617)	(150)
Advances and other noncurrent assets	(99)	147	(117)
Increase (decrease) in:			
Accounts payable	1,358	11,242	5,383
Accrued expenses and other current liabilities	755	4,969	6,146
Pension and other employee benefits	(5,863)	(10,642)	(5,586)
Customers' deposits	1	(8)	(108)
Other noncurrent liabilities	(10)	(13)	4
Net cash flows generated from operations	55,941	78,288	77,796
Income taxes paid	(6,965)	(8,544)	(11,781)
Net cash flows from operating activities	48,976	69,744	66,015
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received (Note 10)	4,409	5,544	1,855
Interest received	947	939	582
Proceeds from:			
Disposal of investments in associates and joint ventures	17,000	–	–
Disposal of available-for-sale financial investments	2,502	–	–
Disposal of property and equipment (Note 9)	1,889	334	253
Maturity of short-term investments	1,557	1,469	110
Redemption of investment in debt securities	559	–	–
Maturity of investment in debt securities	50	292	3,022
Disposal of investment properties (Note 13)	–	8	5
Collection of notes receivable	–	–	25
Disposal of investment	–	–	3
Payments for:			
Purchase of investment properties	(6)	–	–
Purchase of investment in debt securities	(20)	–	(1,420)
Purchase of shares of noncontrolling interests – net of cash acquired	(22)	(2)	(63)
Acquisition of intangible assets (Note 15)	(159)	(318)	(330)
Interest paid – capitalized to property and equipment (Note 9)	(566)	(370)	(442)
Purchase of short-term investments	(2,734)	(2,194)	(29)
Purchase of available-for-sale financial investments	(3,500)	(925)	(19,711)
Purchase of investments in associates and joint ventures	(21,524)	(1,274)	(300)
Purchase of subsidiaries – net of cash acquired	–	(151)	(139)
Deposit for future PDRs subscription	–	–	(300)
Additions to property and equipment (Note 9)	(42,259)	(42,805)	(34,317)
Decrease (increase) in advances and other noncurrent assets	(105)	215	(490)
Net cash flows used in investing activities	(41,982)	(39,238)	(51,686)

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *(continued)*

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(in million pesos)

	2016	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of long-term debt (Note 21)	40,569	44,367	41,329
Issuance of capital stock (Note 20)	5	–	166
Availments of long-term financing for capital expenditures	–	311	–
Payments for:			
Debt issuance costs (Note 21)	(185)	(396)	(293)
Derivative financial instruments (Note 28)	(541)	(638)	(596)
Long-term financing for capital expenditures	(6,040)	–	(84)
Interest – net of capitalized portion (Notes 5 and 21)	(6,512)	(5,407)	(4,736)
Long-term debt (Note 21)	(19,650)	(17,084)	(15,726)
Cash dividends (Note 20)	(22,987)	(32,532)	(39,900)
Redemption of shares	–	(1)	(51)
Obligations under finance leases	–	(5)	(6)
Net cash flows used in financing activities	(15,341)	(11,385)	(19,897)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	614	675	322
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,733)	19,796	(5,246)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (Note 16)	46,455	26,659	31,905
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 16)	38,722	46,455	26,659

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, 2016. 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, 2016. 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, 2016, 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, 2016. *See Note 20 – Equity – Voting Preferred Stock* and *Note 27 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition*.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, Inc., or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5.00 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". There were approximately 39.8 million ADSs outstanding as at December 31, 2016.

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

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

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

Our consolidated financial statements as at December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014 were approved and authorized for issuance by the Board of Directors on March 24, 2017 as reviewed and recommended for approval by the Audit Committee on March 22, 2017.

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 Company from Philippine Long Distance Telephone 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 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 instruments, available-for-sale financial investments, certain short-term investments and investment properties that are measured at fair values.

We changed the presentation of our consolidated income statements for the years ended December 31, 2015 and 2014 to conform with the 2016 presentation and classification. We did not present a consolidated statement of financial position as at the beginning of the earliest comparative period since these reclassifications do not have any impact on our consolidated statements of financial position as at December 31, 2015 and January 1, 2015.

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, 2016 and 2015:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2016 Percentage of Ownership Direct	2016 Percentage of Ownership Indirect	2015 Percentage of Ownership Direct	2015 Percentage of Ownership Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	**100.0**	**–**	100.0	–
Smart Broadband, Inc., or SBI, and Subsidiary	Philippines	Internet broadband distribution services	**–**	**100.0**	–	100.0
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services	**–**	**100.0**	–	100.0
I-Contacts Corporation	Philippines	Operations support servicing business	**–**	**100.0**	–	100.0
Smart Money Holdings Corporation, or SMHC	Cayman Islands	Investment company	**–**	**100.0**	–	100.0
Far East Capital Limited, or FECL, and Subsidiary, or FECL Group	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	**–**	**100.0**	–	100.0
PH Communications Holdings Corporation	Philippines	Investment company	**–**	**100.0**	–	100.0
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services	**–**	**100.0**	–	100.0
Francom Holdings, Inc.:	Philippines	Investment company	**–**	**100.0**	–	100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Content provider, mobile applications development and services	**–**	**100.0**	–	100.0
Voyager Innovations, Inc., or Voyager	Philippines	Mobile applications and digital platforms developer	**–**	**100.0**	–	100.0
eInnovations Holdings Pte. Ltd., or eInnovations[a]:	Singapore	Investment company	**–**	**100.0**	–	100.0
Takatack Holdings Pte. Ltd., or Takatack Holdings[c]	Singapore	Investment company	**–**	**100.0**	–	100.0
Takatack Technologies Pte. Ltd., or Takatack Technologies[d]	Singapore	Development and maintenance of IT-based solutions for communications and e-Commerce platforms	**–**	**100.0**	–	100.0
Takatack Malaysia Sdn. Bhd., or Takatack Malaysia[e]	Malaysia	Development, maintenance and support services to enable the digital commerce ecosystem	**–**	**100.0**	–	–
iCommerce Investments Pte. Ltd., or iCommerce[b]	Singapore	Investment company	**–**	**100.0**	–	100.0
Voyager Fintech Ventures Pte. Ltd., or Fintech Ventures (formerly eInnovations Ventures Pte. Ltd. or eVentures)[f]	Singapore	Investment company	**–**	**100.0**	–	100.0
Fintqnologies Corporation, or FINTQ[g]	Philippines	Development of financial technology innovations	**–**	**100.0**	–	–
Fintq Inventures Insurance Agency Corporation[h]	Philippines	Insurance company	**–**	**100.0**	–	–
ePay Investments Pte. Ltd., or ePay[b]	Singapore	Investment company	**–**	**100.0**	–	100.0
PayMaya Philippines, Inc., or PayMaya[i]	Philippines	Provide and market certain mobile payment services	**–**	**100.0**	–	100.0
PayMaya Operations Philippines, Inc., or PayMaya Ops[j]	Philippines	Market, sell and distribute payment solutions and other related services	**–**	**100.0**	–	100.0
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services	**–**	**85.0**	–	85.0
WiFun, Inc., or WiFun[k]	Philippines	Software developer and selling of WiFi access equipment	**–**	**100.0**	–	100.0
Telesat, Inc.[l]	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.[l]	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[m]	Philippines	Business infrastructure and solutions; intelligent data processing and implementation services and data analytics insight generation	**100.0**	**–**	100.0	–
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	**100.0**	**–**	100.0	–
IP Converge Data Services, Inc., or IPCDSI, and Subsidiary, or IPCDSI Group	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	**–**	**100.0**	–	100.0
Curo Teknika, Inc., or Curo	Philippines	Managed IT outsourcing	**–**	**100.0**	–	100.0
ABM Global Solutions, Inc., or AGS, and Subsidiaries, or AGS Group	Philippines	Internet-based purchasing, IT consulting and professional services	**–**	**100.0**	–	99.8
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	**–**	**67.0**	–	67.0
netGames, Inc.[n]	Philippines	Gaming support services	**–**	**57.5**	–	57.5
Digitel:	Philippines	Telecommunications services	**99.6**	**–**	99.6	–
Digitel Information Technology Services, Inc.[l]	Philippines	Internet services	**–**	**99.6**	–	99.6
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	**98.0**	**–**	98.0	–
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	**75.0**	**–**	75.0	–
Pacific Global One Aviation Company, Inc., or PG1	Philippines	Air transportation business	**65.0**	**–**	65.0	–
Pilipinas Global Network Limited, or PGNL, and Subsidiaries	British Virgin Islands	Internal distributor of Filipino channels and content	**64.6**	**–**	64.6	–

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2016 Percentage of Ownership Direct	2016 Indirect	2015 Direct	2015 Indirect
Others						
PLDT Global Investments Holdings, Inc., or PGIH	Philippines	Investment company	**100.0**	**–**	100.0	–
PLDT Digital Investments Pte. Ltd., or PLDT Digital, and Subsidiaries	Singapore	Investment company	**100.0**	**–**	100.0	–
Mabuhay Investments Corporation, or MIC[l]	Philippines	Investment company	**67.0**	**–**	67.0	–
PLDT Global Investments Corporation, or PGIC	British Virgin Islands	Investment company	**–**	**100.0**	–	100.0
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment company	**–**	**99.9**	–	99.9

[a] *On February 24, 2015, the Accounting and Corporate Regulatory Authority, or ACRA, of Singapore, the national regulator of business entities in Singapore, approved the change in the business name of Smart Hub Pte. Ltd. to eInnovations Holdings Pte. Ltd.*

[b] *On February 27, 2015, ePay and iCommerce were incorporated in Singapore to provide digital, internet, information, communication and IT-related activities. Both subsidiaries will serve as the holding companies of other digital investments. ePay and iCommerce are 100% owned by eInnovations, each having an initial capitalization of SGD10 thousand, or Php323 thousand. See Note 10 – Investments in Associates and Joint Ventures – eInnovations' Investment in ECommerce Pay.*

[c] *On October 1, 2015, the ACRA of Singapore approved the change in the business name of Takatack Pte. Ltd. to Takatack Holdings Pte. Ltd.*

[d] *On August 6, 2015, Takatack Holdings acquired 100% equity interest in Paywhere Pte. Ltd. On October 1, 2015, the ACRA of Singapore approved the change in the business name of Paywhere Pte. Ltd. to Takatack Technologies Pte. Ltd.*

[e] *On April 12, 2016, Takatack Malaysia was incorporated in Malaysia to provide development, maintenance and support services and sales and marketing to enable the entire digital commerce ecosystem in favor of consumers, merchants, service providers and other third parties.*

[f] *On August 21, 2015, eVentures was incorporated in Singapore to serve as a holding company of other digital investments providing digital, internet, information, communication and IT-related activities. On January 12, 2016, the ACRA of Singapore approved the change in business name of eVentures to Voyager Fintech Ventures Pte. Ltd.*

[g] *On April 27, 2016, Voyager incorporated its financial technology unit FINTQ to focus on customer-centric, demand-driven and mobile-first financial technology platforms that enable banks and non-banks in offering their respective customer base seamless digital access to loans, savings, insurance, disbursements, payments, anti-fraud and card control services, among others. Its key thrust is to promote inclusive growth and financial inclusion leveraging on digital and mobile technologies in emerging markets.*

[h] *On December 19, 2016, Fintq Inventures Insurance Agency Corporation was incorporated in the Philippines to engage in business as an insurance agent for the distribution, marketing and sale of insurance products such as life, non-life, accident and health insurance and pre-need projects and services.*

[i] *Effective September 15, 2015, the Philippine SEC approved the amendment of Smart e-Money, Inc.'s name to PayMaya Philippines, Inc.*

[j] *On February 10, 2015, mePay Operations Philippines, Inc. was incorporated in the Philippines to market, sell and distribute payment solutions and other related services. Effective June 22, 2015, the Philippine SEC approved the amendment of mePay Operations Philippines, Inc. name to PayMaya Operations Philippines, Inc., or PayMaya Ops. PayMaya Ops is 60% and 40% owned by PayMaya and Smart, respectively, with initial capitalization of Php1 million.*

[k] *On November 25, 2015, Smart acquired the remaining 13% noncontrolling shares of WiFun for a total purchase price of Php10 million, of which Php7 million and Php3 million were paid on November 25, 2015 and February 29, 2016, respectively.*

[l] *Ceased commercial operations.*

[m] *On June 16, 2015, Talas was incorporated in the Philippines to implement the Intelligent Data Fabric and immediate delivery of Big Data capability platform of the PLDT Group.*

[n] *Ceased commercial operations and under liquidation due to shortened corporate life to August 31, 2015.*

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

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

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

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

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.

See *Note 14 – Business Combination for further related disclosures*.

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. Smart also informed the NTC that the divestment will be undertaken through an auction sale of CURE's shares of stock to the winning bidder and submitted CURE's audited financial statements as at June 30, 2012 to the NTC. In a letter dated January 21, 2013, the NTC referred the computation of the CRA to the Commissioners of the NTC. Smart sent a reply agreeing to the proposal and is awaiting advice from the NTC on the bidding and auction of the 3G license of CURE.

As at March 24, 2017, CURE is still waiting for advice from the NTC on how to proceed with the planned divestment.

Due to the planned divestment, franchise and licenses related to CURE qualify as noncurrent assets held-for-sale. However, these were not presented separately in our consolidated statements of financial position as the carrying amounts are not material.

PCEV's Common Stock

On June 24, 2014, PCEV's Board of Directors approved a program involving the repurchase or buyback program of its common shares, which are owned by its remaining minority stockholders and offered for sale at a price of not more than Php100,000 per share.

In 2014, the number of holders of PCEV common stock decreased to 97 and because the number of shareholders decreased below 100, PCEV filed a petition to the Philippine SEC for the suspension of duty to file reports under Section 17 of the Philippine SEC Regulation Code on December 22, 2014.

After the buyback program, which ended on June 30, 2015, the number of holders of PCEV common stock decreased to 96.

On December 22, 2015, a year after submission of the petition, PCEV re-filed the notification of suspension of duty to file reports, advising the commission that PCEV will cease filing any reports required under Section 17 of the Philippine SEC Regulation Code beginning January 1, 2016.

Consolidation of Various Digital Businesses of Smart under Voyager

On December 18, 2014, the Board of Directors of Smart approved the consolidation of various digital businesses under Voyager. To facilitate the consolidation of these entities, the following actions were taken: (a) on February 25, 2015, Smart made an additional capital cash infusion to Voyager amounting to Php250 million and converted Php400 million Smart advances to Voyager into additional paid-in capital; (b) on March 4, 2015, Smart sold all of its shares in eInnovations to Voyager for SGD7.6 million, or Php243 million; (c) on March 17, 2015, Smart granted an interest-bearing loan to eInnovations amounting to US$13.5 million, or Php600 million; and (d) on March 26, 2015, Smart sold all of its shares in PayMaya to ePay for Php603 million.

Smart invested additional capital to Voyager amounting to Php3,480 million and Php1,332 million for the years ended December 31, 2016 and 2015, respectively. The additional equity is intended to be used for Voyager's various investments, as well as capital expenditures and working capital requirements. The total investment of Smart in Voyager amounted to Php5,468 million as at December 31, 2016.

The transactions above have no impact on our consolidated financial statements.

Incorporation of Talas

On June 9, 2015, the PLDT 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 28, 2015, for purposes of incorporation, and the balance of Php187.5 million was paid on May 13, 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.

Incorporation of PLDT Capital Pte. Ltd., or PLDT Capital

PLDT Capital was incorporated as a wholly-owned subsidiary of PLDT Online Investments Pte. Ltd., or PLDT Online, on August 12, 2015. As an investment arm, PLDT Capital is envisioned to be an important pillar in supporting the PLDT Group's digital pivot through collaboration with world-class pioneering companies in Silicon Valley, USA and around the world.

In 2015, PLDT Capital made the following investments:

- Investment in Phunware, Inc., or Phunware;
- Investment in AppCard, Inc., or AppCard; and
- Investment in Matrixx Software, Inc., or Matrixx

See *Note 10 – Investments in Associates and Joint Ventures* and *Note 11 – Available-for-Sale Financial Investments*.

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. As a vehicle to execute the agreement, PLDT Capital incorporated Gohopscotch Southeast Asia Pte. Ltd., a Singapore company, on March 1, 2016.

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 subcribers. 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, the Philippine Congress granted the legislative franchise to Smart under Republic Act No. 7294, or R.A. 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. 7294 became law on April 15, 1992, which was 15 days from date of publication in at least two newspapers of general circulation in the Philippines.

Smart's franchise will expire on April 15, 2017. House Bill No. 4637, seeking to extend the franchise granted to Smart for another 25 years, was filed on August 15, 2016. On January 16, 2017, the House of Representatives approved the same on the Third Reading. Senate Bill No. 1302, the counterpart bill in the Senate, was filed by Senator Juan Miguel Zubiri on January 19, 2017. Senate Bill No. 1302 was also approved on the Third Reading. The bill is now an Enrolled Bill as it has been signed by the Senate President, and is now with the Presidential Legislative Liaison Office of the House of Representatives, which is tantamount to a submission to the Office of the President. Thereafter, the President may approve, veto, or take no action on the Enrolled Bill. If the President does not act on the bill, it will automatically lapse into law after a period of 30 days.

PLDT believes that the bill will be approved and passed into a law, considering that majority of the members of both houses of Congress approved the extension of Smart's Franchise.

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 accounting pronouncements starting January 1, 2016. The adoption of these pronouncements did not have any significant impact on the PLDT Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities, and Philippine Accounting Standards, or* PAS, 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception (Amendments)*
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (Amendments)*
- PFRS 14, *Regulatory Deferral Accounts*
- PAS 1, *Presentation of Financial Statements - Disclosure Initiative (Amendments)*
- PAS 16, *Property, Plant and Equipment,* and PAS 38*, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*
- PAS 16, *Property, Plant and Equipment*, and PAS 41*, Agriculture - Bearer Plants (Amendments)*
- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*
- Annual Improvements to PFRS (2012-2014 Cycle)
  - PFRS 5, *Noncurrent Assets Held-for-Sale and Discontinued Operations - Changes in Methods of Disposal (Amendment)*
  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts (Amendment)*
  - PFRS 7, *Applicability of the Amendments to* PFRS 7 *to Condensed Interim Financial Statements (Amendment)*
  - PAS 19, *Employee Benefits - Discount Rate: Regional Market Issue (Amendment)*
  - PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

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 shown on the face of 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 profit or loss.

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 the consolidated statements of financial position based on current or noncurrent classification.

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

We classify all other liabilities as noncurrent.

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

Foreign Currency Transactions and Translations

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

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

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

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

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

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

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

Financial Instruments – Initial recognition and subsequent measurement

Financial Assets

Initial recognition and measurement

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

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

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

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 "Gains (losses) on derivative financial instruments – net" for derivative instruments (negative net changes in fair value) and "Other income (expenses) – net" for non-derivative financial assets (positive net changes in fair value). Interest earned and dividends received from financial assets at FVPL are recognized in our consolidated income statement under "Interest income" and "Other income (expenses) – net", respectively.

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

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

Our financial assets at FVPL include certain short-term investments and derivative financial assets as at December 31, 2016 and 2015. See *Note 28 – 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 effective interest rate, or EIR, method less impairment. This method uses an EIR that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Gains and losses are recognized in our consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our loans and receivables include portions of investment in debt securities and other long-term investments, cash and cash equivalents, certain short-term investments, trade and other receivables and portions of advances and other noncurrent assets as at December 31, 2016 and 2015. See *Note 12 – Investment in Debt Securities and Other Long-term Investments, Note 16 – Cash and Cash Equivalents, Note 17 – Trade and Other Receivables* and *Note 28 – 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 "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, 2016 and 2015. See *Note 12 – Investment in Debt Securities and Other Long-term Investments* and *Note 28 – 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 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 "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 held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial investment to maturity accordingly.

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

Our available-for-sale financial investments include listed and unlisted equity securities as at December 31, 2016 and 2015. See *Note 28 – Financial Assets and Liabilities*.

Financial Liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at FVPL

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

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

Our financial liabilities at FVPL include long-term principal only-currency swaps and interest rate swaps as at December 31, 2016 and 2015. See *Note 28 – 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 "Financing costs – net" in our consolidated income statement.

Our other financial liabilities include accounts payable, accrued expenses and other current liabilities (except for statutory payables), interest-bearing financial liabilities, customers' deposits, dividends payable, and accrual for long-term capital expenditures included under "Deferred credits and other noncurrent liabilities" account as at December 31, 2016 and 2015. 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*.

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 – Impairment of non-financial assets, Note 17 – Trade and Other Receivables* and *Note 28 – Financial Assets and Liabilities – Impairment Assessments* for further disclosures relating to impairment of financial assets.

Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses 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 "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 28 – Financial Assets and Liabilities*.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the "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 strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

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

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

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 a financial asset or liability with a corresponding gain or loss recognized in our consolidated income statement. The changes in the fair value of the hedging instrument are also 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 28 – Financial Assets and Liabilities* for more details.

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

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

We use an interest rate swap agreement to hedge our interest rate exposure on certain outstanding loan balances. See *Note 28 – Financial Assets and Liabilities*.

Current versus noncurrent classification

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

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

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

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

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

Property and Equipment

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

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

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

An item of property and equipment and any significant part initially recognized are derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in 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 are accreted and such accretion is recognized as interest expense. See *Note 9 – Property and Equipment* and *Note 22 – Deferred Credits and Other Noncurrent Liabilities*.

Investment Properties

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

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

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

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

Intangible Assets

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

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

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

The estimated useful lives used in amortizing our intangible assets are disclosed in *Note 15 – Goodwill and Intangible Assets*.

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

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

Inventories and Supplies

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

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

Impairment of Non-Financial Assets

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

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

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

The following assets have specific characteristics for impairment testing:

Property and equipment and intangible assets with definite useful lives

For property and equipment, we also assess for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets, Note 9 – Property and Equipment* and *Note 15 – Goodwill and Intangible Assets* for further disclosures relating to impairment of non-financial assets.

Investments in associates and joint ventures

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income 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.

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 15 – Goodwill and Intangible Assets – Impairment Testing of Goodwill and Intangible Assets with Indefinite Life* for further disclosures relating to impairment of non-financial assets.

Investment in Debt Securities

Investment in debt securities are government securities which are carried at amortized cost using the EIR method. Interest earned from these securities is recognized under "Interest income" in our consolidated income statement.

Cash and Cash Equivalents

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

Short-term Investments

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

Fair value measurement

We measure financial instruments such as derivatives, available-for-sale financial investments and certain short-term investments and non-financial assets such as investment properties, at fair value at each reporting date. The fair values of financial instruments measured at amortized cost are disclosed in *Note 28 – 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 the 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 the 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 the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding value-added tax, or VAT, or overseas communication tax, or OCT, where applicable. When deciding the most appropriate basis for presenting revenue and cost of revenue, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. We are acting as a principal when we have the significant risks and rewards associated with the rendering of telecommunication services. When our role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

Service revenues

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

Subscribers

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

Postpaid service arrangements include fixed monthly charges (including excess of consumable fixed monthly service fees) generated from postpaid cellular voice, short messaging services, or SMS, and data services through the postpaid plans of Smart and Sun Cellular, from cellular and local exchange services primarily through wireless, landline and related services, and from data and other network services primarily through broadband and leased line services, which we recognize on a straight-line basis over the customer's subscription period. Services provided to postpaid subscribers are billed throughout the month according to the billing cycles of subscribers. Services availed by subscribers in addition to these fixed fee arrangements are charged separately and recognized as the additional service is provided or as availed by the subscribers.

Our prepaid service revenues arise from the usage of airtime load from channels and prepaid cards provided by *Smart Prepaid, TNT and Sun Cellular Prepaid*. Proceeds from over-the-air reloading channels and prepaid cards are initially recognized as unearned revenue and realized upon actual usage of the airtime value (i.e., the pre-loaded airtime value of subscriber identification module, or SIM, cards and subsequent top-ups) for voice, SMS, multimedia messaging services, or MMS, content downloading (inclusive of browsing), infotext services and prepaid unlimited and bucket-priced SMS and call subscriptions, net of free SMS allocation and bonus credits (load package purchased, i.e., free additional SMS or minute calls or Peso credits), or upon expiration of the usage period, whichever comes earlier. Interconnection fees and charges arising from the actual usage of airtime value or subscriptions are recorded as incurred.

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

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

Connecting carriers

Interconnection revenues for call termination, call transit and network usages are recognized in the period in which the traffic occurs. Revenues related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided and the equivalent amounts charged to us by other carriers are recorded under interconnection costs in our consolidated income statement. Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers.

Value-Added Services, or VAS

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

Incentives

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

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

Multiple-deliverable arrangements

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

Other services

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

Non-service revenues

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

Interest income

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

Dividend income

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

Expenses

Expenses are recognized as incurred.

Provisions

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

Retirement Benefits

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 "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 26 – 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. Smart and certain of its subsidiaries, however, are covered under Republic Act 7641, or R.A. 7641, otherwise known as "The Philippine Retirement Law", which 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 26 – Employee Benefits – Defined Contribution Plans* for more details.

Other Long-term Employee Benefits

Our liability arising from the 2012 to 2014 Long-term Incentive Plan, or the 2012 to 2014 LTIP, is determined using the projected unit credit method. 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.

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 using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

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

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

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

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

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

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

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

VAT

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

Contingencies

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

Events After the End of the Reporting Period

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

Equity

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

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

Standards Issued But Not Yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are listed below. We will adopt these standards and amendments to existing standards which are relevant to us when these become effective. Except for Philippine Financial Reporting Standards, or PFRS, 9, *Financial Instruments*, PFRS 15, *Revenue from Contracts with Customers*, and 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, 2017

- *Amendments to* PFRS 12*, Clarification of the Scope of the Standard* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- *Amendments to* PAS 7*, Statement of Cash Flows, Disclosure Initiative*
- *Amendments to* PAS 12*, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning on or after January 1, 2018

- *Amendments to* PFRS 2*, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- *Amendments to* PFRS 4*, Insurance Contracts, Applying* PFRS 9*, Financial Instruments, with* PFRS 4
- *Amendments to* PAS 28*, Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- *Amendments to* PAS 40*, Investment Property, Transfers of Investment Property*
- *Philippine Interpretation* IFRIC 22*, Foreign Currency Transactions and Advance Consideration*

- PFRS 15*, Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. 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 principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. We are currently assessing the impact of adopting this standard.

- PFRS 9, *Financial Instruments*

The standard reflects all phases of the financial instruments project and 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. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. We did not early adopt PFRS 9.

The adoption of PFRS 9 will have an effect on the classification and measurement of our financial assets, but will have no significant impact on the classification and measurement of our financial liabilities. The adoption will also have an effect on our application of hedge accounting and on the amount of credit losses on financial assets. We are currently assessing the impact of adopting this standard.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

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

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

Entities may early adopt PFRS 16 but not before an entity applies PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

We are currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- *Amendments to* PFRS 10 *and* PAS 28*, Sale of Contribution of Assets between an Investor and Its Associate or Joint Venture*

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

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

Judgments

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

Extension of Smart's congressional franchise

Smart franchise will expire on April 15, 2017 and House Bill No. 4637, seeking to extend the franchise granted to Smart for another 25 years, was filed on August 15, 2016.

PLDT believes that the bill will be approved and passed into a law, considering that majority of the members of both houses of Congress approved the extension of Smart's Franchise. See *Note 2 – Summary of Significant Accounting Policies – Extension of Smart's Congressional Franchise*.

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 use the U.S. dollar; (b) eInnovations, Takatack Holdings, Takatack Technologies, iCommerce, Fintech Ventures, ePay, 3rd Brand, CPL and AGSPL, which use the Singapore dollar; (c) CCCBL, which uses the Chinese renminbi; (d) AGS Malaysia and Takatack Malaysia, which uses the Malaysian ringgit; and (e) AGS Indonesia, which uses the Indonesian rupiah.

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*, Leases*. Total lease expense amounted to Php6,912 million, Php6,376 million and Php6,692 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total finance lease obligations amounted to nil and Php1 million as at December 31, 2016 and 2015, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 21 – Interest-bearing Financial Liabilities – Obligations under Finance Leases* and *Note 28 – Financial Assets and Liabilities – Liquidity Risk*.

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.

The carrying value of our investments in PDRs issued by MediaQuest amounted to Php12,647 million and Php12,749 million as at December 31, 2016 and 2015, respectively. See related discussion on *Note 10 – Investments in Associates and Joint Ventures – Investments in Associates – Investment in MediaQuest PDRs*.

Accounting for investments in Phunware and AppCard

In 2015, PLDT Capital subscribed to preferred shares of Phunware and AppCard. See *Note 10 – Investments in Associates and Joint Ventures*. The investments in Phunware and AppCard allow PLDT Capital to designate one director to the five-seat board of each of Phunware and AppCard for as long as PLDT Capital beneficially owns a specified percentage of Phunware or AppCard shares, as applicable.

Based on our judgment, at the PLDT Group Level, PLDT Capital's investments in preferred shares give PLDT a significant influence over Phunware and AppCard as evidenced by the board seats assigned to us. This gives us the authority to participate in the financial and operating policy decisions of Phunware and AppCard but neither control nor joint control of those policies. Hence, the investments are accounted for as investment in associates.

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 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 such 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 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. Further, 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*, Investment 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, to Php14,587 million as at December 31, 2015 is considered significant as the cumulative net losses from changes in fair value amounting to Php5,124 million represents 26% decline in value below cost. As a result, we recognized in our consolidated income statement an impairment of our investment in Rocket amounting to Php5,124 million for the year ended December 31, 2015. We recognized additional impairment loss of Php5,381 million as the fair value of Rocket further declined to Php9,206 million for the six months ended June 30, 2016. We recognized an unrealized gain of Php852 million in the "Net gains (losses) on available-for-sale financial investments" account in our consolidated other comprehensive income for the six months ended December 31, 2016 due to slight recovery of Rocket's fair value to Php10,058 million as at December 31, 2016. See related discussion on *Note 5 – Income and Expenses* and *Note 11 – Available-for-Sale Financial Investments – Investment of PLDT Online in Rocket.*

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 the 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 value in use of the CGUs to which these assets are allocated. The value in use calculation requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. See *Note 15 – Goodwill and Intangible Assets – Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Life* for the key assumptions used to determine the value in use of the relevant CGUs.

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

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

Total asset impairment on noncurrent assets amounted to Php1,074 million, Php5,788 million and Php3,844 million for the years ended December 31, 2016, 2015 and 2014, respectively.

See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment* and *Note 9 – Property and Equipment – Impairment of Certain Wireless Network Equipment and Facilities*.

The carrying values of our property and equipment, investments in associates, joint ventures and deposits, goodwill and intangible assets, and prepayments are separately disclosed in *Notes 9, 10, 15* and *19,* 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 estimate of the useful lives of our property and equipment is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property and equipment are reviewed every year-end and are 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 amortization and decrease our property and equipment.

The total depreciation and amortization of property and equipment amounted to Php34,455 million, Php31,519 million and Php31,379 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php203,188 million and Php195,782 million as at December 31, 2016 and 2015, 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 Php929 million, Php1,076 million and Php1,149 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total carrying values of intangible assets with finite lives amounted to Php4,396 million and Php5,219 million as at December 31, 2016 and 2015, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information* and *Note 15 – Goodwill and Intangible Assets*.

Business combinations

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method, which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in our consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance and position. See *Note 14 – Business Combination*.

Recognition of deferred income tax assets

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

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php5,829 million and Php10,759 million as at December 31, 2016 and 2015, respectively. Total consolidated benefit from deferred income tax amounted to Php4,134 million, Php4,710 million and Php1,024 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total consolidated recognized deferred income tax assets amounted to Php27,348 million and Php21,941 million as at December 31, 2016 and 2015, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information* and *Note 7 – Income Taxes*.

Estimating allowance for doubtful accounts

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

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

Total provision for doubtful accounts for trade and other receivables recognized in our consolidated income statements amounted to Php8,027 million, Php3,391 million and Php2,023 million for the years ended December 31, 2016, 2015 and 2014, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php24,436 million and Php24,898 million as at December 31, 2016 and December 31, 2015, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment, Note 17 – Trade and Other Receivables* and *Note 28 – Financial Assets and Liabilities*.

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, operating margin, capital expenditures, discount rates and terminal growth rates. See *Note 26 – 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 Php1,775 million, Php1,895 million and Php1,702 million for the years ended December 31, 2016, 2015 and 2014, respectively. The prepaid benefit costs amounted to Php261 million and Php306 million as at December 31, 2016 and 2015, respectively. The accrued benefit costs amounted to Php11,206 million and Php10,197 million as at December 31, 2016 and 2015, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 19 – Prepayments* and *Note 26 – Employee Benefits – Defined Benefit Pension Plans*.

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/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/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 Php1,582 million and Php1,437 million as at December 31, 2016 and 2015, respectively. See *Note 22 – Deferred Credits and Other Noncurrent Liabilities*.

Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings and tax assessments. Our estimates of the probable costs for the resolution of these claims have been developed in consultation with our counsel handling the defense in these matters and are based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial position and performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 27 – Provisions and Contingencies*.

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

Revenue recognition

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 Recognition,* 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, 2016 amounted to Php8,120 million and Php160,990 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2015 amounted to Php3,277 million and Php165,572 million, respectively. See *Note 28 – Financial Assets and Liabilities*.

4. Operating Segment Information

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

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

- Wireless – wireless telecommunications services provided by Smart and DMPI, a wholly-owned subsidiary of Digitel, our mobile service providers; Voyager and certain subsidiaries, our mobile applications and digital platforms developer and mobile financial services provider; SBI and PDSI, our wireless broadband service providers; ACeS Philippines, our satellite information and messaging services provider; and certain subsidiaries of PLDT Global, our mobile virtual network operations, or MVNO, provider;

- Fixed Line – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, ClarkTel, SubicTel, Philcom Group, Maratel, SBI, BCC, PLDT Global and certain subsidiaries and Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, big data, managed information technology services and resellership through ePLDT, IPCDSI Group, AGS Group, Curo and ePDS; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation through Talas; and distribution of Filipino channels and content through PGNL and its subsidiaries; and

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

See *Note 2 – Summary of Significant Accounting Policies* and *Note 14 – Business Combination* for further discussion.

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

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

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

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

Transfer prices between operating segments are on arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated in full upon consolidation.

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

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

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

The segment revenues, net income, and other segment information of our reportable operating segments as at December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 are as follows:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(in million pesos)		
December 31, 2016					
Revenues					
External customers	103,447	61,806	9	–	165,262
Service revenues	99,115	58,086	9	–	157,210
Non-service revenues	4,332	3,720	–	–	8,052
Inter-segment transactions	1,467	10,922	11	(12,400)	–
Service revenues	1,467	10,920	11	(12,398)	–
Non-service revenues	–	2	–	(2)	–
Total revenues	104,914	72,728	20	(12,400)	165,262
Results					
Depreciation and amortization	18,984	15,471	–	–	34,455
Asset impairment	9,284	1,758	–	–	11,042
Impairment of investments	134	–	5,381	–	5,515
Equity share in net earnings (losses) of associates and joint ventures	(237)	(40)	1,458	–	1,181
Interest income	270	707	306	(237)	1,046
Financing costs – net	2,487	4,917	187	(237)	7,354
Provision for (benefit from) income tax	(1,270)	3,018	161	–	1,909
Net income / Segment profit	9,463	8,134	2,565	–	20,162
EBITDA	32,661	26,950	(22)	1,572	61,161
EBITDA margin	32%	39%	–	–	39%
Core income	11,402	7,746	8,709	–	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	32,097	10,728	–	–	42,825
December 31, 2015					
Revenues					
External customers	113,985	57,118	–	–	171,103
Service revenues	109,188	53,742	–	–	162,930
Non-service revenues	4,797	3,376	–	–	8,173
Inter-segment transactions	1,528	11,747	–	(13,275)	–
Service revenues	1,528	11,733	–	(13,261)	–
Non-service revenues	–	14	–	(14)	–
Total revenues	115,513	68,865	–	(13,275)	171,103
Results					
Depreciation and amortization	17,218	14,301	–	–	31,519
Asset impairment	8,446	1,244	–		9,690
Impairment of investments	–	42	5,124	–	5,166
Equity share in net earnings (losses) of associates and joint ventures	(81)	38	3,284	–	3,241
Interest income	308	620	99	(228)	799
Financing costs – net	1,799	4,509	179	(228)	6,259
Provision for income tax	2,763	1,656	144	–	4,563
Net income / Segment profit	15,434	6,193	448	–	22,075
EBITDA	44,237	24,749	(59)	1,291	70,218
EBITDA margin	40%	38%	–	–	43%
Core income	22,512	6,539	6,161	–	35,212
Assets and liabilities					
Operating assets	217,317	190,856	18,504	(42,226)	384,451
Investments in associates and joint ventures	2,208	12,922	33,573	–	48,703
Deferred income tax assets – net	8,249	13,692	–	–	21,941
Total assets	227,774	217,470	52,077	(42,226)	455,095
Operating liabilities	171,131	182,085	12,149	(27,872)	337,493
Deferred income tax liabilities – net	3,146	412	146	–	3,704
Total liabilities	174,277	182,497	12,295	(27,872)	341,197
Other segment information					
Capital expenditures, including capitalized interest	30,311	12,864	–	–	43,175

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(in million pesos)		
December 31, 2014					
Revenues					
External customers	117,297	53,538	–	–	170,835
Service revenues	113,455	51,488	–	–	164,943
Non-service revenues	3,842	2,050	–	–	5,892
Inter-segment transactions	1,582	12,640	–	(14,222)	–
Service revenues	1,582	12,619	–	(14,201)	–
Non-service revenues	–	21	–	(21)	–
Total revenues	118,879	66,178	–	(14,222)	170,835
Results					
Depreciation and amortization	16,375	15,004	–	–	31,379
Asset impairment	5,620	426	–	–	6,046
Equity share in net earnings (losses) of associates and joint ventures	(11)	63	3,789	–	3,841
Interest income	217	350	295	(110)	752
Financing costs – net	1,646	3,724	60	(110)	5,320
Provision for income tax	7,158	2,818	82	–	10,058
Net income / Segment profit	21,895	6,722	5,473	–	34,090
EBITDA	50,917	24,555	(56)	1,334	76,750
EBITDA margin	44%	38%	–	–	47%
Core income	25,176	6,691	5,543	–	37,410
Other segment information					
Capital expenditures, including capitalized interest	23,048	11,711	–	–	34,759

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
		(in million pesos)	
EBITDA	**61,161**	70,218	76,750
Add (deduct) adjustments:			
Equity share in net earnings of associates and joint ventures	**1,181**	3,241	3,841
Interest income	**1,046**	799	752
Gains (losses) on derivative financial instruments – net	**996**	420	(101)
Amortization of intangible assets	**(929)**	(1,076)	(1,149)
Asset impairment	**(1,074)**	(5,788)	(3,844)
Provision for income tax	**(1,909)**	(4,563)	(10,058)
Foreign exchange losses – net	**(2,785)**	(3,036)	(382)
Impairment of investments	**(5,515)**	(5,166)	–
Financing costs – net	**(7,354)**	(6,259)	(5,320)
Depreciation and amortization	**(34,455)**	(31,519)	(31,379)
Other income – net	**9,799**	4,804	4,980
Total adjustments	**(40,999)**	(48,143)	(42,660)
Consolidated net income	**20,162**	22,075	34,090

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
		(in million pesos)	
Consolidated core income	**27,857**	35,212	37,410
Add (deduct) adjustments:			
Gains on derivative financial instruments – net, excluding hedge costs	**1,539**	762	208
Net income (loss) attributable to noncontrolling interests	**156**	10	(1)
Net tax effect of aforementioned adjustments	**79**	260	778
Core income adjustment on equity share in net losses of associates and joint ventures	**(95)**	(179)	(79)
Asset impairment	**(1,074)**	(5,788)	(3,844)
Foreign exchange losses – net	**(2,785)**	(3,036)	(382)
Impairment of investments	**(5,515)**	(5,166)	–
Total adjustments	**(7,695)**	(13,137)	(3,320)
Consolidated net income	**20,162**	22,075	34,090

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, 2016, 2015 and 2014:

	2016		2015		2014	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Consolidated core EPS	**128.68**	**128.68**	162.70	162.70	172.88	172.88
Add (deduct) adjustments:						
Gains on derivative financial instruments – net, excluding hedge costs	**4.98**	**4.98**	2.47	2.47	0.55	0.55
Core income adjustment on equity share in net losses of associates and joint ventures	**(0.45)**	**(0.45)**	(0.83)	(0.83)	(0.37)	(0.37)
Foreign exchange losses – net	**(10.40)**	**(10.40)**	(11.85)	(11.85)	(1.40)	(1.40)
Asset impairment	**(30.48)**	**(30.48)**	(50.64)	(50.64)	(14.15)	(14.15)
Total adjustments	**(36.35)**	**(36.35)**	(60.85)	(60.85)	(15.37)	(15.37)
Consolidated EPS attributable to common equity holders of PLDT	**92.33**	**92.33**	101.85	101.85	157.51	157.51

The following table presents our revenues from external customers by category of products and services for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
		(in million pesos)	
Wireless services			
Service revenues:			
Mobile	**95,066**	104,175	107,236
Home broadband	**2,758**	3,016	3,981
Digital platforms and mobile financial services	**709**	1,048	1,056
MVNO and others	**582**	949	1,182
	99,115	109,188	113,455
Non-service revenues:			
Sale of cellular handsets, cellular SIM-packs and broadband data modems	**4,332**	4,797	3,842
Total wireless revenues	**103,447**	113,985	117,297
Fixed line services			
Service revenues:			
Voice	**25,502**	25,799	27,007
Data	**31,727**	27,170	23,721
Miscellaneous	**857**	773	760
	58,086	53,742	51,488
Non-service revenues:			
Sale of computers, phone units and SIM cards	**2,907**	2,690	1,522
Point-product-sales	**813**	686	528
	3,720	3,376	2,050
Total fixed line revenues	**61,806**	57,118	53,538
Other services	**9**	–	–
Total revenues	**165,262**	171,103	170,835

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, 2016, 2015 and 2014.

5. Income and Expenses

Non-service Revenues

Non-service revenues for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Sale of computers, cellular handsets, cellular SIM-packs and broadband data modems	**7,239**	7,487	5,364
Point-product-sales	**813**	686	528
Total non-service revenues	**8,052**	8,173	5,892

Compensation and Employee Benefits

Compensation and employee benefits for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Salaries and other employee benefits	**17,734**	17,947	16,637
Pension benefit costs (Note 26)	**1,775**	1,895	1,702
Manpower rightsizing program, or MRP	**419**	1,764	242
Incentive plans (Note 26)	**–**	–	168
Total compensation and employee benefits	**19,928**	21,606	18,749

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

Cost of sales for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Cost of computers, cellular handsets, cellular SIM-packs sold and broadband data modems	**16,053**	15,794	13,055
Cost of point-product-sales	**700**	579	432
Cost of satellite air time and terminal units (Note 25)	**–**	16	25
Total cost of sales	**16,753**	16,389	13,512

Asset Impairment

Asset impairment for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Trade and other receivables (Notes 17 and 28)	**8,027**	3,391	2,023
Inventories and supplies (Note 18)	**1,941**	511	179
Goodwill and intangible assets (Note 15)	**1,038**	–	–
Property and equipment (Note 9)	**–**	5,788	3,844
Others	**36**	–	–
Total asset impairment	**11,042**	9,690	6,046

Interest Income

Interest income for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Interest income on loans and receivables	**980**	742	533
Interest income on HTM investments (Note 12)	**36**	43	211
Interest income on FVPL	**30**	14	8
Total interest income (Notes 12 and 16)	**1,046**	799	752

Financing Costs – net

Financing costs – net for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Interest on loans and other related items (Notes 21 and 28)	**7,522**	6,289	5,429
Accretion on financial liabilities (Notes 21 and 28)	**230**	231	165
Financing charges	**168**	109	168
Capitalized interest (Notes 9 and 21)	**(566)**	(370)	(442)
Total financing costs – net (Notes 9, 21 and 28)	**7,354**	6,259	5,320

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, 2016, 2015 and 2014 are as follows:

	Foreign currency translation differences of subsidiaries	Net gains (losses) 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	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, 2016	**524**	**76**	**(3)**	**602**	**(19,805)**	**404**	**(18,202)**	**12**	**(18,190)**
Other comprehensive income (loss)	**84**	**860**	**10**	**17**	**(3,571)**	**151**	**(2,449)**	**(5)**	**(2,454)**
Recycled to retained earnings	**–**	**–**	**–**	**–**	**–**	**(243)**	**(243)**	**–**	**(243)**
Balances as at December 31, 2016	**608**	**936**	**7**	**619**	**(23,376)**	**312**	**(20,894)**	**7**	**(20,887)**
Balances as at January 1, 2015	489	8,211	(34)	603	(18,207)	653	(8,285)	2	(8,283)
Other comprehensive income (loss)	35	(8,135)	31	(1)	(1,598)	(249)	(9,917)	10	(9,907)
Balances as at December 31, 2015	524	76	(3)	602	(19,805)	404	(18,202)	12	(18,190)
Balances as at January 1, 2014	496	67	40	239	(13,333)	1,010	(11,481)	(2)	(11,483)
Other comprehensive income (loss)	(7)	8,144	(74)	364	(4,874)	(357)	3,196	4	3,200
Balances as at December 31, 2014	489	8,211	(34)	603	(18,207)	653	(8,285)	2	(8,283)

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, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Net deferred income tax assets	**27,348**	21,941
Net deferred income tax liabilities	**3,567**	3,704

The components of our consolidated net deferred income tax assets and liabilities as at December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Net deferred income tax assets:		
Customer list and trademark	**8,686**	2,654
Unamortized past service pension costs	**4,795**	4,182
Pension and other employee benefits	**3,569**	3,142
Accumulated provision for doubtful accounts	**2,925**	2,921
Provision for other assets	**2,798**	2,552
Unrealized foreign exchange losses	**2,735**	2,335
Unearned revenues	**1,572**	1,730
Accumulated write-down of inventories to net realizable values	**624**	224
NOLCO	**231**	1,238
Fixed asset impairment	**82**	1,219
MCIT	**65**	–
Derivative financial instruments	**(72)**	230
Undepreciated capitalized interest charges	**(1,167)**	(1,378)
Others	**505**	892
Total deferred income tax assets – net	**27,348**	21,941
Net deferred income tax liabilities:		
Intangible assets and fair value adjustment on assets acquired – net of amortization	**2,597**	2,808
Unamortized fair value adjustment on fixed assets from business combination	**409**	458
Unrealized foreign exchange gains	**273**	159
Undepreciated capitalized interest charges	**8**	9
Others	**280**	270
Total deferred income tax liabilities – net	**3,567**	3,704

Changes in our consolidated net deferred income tax assets (liabilities) as at December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Net deferred income tax assets – balance at beginning of the year	**21,941**	17,131
Net deferred income tax liabilities – balance at beginning of the year	**(3,704)**	(4,427)
Net balance at beginning of the year	**18,237**	12,704
Provision for deferred income tax	**4,134**	4,710
Movement charged directly to other comprehensive income	**1,467**	784
Others	**(57)**	39
Net balance at end of the year	**23,781**	18,237
Net deferred income tax assets – balance at end of the year	**27,348**	21,941
Net deferred income tax liabilities – balance at end of the year	**(3,567)**	(3,704)

The analysis of our consolidated net deferred income tax assets as at December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	**23,664**	20,964
Deferred income tax assets to be recovered within 12 months	**5,616**	3,076
	29,280	24,040
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(1,308)**	(1,341)
Deferred income tax liabilities to be settled within 12 months	**(624)**	(758)
	(1,932)	(2,099)
Net deferred income tax assets	**27,348**	21,941

The analysis of our consolidated net deferred income tax liabilities as at December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	–	11
Deferred income tax assets to be recovered within 12 months	–	3
	–	14
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	(3,222)	(3,469)
Deferred income tax liabilities to be settled within 12 months	(345)	(249)
	(3,567)	(3,718)
Net deferred income tax liabilities	(3,567)	(3,704)

Provision for corporate income tax for the years ended December 31, 2016 and 2015 consist of:

	2016	2015	2014
		(in million pesos)	
Current	6,043	9,273	11,082
Deferred	(4,134)	(4,710)	(1,024)
	1,909	4,563	10,058

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, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
		(in million pesos)	
Provision for income tax at the applicable statutory tax rate	6,621	9,529	13,244
Tax effects of:			
Nondeductible expenses	3,239	1,171	450
Difference between Optional Standard Deduction, or OSD, and itemized deductions	(20)	(33)	(242)
Income not subject to income tax	(35)	(168)	(417)
Income subject to lower tax rate	(168)	(104)	(110)
Equity share in net earnings of associates and joint ventures	(354)	(972)	(1,152)
Income subject to final tax	(2,879)	(680)	(224)
Net movement in unrecognized deferred income tax assets and other adjustments	(4,495)	(4,180)	(1,491)
Actual provision for corporate income tax	1,909	4,563	10,058

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, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
NOLCO	7,844	7,194
Provisions for other assets	4,926	5,098
Accumulated provision for doubtful accounts	3,836	5,216
Fixed asset impairment	818	12,338
Asset retirement obligation	656	588
MCIT	260	398
Accumulated write-down of inventories to net realizable values	234	231
Pension and other employee benefits	93	94
Unrealized foreign exchange losses	87	312
Unearned revenues	65	3,417
Derivative financial instruments and others	4	48
	18,823	34,934
Unrecognized deferred income tax assets	5,829	10,759

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 Php3,573 million and Php9,874 million as at December 31, 2016 and 2015, 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, 2016 are as follows:

Date Incurred	Expiry Date	MCIT	NOLCO
		(in million pesos)	
December 31, 2014	December 31, 2017	73	310
December 31, 2015	December 31, 2018	93	1,911
December 31, 2016	December 31, 2019	159	6,394
		325	8,615
Consolidated tax benefits		325	2,584
Consolidated unrecognized deferred income tax assets		(260)	(2,353)
Consolidated recognized deferred income tax assets		65	231

The excess MCIT totaling Php325 million as at December 31, 2016 can be deducted against future RCIT liability. The excess MCIT that was deducted against RCIT amounted to nil for the years ended December 31, 2016 and 2015, and Php33 million for the year ended December 31, 2014. The amount of expired portion of excess MCIT amounted to Php232 million, Php91 million and Php61 million for the years ended December 31, 2016, 2015 and 2014, respectively.

NOLCO totaling Php8,615 million as at December 31, 2016 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php8,531 million, Php14 million and Php130 million for the years ended December 31, 2016, 2015 and 2014, respectively. The amount of expired portion of excess NOLCO amounted to Php571 million, nil and Php39 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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

SubicTel is registered with Subic Bay Freeport Enterprise, while ClarkTel is registered with Clark Special Economic Zone Enterprise under Republic Act 7227, or 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.

Registration with Philippine Economic Zone Authorities, or PEZA

On June 14, 2012, the PEZA through its Resolution No. 12-312, approved the transfer of all rights, obligations and assets of IPCDSI under its Registration and Supplemental Agreements with the PEZA. The Registration Agreement dated April 24, 2006 provided that IPCDSI's Information Technology Operations shall be covered by the 5% gross income tax, or GIT, incentive, in lieu of national and local taxes, including additional deductions for training expenses and other incentives. The Supplemental Agreements dated November 13, 2007 and June 29, 2011 provided for the granting of non-pioneer status and tax incentives under R.A. 7916 to expansion project in Rizal Commercial Banking Corporation, or RCBC, Plaza and new project in Bonifacio Technology Center Building. Both projects were subjected to GIT after the expiration of income tax holiday incentive on October 23, 2015.

Consolidated income derived from non-registered activities with Economic Zone and Board of Investments, or BOI, is subject to the RCIT rate at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI amounted to nil, Php55 million and Php40 million for the years ended December 31, 2016, 2015 and 2014, respectively.

8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the years ended December 31, 2016, 2015 and 2014:

	2016		2015		2014	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
			(in million pesos)			
Consolidated net income attributable to equity holders of PLDT	**20,006**	**20,006**	22,065	22,065	34,091	34,091
Dividends on preferred shares (Note 20)	**(59)**	**(59)**	(59)	(59)	(59)	(59)
Consolidated net income attributable to common equity holders of PLDT	**19,947**	**19,947**	22,006	22,006	34,032	34,032
	(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	**92.33**	**92.33**	101.85	101.85	157.51	157.51

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 year.

Diluted EPS amounts are calculated in the same manner assuming that, at the beginning of the year or at the time of issuance during the 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 year exceeds the exercise price of the stock option.

Convertible preferred shares are deemed dilutive when required dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, decreases the basic EPS. As such, the diluted EPS is calculated by dividing our consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the 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, 2016 and 2015 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, 2014										
Cost	182,019	118,149	161,246	26,844	51,017	966	11,830	3,461	50,066	605,598
Accumulated depreciation, impairment and amortization	(127,860)	(98,074)	(116,041)	(16,704)	(43,201)	(966)	(10,507)	(261)	–	(413,614)
Net book value	54,159	20,075	45,205	10,140	7,816	–	1,323	3,200	50,066	191,984
Year Ended December 31, 2015										
Net book value at beginning of the year	54,159	20,075	45,205	10,140	7,816	–	1,323	3,200	50,066	191,984
Additions	2,258	540	10,276	239	2,309	–	519	15	27,076	43,232
Disposals/Retirements	(6)	(96)	(37)	(214)	(227)	–	–	(33)	(23)	(636)
Translation differences charged directly to cumulative translation adjustments	1	4	–	–	2	–	–	–	–	7
Impairment losses recognized during the year (Note 5)	(2,343)	–	(3,358)	–	(87)	–	–	–	–	(5,788)
Reclassifications (Note 13)	(42)	611	121	484	(666)	–	41	(4)	(2,041)	(1,496)

	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)				
Transfers and others	4,185	2,456	7,773	300	2,358	–	594	2	(17,668)	–
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	–	–	–	(2)	–	–	–	–	–	(2)
Depreciation and amortization	(9,975)	(4,059)	(11,902)	(1,452)	(3,336)	–	(793)	(2)	–	(31,519)
Net book value at end of the year	48,237	19,531	48,078	9,495	8,169	–	1,684	3,178	57,410	195,782
As at December 31, 2015										
Cost	187,195	112,867	177,118	27,162	53,797	966	12,962	3,441	57,410	632,918
Accumulated depreciation, impairment and amortization	(138,958)	(93,336)	(129,040)	(17,667)	(45,628)	(966)	(11,278)	(263)	–	(437,136)
Net book value	48,237	19,531	48,078	9,495	8,169	–	1,684	3,178	57,410	195,782
Year Ended December 31, 2016										
Net book value at beginning of the year	48,237	19,531	48,078	9,495	8,169	–	1,684	3,178	57,410	195,782
Additions	3,419	357	19,225	374	3,358	–	674	7	15,668	43,082
Disposals/Retirements	(11)	(8)	(97)	(85)	(251)	–	–	(15)	(69)	(536)
Reclassifications (Note 13)	(2)	285	(196)	33	(594)	–	–	4	(219)	(689)
Transfers and others	6,315	3,189	10,660	332	1,258	–	963	3	(22,720)	–
Translation differences charged directly to cumulative translation adjustments	4	1	–	–	1	–	–	–	–	6
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	–	–	–	(2)	–	–	–	–	–	(2)
Depreciation and amortization	(9,932)	(4,687)	(13,278)	(1,225)	(4,268)	–	(1,063)	(2)	–	(34,455)
Net book value at end of the year	**48,030**	**18,668**	**64,392**	**8,922**	**7,673**	**–**	**2,258**	**3,175**	**50,070**	**203,188**
As at December 31, 2016										
Cost	196,652	115,461	202,581	25,914	55,973	966	14,596	3,440	50,070	665,653
Accumulated depreciation, impairment and amortization	(148,622)	(96,793)	(138,189)	(16,992)	(48,300)	(966)	(12,338)	(265)	–	(462,465)
Net book value	**48,030**	**18,668**	**64,392**	**8,922**	**7,673**	**–**	**2,258**	**3,175**	**50,070**	**203,188**

Interest capitalized to property and equipment that qualified as borrowing costs amounted to Php566 million, Php370 million and Php442 million for the years ended December 31, 2016, 2015 and 2014, 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 Php5,289 million and Php5,553 million as at December 31, 2016 and 2015, respectively. The average interest capitalization rate used was approximately 4% for each of the years ended December 31, 2016, 2015 and 2014.

Our net foreign exchange differences, which qualified as borrowing costs, amounted to Php111 million, Php144 million and Php71 million for the years ended December 31, 2016, 2015 and 2014, respectively. Our undepreciated capitalized net foreign exchange losses that qualified as borrowing costs amounted to Php356 million and Php274 million as at December 31, 2016 and 2015, 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 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

Property and equipment include the net carrying value of capitalized vehicles, aircraft, furniture and other network equipment under financing leases, which amounted to Php71 thousand and Php3 million as at December 31, 2016 and 2015, respectively. See *Note 21 – Interest-bearing Financial Liabilities – Obligations under Finance Leases*.

Impairment of Certain Network Equipment and Facilities

In 2014, SBI and PDSI recognized impairment losses equivalent to the net book values of our Canopy and Wimax equipment. Canopy and Wimax technologies have become less preferable as telecommunications operators shift to Long-Term Evolution, or LTE, which offers improved speed and more compatibility with 2G and 3G technologies. Total impairment losses recognized for the year ended December 31, 2014 amounted to Php2,394 million and Php1,223 million for SBI and PDSI, respectively.

Also in 2014, PLDT implemented a fiber optic footprint and backbone expansion which increased bandwidth connectivity between different regions of the country and provided subscribers with opportunities for better services. In relation to this expansion, PLDT recognized an impairment provision equivalent to the net book value of certain transmission facilities replaced by the program amounting to Php227 million for the year ended December 31, 2014.

In December 2015, DMPI recognized an impairment loss of Php5,789 million pertaining to network assets affected by the convergence program of Smart and DMPI. Network assets impaired in 2015 consist mainly of core and transport equipment in Metro Manila and Cebu, which were not included in the initial program as management's original strategy was to minimize the risk of service disruption for Sun subscribers in critical and high traffic areas. We decided to change the strategy for network convergence, that is, to fully integrate the networks of Smart and DMPI, as management believes that the converged network will be resilient enough to address any risk of service disruption in the critical and high traffic areas. Moreover, the converged network will allow optimization of network resources that will result in improved customer experience for both Sun and Smart subscribers.

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, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Carrying value of investments in associates:		
MediaQuest PDRs	**12,647**	12,749
Asia Outsourcing Beta Limited, or Beta	**855**	654
AF Payments, Inc., or AFPI, (formerly Automated Fare Collection System, Inc.)[*]	**407**	533
Phunware	**384**	384
Digitel Crossing, Inc., or DCI	**238**	173
Appcard	**234**	231
ACeS International Limited, or AIL	**–**	–
Asia Netcom Philippines Corp., or ANPC	**–**	–
	14,765	14,724
Carrying value of investments in joint ventures:		
VTI, Bow Arken and Brightshare	**26,962**	–
Beacon Electric Asset Holdings, Inc., or Beacon	**13,593**	32,304
Philippines Internet Holding S.à.r.l., or PHIH	**1,538**	1,595
ECommerce Pay Holding S.à.r.l., or ECommerce Pay	**–**	80
	42,093	33,979
Total carrying value of investments in associates and joint ventures	**56,858**	48,703

[*] *On February 26, 2015, AFPI through its Board of Directors and stockholders amended its corporate name to AF Payments, Inc.*

Changes in the cost of investments for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Balance at beginning of the year	**41,150**	37,724
Additions during the year	**27,993**	3,413
Disposals	**(11,692)**	–
Translation and other adjustments	**14**	13
Balance at end of the year	**57,465**	41,150

Changes in the accumulated impairment losses for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Balance at beginning of the year	**1,888**	1,884
Translation and other adjustments	**4**	4
Balance at end of the year	**1,892**	1,888

Changes in the accumulated equity share in net earnings of associates and joint ventures for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Balance at beginning of the year	**9,441**	6,206
Realized portion of deferred gain on the transfer of Beacon and Manila Electric Company, or Meralco, shares	**4,962**	2,838
Equity share in net earnings (losses) of associates and joint ventures:	**1,181**	3,241
Beacon	**2,089**	3,205
Beta	**396**	79
DCI	**62**	114
ECommerce Pay	**(52)**	–
PHIH	**(58)**	–
MediaQuest PDRs	**(102)**	(76)
AFPI	**(127)**	(81)
VTI	**(1,027)**	–
Share in the other comprehensive loss of associates and joint ventures accounted for using the equity method	**(91)**	(249)
Dividends	**(4,389)**	(2,544)
Disposals	**(9,617)**	–
Translation and other adjustments	**(202)**	(51)
Balance at end of the year	**1,285**	9,441

Investments in Associates

Investment 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. 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. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including equity interests in the three leading newspapers: The Philippine Star, Philippine Daily Inquirer, and Business World. See *Note 26 – 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 May 30, 2015, the Board of Trustees of the Beneficial Trust Fund and the Board of Directors of MediaQuest approved the issuance of Php3,250 million Hastings PDRs. This provided ePLDT with 70% economic interest in Hastings. See *Note 26 – Employee Benefits – Investment in MediaQuest*.

The carrying value of investment in MediaQuest PDRs amounted to Php12,647 million and Php12,749 million as at December 31, 2016 and 2015, respectively. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Accounting for investments in MediaQuest through PDRs*.

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 multi-media content to its customers across the PLDT Group's broadband and mobile networks.

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 transferred a total of 85 ordinary shares and 31,426 preferred shares to certain employees of Beta for a total consideration of US$53 thousand. 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 October 1, 2014, Asia Outsourcing Gamma Limited, or AOGL,'s healthcare business, which provides revenue cycle management, health information management and software solutions for independent and provider-owned physician practices, was sold to Conifer Health Solutions, America's leading provider of technology-enabled healthcare performance improvement services, for a total value of US$235 million. AOGL is a wholly-owned subsidiary of Beta and the direct holding company of SPi Technologies, Inc. and Subsidiaries. As a result of the sale, PGIC received a cash distribution of US$42 million from Beta.

On July 22, 2016, AOGL entered into Sale and Purchase Agreement, or 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 an enterprise value of US$181 million. 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. The economic interest of PGIC in Beta remained at 18.32% as at December 31, 2016.

The carrying value of investment in common shares in Beta amounted to Php855 million and Php654 million as at December 31, 2016 and 2015, respectively. The carrying value of PGIC's investment in Beta's preferred shares amounting to nil and Php265 million were presented as part of investment in debt securities and other long-term investments in our consolidated statements of financial position as at December 31, 2016 and 2015, respectively.

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

Investment of Smart in AFPI

In 2013, Smart, along with other conglomerates Metro Pacific Investments Corporation, or MPIC, and Ayala Corporation, or Ayala, embarked on a venture to bid for the Automated Fare Collection System, or AFCS, project of the Department of Transportation and Communications, or DOTC, and Light Rail Transit Authority. The project aims to upgrade the Light Rail Transit 1 and 2, and Metro Rail Transit ticketing systems by substantially speeding up payments, reducing queuing time and facilitating efficient passenger transfer to other rail lines. The AFCS consortium led by MPIC and Ayala, composed of AC Infrastructure Holdings Corporation, BPI Card Finance Corporation, and Globe for the Ayala Group, and MPIC, Meralco Financial Services Corporation, and Smart for the MPIC Group, bidded for the AFCS project and on January 30, 2014, received a Notice of Award from the DOTC declaring it as the winning bidder.

On February 10, 2014, AFPI, the joint venture company, was incorporated in the Philippines and registered with the Philippine SEC. As part of the agreement, Smart subscribed Php503 million equivalent to 503 million shares at a subscription price of Php1.00 per share representing 20% equity interest. Smart settled Php25 million and Php275 million in January and May 2014, respectively.

On June 30, 2014, MPIC and Ayala Group signed a ten-year concession agreement with the DOTC to build and implement the AFCS project.

On January 20, 2015, the Board of Directors of AFPI approved an additional cash call on unpaid subscription of Php800 million to fund its expenditures, which was paid on March 30, 2015 by the shareholders in proportion to their share subscriptions. Smart contributed an additional Php160 million for its 20% share in AFPI.

On November 17, 2015, the Board of Directors of AFPI approved the increase in authorized capital stock from Php2,550 million shares to Php5,000 million shares with par value of Php1.00 per share. AFPI subsequently issued a total of 612.5 million shares with par value of Php1.00 per share to all of its existing shareholders in proportion to their current shareholdings. Smart subscribed to an additional capital of Php122.5 million representing its proportionate share in the capital increase. On the same date, the Board of Directors likewise approved an additional cash call on unpaid subscription of Php650 million for AFPI's planned expenditure. Smart contributed an additional Php130 million representing its 20% share.

The carrying value of Smart's investment in AFPI amounted to Php407 million, including subscription payable of Php36 million as at December 31, 2016 and Php533 million, including subscription payable of Php166 million as at December 31, 2015. Smart has significant influence over AFPI given its 20% voting interest and its Board representation.

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. By pioneering the multiscreen as a service platform, Phunware enables companies to engage seamlessly with their customers through mobile devices, from indoor and outdoor location-based marketing and advertising to content management, notifications and analytics, indoor mapping, navigation and wayfinding.

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.

Investment of Digitel in DCI and ANPC

Digitel has 60% and 40% interest in Asia Netcom Philippines Corporation, or ANPC, and Digitel Crossing, Inc., or 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, Digitel recorded a reversal of impairment loss amounting to Php92 million following improvement in the associates' operations.

Digitel has no control over ANPC. Though Digitel owns more than half of the voting interest in ANPC because of certain governance matters, management has assessed that Digitel only has significant influence and not control.

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 24, 2017, 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 DTPI and PNPI management.

Investment of PLDT Capital in AppCard

On October 9, 2015, PLDT Capital entered into a Convertible Preferred Stock Purchase Agreement with AppCard for US$5 million. AppCard, a Delaware Corporation, is engaged in the business of developing, marketing, selling and servicing digital loyalty program platforms.

The US$5 million Convertible Series B Preferred Stock was paid on October 9, 2015.

Investment of ACeS Philippines in AIL

As at December 31, 2016, 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.

Unrecognized share in net losses and translation adjustment of AIL amounted to Php173 million for the year ended December 31, 2016, while unrecognized share in net income amounted to Php70 million and Php361 million for the years ended December 31, 2015 and 2014, respectively. Share in net cumulative losses amounting to Php2,228 million and Php2,075 million as at December 31, 2016 and 2015, respectively, 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.

See *Note 25 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AIL Related Agreements* and *Note 28 – Financial Assets and Liabilities – Liquidity Risk – Unconditional Purchase Obligations* for further details as to the contractual relationships with respect to AIL.

Summarized financial information of associates

The table below presents the summarized financial information of Satventures as at December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014:

	2016	2015
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**21,295**	21,523
Current assets	**2,296**	1,863
Noncurrent liabilities	**4,645**	4,674
Current liabilities	**4,620**	4,042
Equity	**14,326**	14,670
Carrying amount of interest in Satventures	**9,169**	9,389
Additional Information:		
Cash and cash equivalents	**374**	392
Current financial liabilities*	**393**	518
Noncurrent financial liabilities*	**2,357**	2,224

* *Excluding trade, other payables and provisions.*

	2016	2015	2014
		(in million pesos)	
Income Statements:			
Revenues	5,925	5,211	3,898
Depreciation and amortization	1,217	1,332	931
Interest income	2	2	2
Interest expense	259	207	209
Provision for (benefit from) income tax	(46)	(534)	42
Net income (loss)	(344)	(290)	83
Other comprehensive income	–	–	–
Total comprehensive income (loss)	(344)	(290)	83
Equity share in net earnings (losses) of Satventures	(220)	(186)	53

The table below presents the summarized financial information of Hastings as at December 31, 2016 and 2015, and for the year ended December 31, 2016 and for the seven months ended December 31, 2015:

	2016	2015
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	6,891	6,848
Current assets	2,251	2,323
Noncurrent liabilities	506	695
Current liabilities	1,748	1,816
Equity	4,969	4,800
Carrying amount of interest in Hastings	3,478	3,360
Additional Information:		
Cash and cash equivalents	1,128	1,061
Current financial liabilities*	500	500
Noncurrent financial liabilities*	–	–

* *Excluding trade, other payables and provisions.*

	For the Year Ended December 31, 2016	For the Seven Months Ended December 31, 2015
Income Statements:	(in million pesos)	
Revenues	2,394	1,580
Depreciation and amortization	153	89
Interest income	18	10
Interest expense	19	11
Provision for income tax	70	69
Net income	169	157
Other comprehensive income	–	–
Total comprehensive income	169	157
Equity share in net earnings of Hastings	118	110

The following tables present the summarized financial information of our individually immaterial investments in associates as at December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014:

	2016	2015
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	1,905	1,843
Current assets	584	1,453
Equity	2,063	1,411
Noncurrent liabilities	278	1,247
Current liabilities	148	638

	2016	2015	2014
		(in million pesos)	
Income Statements:			
Revenues	**1,960**	2,059	4,707
Net income	**526**	81	646
Other comprehensive income	**–**	–	–
Total comprehensive income	**526**	81	646

Dividends from our associates amounted to nil for the years ended December 31, 2016, 2015 and 2014.

We have no outstanding contingent liabilities or capital commitments with our associates as at December 31, 2016 and 2015.

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.

Consideration for the acquisition is Php52.8 billion representing the purchase price for the equity interest and assigned advances of previous owners to VTI, Bow Arken and Brightshare. The equity interest and assigned advances consideration amounting to Php52.8 billion will be paid in three tranches: 50% was paid upon signing of the SPAs on May 30, 2016, 25% was paid on December 1, 2016 and the final 25% is payable on May 30, 2017, subject to the fulfillment of certain conditions. The second and final payments are secured by irrevocable standby letters of credit. The SPA also provided that PLDT and Globe, through VTI, Bow Arken and Brightshare, assumed 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 based on the results of confirmatory due diligence procedures jointly performed by PLDT and Globe after May 30, 2016. Pending the completion of the due diligence procedures, as at December 31, 2016, PLDT and Globe have advanced about Php2.6 billion to cover for the working capital requirements of the acquired companies. Discussion on the result of the due diligence procedures is ongoing as at March 24, 2017. See *Note 28 – Financial Assets and Liabilities – Commercial Commitments*.

Provisional Accounting of Acquisition

PLDT has engaged an independent valuer to determine the fair value adjustments relating to the acquisition. As at May 30, 2016, the fair value of the intangible assets, significantly spectrum, amounting to Php38,398 million and our share on goodwill of Php16,496 million has been determined on a provisional basis as the final results of independent valuation have not been received by the date the financial statement was authorized for issue. Goodwill arising from this acquisition and carrying amount of the identifiable assets and liabilities, including deferred liability, and the related amortization through equity in net earnings will be retrospectively adjusted accordingly when the valuation is finalized.

The table below presents the summarized financial information of VTI as at December 31, 2016 and for the seven months ended December 31, 2016:

	2016
	(in million pesos)
Statements of Financial Position:	
Noncurrent assets	76,127
Current assets	3,126
Noncurrent liabilities	13,003
Current liabilities	12,327
Equity	53,923
Carrying amount of interest in VTI	26,962
Additional Information:	
Cash and cash equivalents	2,182
Current financial liabilities*	–
Noncurrent financial liabilities*	–

* *Excluding trade, other payables and provisions.*

	For the Seven Months Ended December 31, 2016
	(in million pesos)
Income Statements:	
Revenues	1,189
Depreciation and amortization	842
Interest income	18
Interest expense	2
Provision for income tax	158
Net loss	(2,055)
Other comprehensive income	–
Total comprehensive loss	(2,055)
Equity share in net losses of VTI	(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 Commission. 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 PCC, among others, copies of the SPAs for the Commission’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 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 SMC Transactions and performing any act which challenges or assails the "deemed approved" status of the transaction. On July 19, 2016, the 12th Division of the CA issued a Resolution directing 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 12th Division 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 subject acquisition based on its Letters dated June 7, 2016 and June 17, 2016 during the effectivity hereof and until further orders are issued by the Court. On September 14, 2016, the PCC filed a Motion for Reconsideration of the CA's Resolution dated August 26, 2016. In a Resolution promulgated on October 19, 2016, the CA's 12th Division: (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 notice) PLDT's Urgent Motion for the Issuance of a Gag Order dated September 30, 2016; and (iv) ordered all parties to submit simultaneous memoranda within a non-extendible period of 15 days from notice. Thereafter, with or without their respective memorandum, the instant cases are submitted for decision. On November 11, 2016, PLDT filed its Memorandum in compliance with the CA Resolution.

On February 17, 2017, the CA issued a Resolution denying PCC's Motion for Reconsideration dated September 14, 2016 for lack of merit. In the same Resolution, the Court granted PLDT's Urgent Motion for the Issuance of a gag order and ordered the PCC to remove the offending publication from its website and also to obey the sub judice rule and refrain from making any further public pronouncements regarding the transaction while the case remains pending. The Court also reminded the other parties, PLDT and Globe, to likewise observe the sub judice rule. For this purpose, the Court issued its gag order admonishing all the parties "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 Admit the Petition-in-Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association. As at March 24, 2017, the case is still pending before the CA.

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 has been granted by the PSE effective November 21, 2016.

Investment in Beacon

On March 1, 2010, PCEV, MPIC and Beacon, entered into an Omnibus Agreement, or OA. Beacon was incorporated in the Philippines and organized with the sole purpose of holding the respective shareholdings in Meralco of PCEV and MPIC. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity interest in Meralco. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon. Beacon, PCEV and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers.

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 accounts for its investment in Beacon as investment in joint venture since the OA establishes joint control over Beacon.

Beacon's Capitalization

Beacon's authorized capital stock of Php5,000 million consists of 3,000 million common shares with a par value of Php1.00 per share and 2,000 million preferred shares with a par value of Php1.00 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon and have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preferred shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

On March 30, 2010, MPIC subscribed to 1,157 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 164 million Meralco shares at a price of Php150.00 per share, or an aggregate amount of Php24,540 million; and (2) Php6,600 million in cash, as further discussed in "Transfer of Meralco Shares to Beacon" section below for further information.

PCEV likewise subscribed to 1,157 million common shares of Beacon on March 30, 2010 in consideration of the transfer of 154 million Meralco common shares at a price of Php150.00 per share, or an aggregate amount of Php23,130 million.

Transfer of Meralco Shares to Beacon

In addition to the subscription to the Beacon shares pursuant to the OA, Beacon purchased 154 million and 164 million Meralco common shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150.00 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares. PCEV transferred the 154 million Meralco common shares to Beacon on May 12, 2010.

On October 25, 2011, PCEV transferred to Beacon its remaining investment in 69 million of Meralco's common shares for a total cash consideration of Php15,136 million. PCEV also subscribed to 1,199 million Beacon preferred shares at the same time. The transfers 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.

PCEV's Additional Investment in Beacon Common Shares

On January 20, 2012, PCEV subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million. On the same date, MPIC also subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million.

Sale Transactions to MPIC

(1) Sale of PCEV's Beacon Preferred Shares to MPIC

On June 6, 2012, PCEV agreed to sell approximately 282 million of its Beacon preferred shares to MPIC for total cash consideration of Php3,563 million. The sale was completed on June 29, 2012. Since Beacon preferred shares were sold to an entity not included in the PLDT Group, PCEV realized a portion of the deferred gain amounting to Php2,012 million, which was recorded when the underlying Meralco shares were transferred to Beacon.

(2) 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	Total Price	Deferred Gain Realized[1]
	(in millions)			(in millions)	(in millions)
June 24, 2014	56.35	5%	Php235.00	Php13,243	Php1,418
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 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.

(3) Sale of PCEV's Beacon Shares to MPIC

On May 30, 2016, PCEV entered into a Share Purchase Agreement with MPIC to sell its 646 million shares of common stock and 458 million shares of preferred stock of Beacon, representing approximately 25% equity interest in Beacon to MPIC for a total consideration of Php26,200 million. MPIC settled a portion of the consideration amounting to Php17,000 million immediately upon signing of the agreement and the balance of Php9,200 million will be paid in annual installments until June 2020. Consequently, PCEV realized a portion of the deferred gain amounting to Php4,962 million. After the sale, PCEV's equity ownership in Beacon was reduced from 50% to 25%, while MPIC's interest increased to 75%. MPIC agreed that for as long as: (i) PCEV owns at least 20% of the outstanding capital stock of Beacon; or (ii) the purchase price has not been fully paid by MPIC, PCEV shall retain the right to vote 50% of the outstanding capital stock of Beacon.

PCEV's effective interest in Meralco, through Beacon, was reduced to 8.74% from 17.48%, while MPIC's effective interest in Meralco, through its direct ownership in Meralco shares and through Beacon, increased to 41.22% as at December 31, 2016 from 32.48% as at December 31, 2015. There is no change in the aggregate joint interest of MPIC and Beacon in Meralco which remains at 49.96% as at December 31, 2016 and 2015.

Beacon owns 394 million Meralco common shares, representing approximately 34.96% effective ownership in Meralco with a carrying value of Php84,815 million and market value of Php104,426 million based on quoted price of Php265 per share as at December 31, 2016.

The carrying value of PCEV's investment in Beacon as at December 31, 2016 amounted to Php13,593 million, net of deferred gain of Php4,962 million, while the carrying value as at December 31, 2015 amounted to Php32,304 million, net of deferred gain of Php9,924 million.

PCEV's Additional Investment in Beacon Class "B" Preferred Shares

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.

On the same date, PCEV subscribed to 277 million Beacon Class "B" preferred shares for a total cash consideration of Php3,500 million. MPIC likewise subscribed to 277 million Beacon Class "B" preferred shares for a total cash consideration of Php3,500 million.

The amount raised from the subscription was used to fund the subscription to shares of common stock of Global Business Power Corporation, or Global Power, through Beacon Powergen Holdings, Inc., or Beacon Powergen.

On August 10, 2016, the Philippine SEC approved the increase in Beacon's authorized capital and issuance of the new class of preferred shares.

Class "B" preferred shares of Beacon are non-voting, not convertible to common shares or any shares of Beacon of any class and have no pre-emptive rights to subscribe to any share or convertible debt, securities or warrants issued or sold by Beacon. The Class "B" preferred shares are entitled to liquidation preference over the common shares of Beacon and, upon the declaration of Beacon's Board of Directors, yearly cumulative dividends at the rate of 6% of the issue value before any dividends can be paid to holders of common shares of Beacon subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment will not violate any dividend restrictions imposed by Beacon's bank creditors.

On September 9, 2016, the Board of Directors of Beacon approved the redemption of 198 million Class "B" preferred shares held by PCEV at an aggregate redemption price equal to the aggregate issue price of Php2,500 million. On the same date, Beacon also declared cash dividends on the said preferred shares amounting to Php21 million. The redemption price and cash dividend were paid on September 30, 2016. PCEV accounts for its subscription in Beacon's Class "B" preferred shares as available-for-sale investments.

Beacon's Acquisition of Global Power

On May 27, 2016, Beacon, through a wholly-owned subsidiary, Beacon Powergen, entered into a Share Purchase Agreement with GT Capital Holdings, Inc., to acquire an aggregate 56% of the issued share capital of Global Power for a total consideration of Php22,058 million. Beacon Powergen settled Php11,029 million upon closing and the balance via a vendor financing facility, which was replaced with a long-term bank debt in August 2016.

Global Power is the leading power supplier in Visayas region and Mindoro Island. In 2016, Global Power increased its combined gross maximum capacity to 854 megawatts, or MW, through a 150MW expansion project that is currently undergoing final acceptance. In Luzon, Global Power has 670MW expansion project that is still in the process of Engineering, Procurement and Construction selection.

Beacon Powergen's investment in Global Power has a carrying value of Php21,902 million as at December 31, 2016.

Beacon's Dividend Declaration

A summary of Beacon's dividend declarations are shown below:

Date of Declaration	Date of Payment	Holders	Amount	Share of PCEV
			(in millions)	
March 31, 2016	**July 29, 2016**	**Class "A" Preferred**	**Php945**	**Php473**
June 30, 2016	**July 29, 2016**	**Class "A" Preferred**	**1,485**	**743**
July 14, 2016	**July 29, 2016**	**Common**	**6,056**	**3,028**
August 12, 2016	**August 30, 2016**	**Common**	**289**	**144**
September 9, 2016	**September 30, 2016**	**Class "B" Preferred**	**21**	**21**
Total dividends declared as at December 31, 2016			**Php8,796**	**Php4,409**
February 26, 2015	February 27, 2015	Common	Php4,277	Php2,139
March 30, 2015	April 24, 2015	Class "A" Preferred	810	405
Total dividends declared as at December 31, 2015			Php5,087	Php2,544

PCEV's share in the cash dividends for Class "A" preferred shares and common shares was deducted from the carrying value of the investment in joint venture, while PCEV's share in the cash dividends for Class "B" preferred shares was recognized as dividend income.

The table below presents the summarized financial information of Beacon as at December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014:

	2016	2015
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**97,308**	87,831
Current assets	**3,118**	10,874
Equity	**88,470**	85,325
Noncurrent liabilities	**10,664**	12,149
Current liabilities	**1,292**	1,231
Additional Information:		
Cash and cash equivalents	**3,107**	2,270
Current financial liabilities*	**1,195**	1,084
Noncurrent financial liabilities*	**9,981**	11,176

* *Excluding trade, other payables and provisions.*

	2016	2015	2014
		(in million pesos)	
Income Statements:			
Revenues - equity share in net earnings	**7,017**	6,899	8,202
Interest income	**223**	455	205
Interest expense	**915**	1,723	2,315
Net income	**6,318**	6,539	6,439
Other comprehensive income (loss)	**1,140**	(497)	18
Total comprehensive income	**7,458**	6,042	6,457

The following table presents the reconciliation between the share in Beacon's equity and the carrying value of investment in Beacon as at December 31, 2016 and 2015:

	2016	2015
	(in million pesos)	
Beacon's equity	**88,470**	85,325
Outstanding Class "B" preferred shares and dividends paid on Class "B"	**(4,462)**	–
Beacon's equity (excluding outstanding Class "B" preferred shares)	**84,008**	85,325
PCEV's ownership interest	**25%**	50%
Share in net assets of Beacon	**21,002**	42,663
Purchase price allocation adjustments	**(158)**	(88)
Dividends in arrears	**(1,957)**	–
Deferred gain on transfer of Meralco shares	**(4,962)**	(9,924)
Others	**(332)**	(347)
Carrying amount of interest in Beacon	**13,593**	32,304

iCommerce's Investment in PHIH

On January 20, 2015, PLDT and Rocket entered into a JVA to further strengthen their existing partnership and to foster the development of internet-based businesses in the Philippines. PLDT, through iCommerce, a subsidiary of Voyager's eInnovations, and Asia Internet Holding S.à r.l., which is 50%-owned by Rocket, are shareholders in PHIH.

PHIH focuses on creating and developing online businesses in the Philippines, leveraging local market and business model insights, facilitating commercial, strategic and investment partnerships, enabling local recruiting and sourcing, and accelerating the rollout of online startups.

PLDT, through iCommerce, acquired a 33.33% equity interest in PHIH. iCommerce has the option to increase its equity interest to 50%. iCommerce became a shareholder of PHIH on October 14, 2015 and paid approximately €7.4 million on October 27, 2015. As at December 31, 2016, the carrying value of the investment in PHIH amounted to €29.6 million, or Php1,538 million, including subscription payable of €22.6 million, or Php1,176 million, and capitalized professional fees and other start-up costs for the investment in PHIH amounted to Php32 million.

eInnovations' Investment in ECommerce Pay

On January 6, 2015, PLDT, through eInnovations, entered into a JVA with Rocket, pursuant to which the two parties agreed to form ECommerce Pay Holding S.à.r.l., or ECommerce Pay, of which each partner holds a 50% equity interest. ECommerce Pay is a global joint venture company for payment services with a focus on emerging markets.

On July 30, 2015, eInnovations became a 50% shareholder of ECommerce Pay and invested €1.2 million in ECommerce Pay on August 11, 2015.

On February 3, 2016, eInnovations further contributed its subsidiary ePay, including the platforms and business operations of its mobile-first platform, PayMaya, as had been agreed in the JVA. Rocket contributed, among other things, its equity in Paymill Holding GmbH and Payleven Holding GmbH, which operated via its subsidiaries, payment platforms for high growth, small-and-medium sized e-commerce businesses.

Consequently, in February 2016, the ownership of ePay and its subsidiaries, or the ePay Group, was transferred from eInnovations to ECommerce Pay and hence eInnovation's effective interest in ePay went down to 50%. Pending completion of the other expected contributions from Rocket, ePay Group continue to be a subsidiary of PLDT.

Rocket and PLDT via eInnovations agreed to end the joint venture with control and all rights in ePay to be returned to eInnovations via a retransfer of the shares in ePay. In return, eInnovations gave up its 50% ownership and all claims in connection with ECommerce Pay. On July 29, 2016, eInnovations exited ECommerce Pay and the whole ownership of ePay, including the platforms and business operations of its mobile-first platform, PayMaya, was returned to eInnovations.

PLDT and Rocket have decided to unwind the joint venture to better focus on their respective areas of operation and current priorities. Both continue to explore areas of possible future collaboration.

Summarized financial information of other individually immaterial joint ventures

The table below presents the summarized financial information of our individually immaterial investments in joint ventures as at and for the years ended December 31, 2016 and 2015:

	2016	2015
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**–**	157
Current assets	**378**	380
Equity	**377**	528
Noncurrent liabilities	**–**	–
Current liabilities	**1**	9
Income Statements:		
Revenues	**–**	–
Net income (loss)	**(164)**	9
Other comprehensive income	**–**	–
Total comprehensive income (loss)	**(164)**	9

Our aggregate share in the revenues, expenses, other expenses – net, net loss, other comprehensive income, and total comprehensive loss of our other investments in joint ventures for the years ended December 31, 2016, 2015 and 2014 are considered immaterial in relation to our consolidated financial statements.

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at December 31, 2016 and 2015.

11. Available-for-Sale Financial Investments

Investment of PLDT Online in iFlix Limited, or 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. PLDT Online's shares account for approximately 7.6% of the total equity stock of iFlix.

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.

Investment of PLDT Online in Rocket

On August 7, 2014, PLDT and Rocket entered into a global strategic partnership to drive the development of online and mobile payment solutions in emerging markets. Rocket provides a platform for the rapid creation and scaling of consumer internet businesses outside the U.S. and China. Rocket'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'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 as at August 2014. These new shares are of the same class and bear the same rights as the Rocket 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, to PLDT Online, an indirectly wholly-owned subsidiary of PLDT.

On October 1, 2014, Rocket announced the pricing of its initial public offering, or IPO, at €42.50 per share. On October 2, 2014, Rocket listed its shares on Entry Standard of the Frankfurt Stock Exchange under the ticker symbol "RKET." Our ownership stake in Rocket after the IPO was reduced to 6.6%. In February 2015, due to additional issuances of shares by Rocket, our ownership percentage in Rocket was further reduced to 6.1%, and remained as such as at December 31, 2016 and 2015. Total costs directly attributable to the acquisition of Rocket shares and recognized as part of the cost of investment amounted to Php134 million.

Further details on investment in Rocket are as follows:

	2016	2015	2014
Total market value as at beginning of the year (in million pesos)	**14,587**	27,855	19,711
Closing price per share at year-end (in Euros)	**19.13**	28.24	51.39
Total market value as at year-end (in million Euros)	**193**	285	519
Total market value as at end of the year (in million pesos)	**10,058**	14,587	27,855
Recognized in other comprehensive income (loss) (in million pesos) (Note 6)	**852**	(8,144)	8,144
Recognized in profit or loss (in million pesos) (Note 5)	**(5,381)**	(5,124)	–
Net gains (losses) from changes in fair value recognized during the year (in million pesos)	**(4,529)**	(13,268)	8,144

Based on our judgment, the decline in fair value of our investment in Rocket to Php14,587 million as at December 31, 2015 is considered significant as the cumulative net losses from changes in fair value amounting to Php5,124 million represents 26% decline in value below cost. As a result, we recognized in our consolidated income statement an impairment of our investment in Rocket amounting to Php5,124 million for the year ended December 31, 2015. We recognized additional impairment loss of Php5,381 million as the fair value of Rocket further declined to Php9,206 million for the six months ended June 30, 2016. We recognized an unrealized gain of Php852 million in the "Net gains (losses) on available-for-sale financial investments" account in our consolidated other comprehensive income for the six months ended December 31, 2016 due to slight recovery of Rocket's fair value to Php10,058 million as at December 31, 2016. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of available-for-sale equity investments*.

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.

As at March 23, 2017, closing price of Rocket is €15.84 per share resulting to total market value of PLDT's stake in Rocket of €160 million, or Php8,677 million.

12. Investment in Debt Securities and Other Long-term Investments

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Security Bank Corporation, or Security Bank, Time Deposits	**348**	330
PSALM Bonds	**202**	207
GT Capital Bond	**150**	150
Beta's preferred shares (Note 10)	**–**	265
National Power Corporation, or NAPOCOR, Bond	**–**	51
	700	1,003
Less current portion (Note 28)	**326**	51
Noncurrent portion (Note 28)	**374**	952

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 maturing on October 11, 2017 at a gross coupon rate of 4.00%. These long-term fixed rate time deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Interest income, net of withholding tax, recognized on this investment amounted to US$188 thousand, or Php8.9 million, US$187 thousand, or Php8.6 million, and US$187 thousand, or Php8 million, for the years ended December 31, 2016, 2015 and 2014, respectively. The carrying value of this investment amounted to Php248 million and Php236 million as at December 31, 2016 and 2015, respectively.

In May 2013, PLDT invested US$2.0 million in a five-year time deposit with Security Bank maturing on May 31, 2018 at a gross coupon rate of 3.5%. These long-term fixed rate time deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Interest income, net of withholding tax, recognized on this investment amounted to US$66 thousand, or Php3.1 million, for the year ended December 31, 2016 and US$66 thousand, or Php3 million, for each of the years ended December 31, 2015 and 2014. The carrying value of this investment amounted to Php99.5 million and Php94 million as at December 31, 2016 and 2015, respectively.

PSALM Bonds

In April 2013, Smart purchased, at a premium, PSALM Bonds with face value of Php200 million maturing on April 22, 2017 with yield-to-maturity at 4.25% gross. The bond has a gross coupon rate of 7.75% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php7.3 million, Php7.2 million and Php7 million for the years ended December 31, 2016, 2015 and 2014, respectively. The carrying value of this investment amounted to Php202 million and Php207 million as at December 31, 2016 and 2015, respectively.

In August 2013, Smart purchased, at a premium, PSALM Bonds with face value of Php100 million with yield-to-maturity at 3.25% gross, which matured on April 22, 2015. The bond has a gross coupon rate of 6.88% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php827 thousand and Php2.6 million for the years ended December 31, 2015 and 2014, respectively.

In January 2014, Smart purchased, at a premium, additional PSALM Bonds with face value of Php60 million with yield-to-maturity at 3.00% gross, which matured on April 22, 2015. The bond has a gross coupon rate of 6.88% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php289 thousand and Php1.6 million for the years ended December 31, 2015 and 2014, respectively.

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 held-to-maturity investment. Interest income, net of withholding tax, recognized on this investment amounted to Php5.8 million for each of the years ended December 31, 2016, 2015 and 2014. The carrying value of this investment amounted to Php150 million each as at December 31, 2016 and 2015.

Investment in Beta's Preferred Shares

See *Note 10 – Investments in Associates and Joint Ventures – Investment of PGIC in Beta* for a detailed discussion of our investment in Beta.

NAPOCOR Bond

In March 2014, Smart purchased, at a premium, a NAPOCOR Bond with face value of Php50 million with yield-to-maturity at 4.22% gross, which matured on December 19, 2016. The bond had a gross coupon rate of 7.34% payable on a semi-annual basis, and was recognized as held-to-maturity investment. This investment was a tax-exempt bond. Premium is amortized using the EIR method. Interest income recognized on this investment amounted to Php1.8 million for each of the years ended December 31, 2016 and 2015, and Php1 million for the year ended December 31, 2014.

Home Development Mutual Fund, or HDMF Bonds

In June 2014, Smart purchased, at a premium, HDMF Bonds with face value of Php100 million with yield-to-maturity at 2.75% gross, which matured on March 12, 2015. The bond had a gross coupon rate of 6.25% payable on a semi-annual basis, and was recognized as held-to-maturity investment. This investment was a tax-exempt bond. Premium is amortized using the EIR method. Interest income recognized on this investment amounted to Php468 thousand and Php1 million for the years ended December 31, 2015 and 2014, respectively.

Philippine Retail Treasury Bond, or Philippine RTB

In January 2014, Smart purchased, at a premium, a Philippine RTB with face value of Php32 million with yield-to-maturity at 2.38% gross, which matured on August 19, 2015. The bond had a gross coupon rate of 5.88% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php303 thousand and Php684 thousand for the years ended December 31, 2015 and 2014, respectively.

13. Investment Properties

Changes in investment properties account for the years ended December 31, 2016 and 2015 are as follows:

	Land	Land Improvements	Building	Total
		(in million pesos)		
December 31, 2016				
Balance at beginning of the year	**1,496**	**9**	**320**	**1,825**
Transfers from property and equipment	**65**	**–**	**1**	**66**
Additions	**6**	**–**	**–**	**6**
Net losses from fair value adjustments charged to profit or loss	**–**	**(1)**	**(6)**	**(7)**
Balance at end of the year	**1,567**	**8**	**315**	**1,890**
December 31, 2015				
Balance at beginning of the year	1,479	10	327	1,816
Net gains (losses) from fair value adjustments charged to profit or loss	18	(1)	(7)	10
Disposals	(6)	–	–	(6)
Transfers from property and equipment	5	–	–	5
Balance at end of the year	1,496	9	320	1,825

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 Php13 to Php140 thousand. The valuation for building and land improvements were 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 Php23 million, Php29 million and Php53 million for the years ended December 31, 2016, 2015 and 2014, 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. Business Combination

2015 Acquisition

Takatack Holdings' Acquisition of Takatack Technologies

On August 6, 2015, Voyager, through Takatack Holdings acquired a 100% equity interest in Takatack Technologies for a total cash consideration of US$5 million, or Php228 million, of which US$3 million, or Php137 million, was paid in August 2015 and US$2 million, or Php91 million, is payable in 12 quarterly installments, subject to satisfaction of certain conditions. Total payments made to the founders for the remaining balance amounted to US$0.7 million, or Php31 million, and US$0.2 million, or Php8 million, for the years ended December 31, 2016 and 2015, respectively. The acquisition is consistent with the PLDT Group's focus to build Voyager into a digital economy platforms-enabler, allowing it to build its digital commerce business in the Philippines and other emerging markets. Takatack Technologies is a Singapore-based company behind the online store, TackThis!, a cloud-based e-commerce platform operating on software as a service model that enables companies to easily set-up and showcase their businesses on various online platforms.

The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of fair values at the date of acquisition. The corresponding carrying amounts immediately before the acquisition are as follows:

	Previous Carrying Values		Fair Values Recognized on Acquisition	
	In S.G. Dollar	In Php[1]	In S.G. Dollar	In Php[1]
		(in millions)		
Assets:				
Property and equipment (Note 9)	–	0.3	–	0.3
Intangibles	–	–	0.8	25.9
Cash and cash equivalents	0.1	2.7	0.1	2.7
Trade receivables	0.1	5.1	0.1	5.1
Prepayments and other current assets	–	0.1	–	0.1
	0.2	8.2	1.0	34.1
Liabilities:				
Accounts payable and other liabilities	0.1	4.6	0.1	4.6
Deferred income tax liability	–	–	0.1	4.4
	0.1	4.6	0.2	9.0
Total identifiable net assets acquired	0.1	3.6	0.8	25.1
Goodwill from the acquisition (Note 15)			5.9	195.5
Purchase consideration transferred			6.7	220.6
Cash paid			4.1	137.3
Accounts payable – others			2.5	83.3
			6.6	220.6
Cash flow from investing activity:				
Cash paid			4.1	137.3
Cash acquired			(0.1)	(2.7)
			4.0	134.6

[1] *Converted to Philippine Peso using the exchange rate at the time of purchase of Php33.08 to SGD1.00.*

The transactions resulted in a Php196 million goodwill pertaining to the projected global rollout of the e-commerce business. See *Note 15 – Goodwill and Intangible Assets – Impairment of Goodwill*.

Our consolidated revenues would have increased by Php2 million and net income would have decreased by Php5 million for the year ended December 31, 2015 had the acquisition of Takatack Technologies actually taken place on January 1, 2015.

15. Goodwill and Intangible Assets

Changes in goodwill and intangible assets for the years ended December 31, 2016 and 2015 are as follows:

	Intangible Assets with Indefinite Life	Intangible Assets with Finite Life					Total Intangible Assets with Finite Life	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
	Trademark	Franchise	Customer List	Spectrum	Licenses	Others				
					(in million pesos)					
December 31, 2016										
Costs:										
Balance at beginning of the year	**4,505**	**3,016**	**4,726**	**1,205**	**1,079**	**1,189**	**11,215**	**15,720**	**63,092**	**78,812**
Additions	**–**	**–**	**–**	**–**	**–**	**175**	**175**	**175**	**–**	**175**
Business combination (Note 14)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(34)**	**(34)**
Translation and other adjustments	**–**	**–**	**–**	**–**	**–**	**15**	**15**	**15**	**–**	**15**
Balance at end of the year	**4,505**	**3,016**	**4,726**	**1,205**	**1,079**	**1,379**	**11,405**	**15,910**	**63,058**	**78,968**
Accumulated amortization and impairment:										
Balance at beginning of the year	**–**	**775**	**2,258**	**911**	**924**	**1,128**	**5,996**	**5,996**	**699**	**6,695**
Amortization during the year	**–**	**186**	**511**	**80**	**113**	**39**	**929**	**929**	**–**	**929**
Impairment during the year (Note 5)	**–**	**–**	**–**	**–**	**–**	**58**	**58**	**58**	**980**	**1,038**
Translation and other adjustments	**–**	**–**	**–**	**–**	**–**	**26**	**26**	**26**	**–**	**26**
Balance at end of the year	**–**	**961**	**2,769**	**991**	**1,037**	**1,251**	**7,009**	**7,009**	**1,679**	**8,688**
Net balance at end of the year	**4,505**	**2,055**	**1,957**	**214**	**42**	**128**	**4,396**	**8,901**	**61,379**	**70,280**
Estimated useful lives (in years)	**–**	**16**	**2 – 9**	**15**	**18**	**1 – 10**	**–**	**–**	**–**	**–**
Remaining useful lives (in years)	**–**	**11**	**2 – 4**	**3**	**6**	**5 – 10**	**–**	**–**	**–**	**–**
December 31, 2015										
Costs:										
Balance at beginning of the year	4,505	3,016	4,726	1,205	972	1,177	11,096	15,601	62,863	78,464
Business combination (Note 14)	–	–	–	–	–	–	–	–	229	229
Additions	–	–	–	–	107	15	122	122	–	122
Translation and other adjustments	–	–	–	–	–	(3)	(3)	(3)	–	(3)
Balance at end of the year	4,505	3,016	4,726	1,205	1,079	1,189	11,215	15,720	63,092	78,812
Accumulated amortization and impairment:										
Balance at beginning of the year	–	589	1,748	830	645	1,111	4,923	4,923	699	5,622
Amortization during the year	–	186	510	81	279	20	1,076	1,076	–	1,076
Translation and other adjustments	–	–	–	–	–	(3)	(3)	(3)	–	(3)
Balance at end of the year	–	775	2,258	911	924	1,128	5,996	5,996	699	6,695
Net balance at end of the year	4,505	2,241	2,468	294	155	61	5,219	9,724	62,393	72,117
Estimated useful lives (in years)	–	16	9	15	2 – 18	1 – 10	–	–	–	–
Remaining useful lives (in years)	–	12	5	4	1 – 7	2 – 4	–	–	–	–

The consolidated goodwill and intangible assets of our reportable segments as at December 31, 2016 and 2015 are as follows:

	2016		
	Wireless	Fixed Line	Total
		(in million pesos)	
Trademark	**4,505**	**–**	**4,505**
Franchise	**2,055**	**–**	**2,055**
Customer list	**1,957**	**–**	**1,957**
Spectrum	**214**	**–**	**214**
Licenses	**42**	**–**	**42**
Others	**128**	**–**	**128**
Total intangible assets	**8,901**	**–**	**8,901**
Goodwill	**56,571**	**4,808**	**61,379**
Total goodwill and intangible assets	**65,472**	**4,808**	**70,280**

	2015		
	Wireless	Fixed Line	Total
		(in million pesos)	
Trademark	4,505	–	4,505
Customer list	2,468	–	2,468
Franchise	2,241	–	2,241
Spectrum	294	–	294
Licenses	155	–	155
Others	61	–	61
Total intangible assets	9,724	–	9,724
Goodwill	57,585	4,808	62,393
Total goodwill and intangible assets	67,309	4,808	72,117

Intangible Assets

Intangible asset with indefinite life as at December 31, 2016 and 2015 pertains to the "Sun Cellular" trademark of DMPI, which was acquired in connection with PLDT's acquisition of Digitel in 2011. PLDT intends to continue using the "Sun Cellular" brand to a specific market segment. As such, the "Sun Cellular" trademark is viewed to have an indefinite useful life.

Smart's licensing agreements with various music companies, which grant Smart a right to sell the digital products of the music companies (including through downloading and streaming), were capitalized as intangible assets and amortized accordingly.

In August 2015, Smart entered into an asset purchase agreement with Wifi Nation Philippines, Inc., or Wifi Nation, for a total consideration of Php15 million. Under the terms of the agreement, Smart acquired the assigned assets of Wifi Nation such as all its rights, titles and interests in its technology platform, patents, patent applications, contracts, intellectual property rights, and the business and trade name "Wifi Nation". Smart recognized intangible assets of Php15 million for the technology applications, amortized over the remaining life of the customer contracts acquired.

PayMaya and Voyager continuously improve their existing products and services through regular technological developments and upgrades to their platforms. Accumulated costs related to such activities are capitalized as intangible assets.

The consolidated future amortization of intangible assets with finite life as at December 31, 2016 is as follows:

Year	(in million pesos)
2017	**817**
2018	**817**
2019	**788**
2020	**644**
2021 and onwards	**5,835**
	8,901

Impairment Testing of Goodwill and Intangible Asset with Indefinite Useful Life

The organizational structure of PLDT and its subsidiaries is designed to monitor financial operations based on fixed line and wireless segmentation. Management provides guidelines and decisions on resource allocation, such as continuing or disposing of asset and operations by evaluating the performance of each segment through review and analysis of available financial information on the fixed line and wireless segments. As at December 31, 2016, the PLDT Group's goodwill comprised of goodwill resulting from acquisition of Takatack Technologies in 2015, PLDT's additional investment in PG1 in 2014, Smart's acquisition of WiFun in 2014, ePLDT's acquisition of IPCDSI in 2012, PLDT's acquisition of Digitel in 2011, ePLDT's acquisition of ePDS in 2011, Smart's acquisition of PDSI and Chikka in 2009, Smart's acquisition of CURE and SBI's acquisition of Airborne Access Corporation in 2008, and Smart's acquisition of SBI in 2004. The test for recoverability of PLDT's, Smart's and Voyager's goodwill and intangible assets was applied to the Fixed Line, Wireless and Voyager asset groups, respectively, which represent the lowest level within our business at which we monitor goodwill.

Although revenue streams may be segregated among the companies within the PLDT Group, the cost items and cash flows are difficult to carve out due largely to the significant portion of shared and common used network/platform. The same is true for Sun, wherein Smart 2G/3G network, cellular base stations and fiber optic backbone are shared for areas where Sun has limited connectivity and facilities. On the other hand, PLDT has the largest fixed line network in the Philippines. PLDT's transport facilities are installed nationwide to cover both domestic and international IP backbone to route and transmit IP traffic generated by the customers. In the same manner, PLDT has the most Internet Gateway facilities which are composed of high capacity IP routers and switches that serve as the main gateway of the Philippines to the Internet connecting to the World Wide Web. With PLDT's network coverage, other fixed line subsidiaries share the same facilities to leverage on a Group perspective.

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

In 2015, subsequent to the decision of Management to consolidate the various digital businesses under Voyager and assign a separate management from wireless business, the Voyager unit has been considered as a CGU separate from the Wireless unit. As a result, goodwill amounting to Php980 million was allocated to Voyager CGU. See *Note 2 – Consolidation of Various Digital Businesses of Smart under Voyager*.

The Wireless, Fixed Line and Voyager units are the lowest CGUs to which goodwill is to be allocated given that the Fixed Line, Wireless and Voyager operations generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Voyager unit is still within the wireless operating segment for purposes of segment reporting and monitoring.

The recoverable amount of the Wireless, Fixed Line and Voyager CGUs had been determined using the value in use approach calculated using cash flow projections based on the financial budgets approved by the Board of Directors. The pre-tax discount rates applied to cash flow projections are 10.1%, 9.6% and 15.0% for the Wireless, Fixed Line and Voyager CGUs, respectively. Cash flows beyond the projection period are determined using a 3.0% growth rate for the Wireless and Fixed Line CGUs, which is the same as the long-term average growth rate for the telecommunications industry, while for the Voyager CGU, a 5.0% growth rate was used. Other key assumptions used in the cash flow projections include revenue growth, operating margin and capital expenditures.

Based on the assessment of the value in use of the Wireless and Fixed Line CGUs, the recoverable amount of the Wireless and Fixed Line CGUs exceeded their carrying amounts, hence, no impairment was recognized as at December 31, 2016 and 2015 in relation to goodwill.

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

In December 2016, based on the assessment of the Voyager CGU's recoverable amount compared with the carrying amount of the Voyager CGU's net assets, we have recognized total impairment loss amounting to Php980 million and, consequently, any adverse change in a key assumption would result in a further impairment loss. See *Note 5 – Income and Expenses* and *Note 14 – Business Combination*.

16. Cash and Cash Equivalents

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Cash on hand and in banks (Note 28)	**6,384**	7,352
Temporary cash investments (Note 28)	**32,338**	39,103
	38,722	46,455

Cash in banks earn interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing temporary cash investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 28 – Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php582 million, Php579 million and Php476 million for the years ended December 31, 2016, 2015 and 2014, respectively.

17. Trade and Other Receivables

As at December 31, 2016 and 2015, this account consists of receivables from:

	2016	2015
	(in million pesos)	
Retail subscribers (Note 28)	**20,290**	19,750
Corporate subscribers (Notes 25 and 28)	**9,333**	9,263
Foreign administrations (Note 28)	**5,819**	5,514
Domestic carriers (Notes 25 and 28)	**354**	540
Dealers, agents and others (Notes 25 and 28)	**7,428**	5,752
	43,224	40,819
Less allowance for doubtful accounts (Notes 5 and 28)	**18,788**	15,921
	24,436	24,898

Receivables from foreign administrations and domestic carriers represent receivables based on interconnection agreements with other telecommunications carriers. The aforementioned amounts of receivables are shown net of related payables to the same telecommunications carriers where a legal right of offset exists and settlement is facilitated on a net basis.

Receivables from dealers, agents and others consist mainly of receivables from credit card companies, dealers and distributors having collection arrangements with the PLDT Group, dividend receivables and advances from affiliates.

Trade receivables are non-interest-bearing and are generally with settlement term of 30 to 180 days.

For terms and conditions relating to related party receivables, see *Note 25 – Related Party Transactions*.

See *Note 25 – Related Party Transactions* for the summary of transactions with related parties and *Note 28 – Financial Assets and Liabilities – Credit Risk* on credit risk of trade receivables to understand how we manage and measure credit quality of trade receivables that are neither past due nor impaired.

Changes in the allowance for doubtful accounts for the years ended December 31, 2016 and 2015 are as follows:

	Total	Retail Subscribers	Corporate Subscribers	Foreign Administrations	Domestic Carriers	Dealers, Agents and Others
			(in million pesos)			
December 31, 2016						
Balance at beginning of the year	**15,921**	**9,540**	**4,451**	**315**	**86**	**1,529**
Provisions (reversals) and other adjustments	**5,305**	**4,843**	**(71)**	**359**	**60**	**114**
Write-offs	**(2,438)**	**(1,795)**	**(553)**	**(46)**	**(12)**	**(32)**
Balance at end of the year	**18,788**	**12,588**	**3,827**	**628**	**134**	**1,611**
Individual impairment	**14,970**	**9,789**	**3,711**	**87**	**113**	**1,270**
Collective impairment	**3,818**	**2,799**	**116**	**541**	**21**	**341**
	18,788	**12,588**	**3,827**	**628**	**134**	**1,611**
Gross amount of receivables individually impaired, before deducting any impairment allowance	**14,970**	**9,789**	**3,711**	**87**	**113**	**1,270**
December 31, 2015						
Balance at beginning of the year	15,571	8,133	4,326	548	93	2,471
Provisions (reversals) and other adjustments	3,043	2,920	297	(233)	4	55
Write-offs	(2,693)	(2,505)	(172)	–	(11)	(5)
Reclassifications	–	992	–	–	–	(992)
Balance at end of the year	15,921	9,540	4,451	315	86	1,529

	Total	Retail Subscribers	Corporate Subscribers	Foreign Administrations	Domestic Carriers	Dealers, Agents and Others
			(in million pesos)			
Individual impairment	8,593	2,677	4,121	306	86	1,403
Collective impairment	7,328	6,863	330	9	–	126
	15,921	9,540	4,451	315	86	1,529
Gross amount of receivables individually impaired, before deducting any impairment allowance	8,593	2,677	4,121	306	86	1,403

18. Inventories and Supplies

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Terminal and cellular phone units:		
At net realizable value	**2,828**	3,253
At cost	**4,584**	3,721
Spare parts and supplies:		
At net realizable value	**576**	539
At cost	**948**	835
Others:		
At net realizable value	**340**	822
At cost	**829**	975
Total inventories and supplies at the lower of cost or net realizable value	**3,744**	4,614

The cost of inventories and supplies recognized as expense for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
		(in million pesos)	
Cost of sales	**15,965**	15,525	13,077
Write-down of inventories and supplies (Note 5)	**1,941**	511	179
Repairs and maintenance	**596**	643	575
	18,502	16,679	13,831

Changes in the allowance for inventory obsolescence for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Balance at beginning of the year	**917**	913
Provisions (Note 5)	**1,941**	511
Write-off and others	**(241)**	(507)
Balance at end of the year	**2,617**	917

19. Prepayments

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Prepaid taxes (Note 7)	**11,311**	5,949
Prepaid fees and licenses	**1,194**	856
Prepaid selling and promotions (Note 25)	**494**	881
Prepaid rent	**433**	468
Prepaid benefit costs (Note 26)	**261**	306
Prepaid repairs and maintenance	**232**	126
Prepaid insurance (Note 25)	**105**	145
Other prepayments (Note 25)	**531**	542
	14,561	9,273
Less current portion of prepayments	**7,505**	5,798
Noncurrent portion of prepayments	**7,056**	3,475

Prepaid taxes include creditable withholding taxes and input VAT.

Prepaid benefit costs represent excess of fair value of plan assets over present value of defined benefit obligations recognized in our consolidated statements of financial position. See *Note 26 – Employee Benefits*.

20. Equity

PLDT's number of shares of subscribed and outstanding capital stock as at December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Authorized		
Non-Voting Serial Preferred Stocks	**388**	388
Voting Preferred Stock	**150**	150
Common Stock	**234**	234
Subscribed		
Non-Voting Serial Preferred Stocks(1)	**300**	300
Voting Preferred Stock	**150**	150
Common Stock	**219**	219
Outstanding		
Non-Voting Serial Preferred Stocks(1)	**300**	300
Voting Preferred Stock	**150**	150
Common Stock	**216**	216
Treasury Stock		
Common Stock	**3**	3

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

The changes in PLDT's capital account are the redemption of 370 shares of Series II 10% Cumulative Convertible Preferred Stock and the issuance of 870 shares or Php8,700 of Series JJ 10% Cumulative Convertible Preferred Stock for the years ended December 31, 2016 and 2015, respectively.

Preferred Stock

Non-Voting Serial Preferred Stocks

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

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

On January 26, 2010, the Board of Directors designated 100,000 shares of Non-Voting Serial Preferred Stock as Series II 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2010 to December 31, 2012, pursuant to the SIP.

The Series II, JJ and KK 10% Cumulative Convertible Preferred Stock, or SIP shares, earns cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular Series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock of PLDT on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the ask prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the par value per share of Common Stock. The number of shares of Common Stock issuable at any time upon conversion of 10% Cumulative Convertible Preferred Stock is determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Stock outstanding are at anytime subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Stock will be proportionately decreased or increased, as the case may be, and in the case of a stock dividend, such price will be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Stock. In the event the relevant effective date for any such subdivision or consolidation of shares of stock dividend occurs during the period of 30 trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment will be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Stock, or in case of any consolidation or merger of PLDT with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sale price utilized in calculating the conversion price as the Board of Directors, in its sole discretion, shall deem appropriate.

At PLDT's option, the Series II, JJ and KK 10% Cumulative Convertible Preferred Stock are redeemable at par value plus accrued dividends five years after the year of issuance.

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends.

The Non-Voting Serial Preferred Stocks are non-voting, except as specifically provided by law, and are preferred as to liquidation.

All preferred stocks limit the ability of PLDT to pay cash dividends unless all dividends on such preferred stock for all past dividend payment periods have been paid and or declared and set apart and provision has been made for the currently payable dividends.

Voting Preferred Stock

On June 5, 2012, the Philippine SEC approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized Preferred Capital Stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of Non-Voting Serial Preferred Stock with a par value of Php10.00 each, and other conforming amendments, or the Amendments. The shares of Voting Preferred Stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least 60% of the board of directors of such corporation are citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines, or Qualified Owners. The holders of Voting Preferred Stock will have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of Voting

Preferred Stock. The Amendments were approved by the Board of Directors and stockholders of PLDT on July 5, 2011 and March 22, 2012, respectively.

On October 12, 2012, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, determined the following specific rights, terms and features of the Voting Preferred Stock: (a) entitled to receive cash dividends at the rate of 6.5% per annum, payable before any dividends are paid to the holders of Common Stock; (b) in the event of dissolution or liquidation or winding up of PLDT, holders will be entitled to be paid in full, or pro-rata insofar as the assets of PLDT will permit, the par value of such shares of Voting Preferred Stock and any accrued or unpaid dividends thereon before any distribution shall be made to the holders of shares of Common Stock; (c) redeemable at the option of PLDT; (d) not convertible to Common Stock or to any shares of stock of PLDT of any class; (e) voting rights at any meeting of the stockholders of PLDT for the election of directors and all other matters to be voted upon by the stockholders in any such meetings, with one vote in respect of each Voting Preferred Share; and (f) holders will have no pre-emptive right to subscribe for or purchase any shares of stock of any class, securities or warrants issued, sold or disposed by PLDT.

On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement between BTFHI and PLDT dated October 15, 2012. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2016. See *Note 1 – Corporate Information* and *Note 27 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition*.

Redemption of Preferred Stock

On September 23, 2011, the Board of Directors approved the redemption, or the Redemption, of all outstanding shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock, or the Series A to FF Shares, from holders of record as of October 10, 2011, and all such shares were redeemed and retired effective on January 19, 2012. In accordance with the terms and conditions of the Series A to FF Shares, the holders of Series A to FF Shares as at January 19, 2012 are entitled to payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to January 19, 2012, or the Redemption Price of Series A to FF Shares.

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

On May 8, 2012, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series GG 10% Cumulative Convertible Preferred Stock, or the Series GG Shares, from the holders of record as of May 22, 2012, and all shall shares were redeemed and retired effective August 30, 2012. In accordance with the terms and conditions of the Series GG Shares, the holders of the Series GG Shares as at May 22, 2012 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to August 30, 2012, or the Redemption Price of Series GG Shares.

PLDT has set aside Php236 thousand (the amount required to fund the redemption price for the Series GG Shares) in addition to Php74 thousand for unclaimed dividends on Series GG Shares, or a total amount of Php310 thousand, to fund the redemption price for the Series GG Shares, or the Redemption Trust Fund for Series GG Shares, which forms an integral part of the Redemption Trust Fund previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series A to FF Shares. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series GG Shares or any balance thereof, in trust, for the benefit of holders of Series GG Shares, for a period of ten years from August 30, 2012, or until August 30, 2022. After the said date, any and all remaining balance in the Redemption Trust Fund for Series GG Shares shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series GG Shares shall accrue for the benefit of, and be paid from time to time, to PLDT.

On January 29, 2013, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2007, or Series HH Shares issued in 2007, from the holders of record as of February 14, 2013 and all such shares were redeemed and retired effective May 16, 2013. In accordance with the terms and conditions of Series HH Shares issued in 2007, the holders of Series HH Shares issued in 2007 as at February 14, 2013 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 16, 2013, or the Redemption Price of Series HH Shares issued in 2007.

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

On January 28, 2014, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2008, or the Series HH Shares issued in 2008, from the holders of record as of February 14, 2014 and all such shares were redeemed and retired effective May 16, 2014. In accordance with the terms and conditions of Series HH Shares issued in 2008, the holders of Series HH Shares issued in 2008 as at February 14, 2014 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 16, 2014, or the Redemption Price of Series HH Shares issued in 2008.

PLDT has set aside Php2 thousand (the amount required to fund the redemption price of Series HH Shares issued in 2008) in addition to Php1 thousand for unclaimed dividends on Series HH Shares issued in 2008, or a total amount of Php3 thousand, to fund the redemption price of Series HH Shares issued in 2008, or the Redemption Trust Fund for Series HH Shares issued in 2008, which forms an integral part of the Redemption Trust Funds previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series A to HH Shares issued in 2007. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series HH Shares issued in 2008 or any balance thereof, in trust, for the benefit of holders of Series HH Shares issued in 2008, for a period of ten years from May 16, 2014, or until May 16, 2024. After the said date, any and all remaining balance in the Redemption Trust Fund for Series HH Shares issued in 2008 shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series HH Shares issued in 2008 shall accrue for the benefit of, and be paid from time to time, to PLDT.

On January 26, 2016, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series II 10% Cumulative Convertible Preferred Stock, or the Series II Shares, from the holder of record as of February 10, 2016, and all such shares were redeemed and retired effective on May 11, 2016. In accordance with the terms and conditions of Series II Shares, the holders of Series II Shares as at February 10, 2016 is entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 11, 2016, or the Redemption Price of Series II Shares.

PLDT has set aside Php4 thousand to fund the redemption price of Series II Shares, or the Redemption Trust Fund for Series II Shares, which forms an integral part of the Redemption Trust Funds previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series A to HH Shares issued in 2008. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series II Shares or any balance thereof, in trust, for the benefit of holder of Series II Shares, for a period of ten years from May 11, 2016, or until May 11, 2026. After the said date, any and all remaining balance in the Redemption Trust Fund for Series II Shares shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series II Shares shall accrue for the benefit of, and be paid from time to time, to PLDT.

As at January 19, 2012, August 30, 2012, May 16, 2013, May 16, 2014 and May 11, 2016, notwithstanding that any stock certificate representing the Series A to FF Shares, Series GG Shares, Series HH Shares issued in 2007, Series HH Shares issued in 2008 and Series II Shares, respectively, were not surrendered for cancellation, the Series AA to II Shares were no longer deemed outstanding and the right of the holders of such shares to receive dividends thereon ceased to accrue and all rights with respect to such shares ceased and terminated, except only the right to receive the Redemption Price of such shares, but without interest thereon.

Total amounts of Php23 million, Php15 million and Php30 million were withdrawn from the Trust Account, representing total payments on redemption for the years ended December 31, 2016, 2015 and 2014, respectively. The balances of the Trust Account of Php7,883 million and Php7,906 million were presented as part of the "Current portion of advances and other noncurrent assets" and the related redemption liability of the same amount were presented as part of "Accrued expenses and other current liabilities" in our consolidated statements of financial position as at December 31, 2016 and 2015, respectively. See *Note 24 – Accrued Expenses and Other Current Liabilities* and *Note 28 – Financial Assets and Liabilities*.

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

Common Stock

The Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's then total outstanding shares of common stock in 2008. Under the share buyback program, PLDT reacquired shares on an opportunistic basis, directly from the open market through the trading facilities of the PSE and NYSE.

We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388.00 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at December 31, 2016 and 2015.

Dividends Declared

Our dividends declared for the years ended December 31, 2016, 2015 and 2014 are detailed as follows:

December 31, 2016

	Date			Amount	
Class	Approved	Record	Payable	Per Share	Total
				(in million pesos, except per share amounts)	
Cumulative Convertible Preferred Stock					
Series II (Final Dividends)	April 12, 2016	February 10, 2016	May 11, 2016	0.0027/day	–
Series JJ	May 3, 2016	June 2, 2016	June 30, 2016	1.00	–
					–
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 26, 2016	February 24, 2016	March 15, 2016	–	12
	May 3, 2016	May 24, 2016	June 15, 2016	–	12
	August 2, 2016	August 18, 2016	September 15, 2016	–	12
	November 14, 2016	November 28, 2016	December 15, 2016	–	12
					48
Voting Preferred Stock	February 29, 2016	March 30, 2016	April 15, 2016	–	3
	June 14, 2016	June 30, 2016	July 15, 2016	–	3
	August 30, 2016	September 20, 2016	October 15, 2016	–	2
	December 6, 2016	December 20, 2016	January 15, 2017	–	3
					11
Common Stock					
Regular Dividend	February 29, 2016	March 14, 2016	April 1, 2016	57.00	12,315
	August 2, 2016	August 16, 2016	September 1, 2016	49.00	10,587
					22,902
Charged to retained earnings					22,961

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

December 31, 2015

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
				(in million pesos, except per share amounts)	
10% Cumulative Convertible Preferred Stock					
Series II	May 5, 2015	May 19, 2015	May 30, 2015	1.00	–
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 27, 2015	February 26, 2015	March 15, 2015	–	12
	May 5, 2015	May 26, 2015	June 15, 2015	–	12
	August 4, 2015	August 20, 2015	September 15, 2015	–	13
	November 3, 2015	November 20, 2015	December 15, 2015	–	12
					49
Voting Preferred Stock	March 3, 2015	March 19, 2015	April 15, 2015	–	2
	June 9, 2015	June 26, 2015	July 15, 2015	–	3
	August 25, 2015	September 15, 2015	October 15, 2015	–	2
	December 1, 2015	December 18, 2015	January 15, 2016	–	3
					10
Common Stock					
Regular Dividend	March 3, 2015	March 17, 2015	April 16, 2015	61.00	13,179
	August 4, 2015	August 27, 2015	September 25, 2015**	65.00	14,044
Special Dividend	March 3, 2015	March 17, 2015	April 16, 2015	26.00	5,618
					32,841
Charged to retained earnings					**32,900**

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

** *Payment was moved to September 28, 2015 in view of Proclamation No. 1128, Series of 2015, dated September 15, 2015, declaring September 25, 2015 a regular holiday.*

December 31, 2014

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
				(in million pesos, except per share amounts)	
10% Cumulative Convertible Preferred Stock					
Series HH (Final Dividends)	April 1, 2014	February 14, 2014	May 16, 2014	0.0027/day	–
Series II	April 1, 2014	April 30, 2014	May 30, 2014	1.00	–
					–
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 28, 2014	February 27, 2014	March 15, 2014	–	12
	May 6, 2014	May 27, 2014	June 15, 2014	–	12
	August 5, 2014	August 20, 2014	September 15, 2014	–	13
	November 4, 2014	November 20, 2014	December 15, 2014	–	12
					49
Voting Preferred Stock	March 4, 2014	March 20, 2014	April 15, 2014	–	3
	June 10, 2014	June 27, 2014	July 15, 2014	–	3
	September 30, 2014	October 15, 2014	October 15, 2014	–	2
	December 2, 2014	December 19, 2014	January 15, 2015	–	2
					10
Common Stock					
Regular Dividend	March 4, 2014	March 18, 2014	April 16, 2014	62.00	13,395
	August 5, 2014	August 28, 2014	September 26, 2014	69.00	14,908
Special Dividend	March 4, 2014	March 18, 2014	April 16, 2014	54.00	11,667
					39,970
Charged to retained earnings					**40,029**

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

Our dividends declared after December 31, 2016 are detailed as follows:

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
				(in million pesos, except per share amounts)	
Cumulative Non-Convertible Redeemable Preferred Stock Series IV*	February 7, 2017	February 24, 2017	March 15, 2017	–	12
Voting Preferred Stock	March 7, 2017	March 30, 2017	April 15, 2017	–	2
Common Stock					
Regular Dividend	March 7, 2017	March 21, 2017	April 6, 2017	28.00	6,050
Charge to retained earnings					6,064

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

Retained Earnings Available for Dividend Declaration

The following table shows the reconciliation of our consolidated retained earnings available for dividend declaration as at December 31, 2016:

	(in million pesos)
Consolidated unappropriated retained earnings as at December 31, 2015	6,195
Effect of PAS 27 Adjustments and other adjustments	11,188
Parent Company's unappropriated retained earnings at beginning of the year	17,383
Less: Cumulative unrealized income – net of tax:	
Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)	(523)
Fair value adjustments of investment property resulting to gain	(862)
Fair value adjustments (mark-to-market gains)	(2,260)
Parent Company's unappropriated retained earnings available for dividends as at January 1, 2015	13,738
Parent Company's net income attributable to equity holders of PLDT for the year	**29,841**
Less: Fair value adjustment of investment property resulting to gain	**(11)**
Fair value adjustments (mark-to-market gains)	**(662)**
	29,168
Less: Cash dividends declared during the year	
Preferred stock (Note 8)	**(59)**
Common stock	**(22,902)**
Charged to retained earnings	**(22,961)**
Parent Company's unappropriated retained earnings available for dividends as at December 31, 2016	**19,945**

As at December 31, 2016, our consolidated unappropriated retained earnings amounted to Php3,483 million while the Parent Company's unappropriated retained earnings amounted to Php24,261 million. The difference of Php20,778 million pertains to the effect of PAS 27 in our investments in subsidiaries, associates and joint ventures accounted for under the equity method.

Php2,610 Million and Php1,590 Million Perpetual Notes

Smart issued Php2,610 million and Php1,590 million perpetual notes under two Notes Facility Agreements dated March 3, 2017 and March 6, 2017, respectively. Proceeds from the issuance of these notes are intended to finance capital expenditures. The notes have no fixed redemption date and Smart may, at its sole option, redeem the notes in whole but not in part. In accordance with PAS 32, the notes are classified as part of equity in the financial statements of Smart. The notes are subordinated to and rank junior to all senior loans of Smart.

21. Interest-bearing Financial Liabilities

As at December 31, 2016 and 2015, this account consists of the following:

	2016	2015
	(in million pesos)	
Long-term portion of interest-bearing financial liabilities:		
Long-term debt (Notes 9 and 28)	**151,759**	143,982
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year (Notes 9 and 28)	**33,273**	16,910
Obligations under finance leases maturing within one year (Note 28)	**–**	1
	185,032	160,893

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in our financial liabilities amounted to Php631 million and Php676 million as at December 31, 2016 and 2015, respectively. See *Note 28 – Financial Assets and Liabilities*.

The following table describes all changes to unamortized debt discount for the years ended December 31, 2016 and 2015.

	2016	2015
	(in million pesos)	
Unamortized debt discount at beginning of the year	**676**	511
Additions during the year	**185**	396
Accretion during the year included as part of Financing costs – net (Note 5)	**(230)**	(231)
Unamortized debt discount at end of the year (Note 28)	**631**	676

Long-term Debt

As at December 31, 2016 and 2015, long-term debt consists of:

Description	Interest Rates	2016		2015	
		(in millions)			
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Exportkreditnamnden, or EKN	1.4100% to 1.9000% and US$ LIBOR + 0.3000% in 2016 and 1.4100% to 1.9000% and US$LIBOR + 0.3000% to 0.3500% in 2015	**US$31**	**Php1,533**	US$62	Php2,911
China Export and Credit Insurance Corporation, or Sinosure	US$ LIBOR + 1.0000% to 1.8000% in 2016 and US$ LIBOR + 0.5500% to 1.8000% in 2015	**–**	**–**	53	2,484
EKN and AB Svensk Exportkredit, or SEK	3.9550% in 2016 and 2015	**–**	**–**	32	1,528
		31	**1,533**	147	6,923
Fixed Rate Notes	8.3500% in 2016 and 2015	**228**	**11,362**	228	10,733
Term Loans:					
GSM Network Expansion Facilities	US$ LIBOR + 0.8500% to 1.1125% in 2016 and 2015	**5**	**276**	36	1,722
Others	2.8850% and US$ LIBOR + 0.7900% to 1.6000% in 2016 and US$ LIBOR + 0.7900% to 1.9000% in 2015	**905**	**45,021**	1,024	48,242
		US$1,169	**Php58,192**	US$1,435	Php67,620
Philippine Peso Debts:					
Corporate Notes	5.3300% to 6.2600% in 2016 and 2015		**Php21,105**		Php21,320
Fixed Rate Retail Bonds	5.2250% to 5.2813% in 2016 and 2015		**14,902**		14,883
Term Loans:					
Unsecured Term Loans	3.9000% to 5.6400%; BSP overnight rate - 0.3500% to BSP overnight rate and PDST-R2 + 1.00% in 2016 and 4.4850% to 5.7895% BSP overnight rate - 0.3500% to BSP overnight rate in 2015		**90,833**		57,069
			126,840		93,272
Total long-term debt (Note 28)			**185,032**		160,892
Less portion maturing within one year (Note 28)			**33,273**		16,910
Noncurrent portion of long-term debt (Note 28)			**Php151,759**		Php143,982

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at December 31, 2016 are as follows:

	U.S. Dollar Debt		Php Debt	Total
Year	U.S. Dollar	Php	Php	Php
		(in millions)		
2017	**496**	**24,672**	**8,802**	**33,474**
2018	**258**	**12,874**	**1,908**	**14,782**
2019	**110**	**5,472**	**14,341**	**19,813**
2020	**210**	**10,469**	**8,509**	**18,978**
2021	**45**	**2,259**	**19,649**	**21,908**
2022 and onwards	**56**	**2,756**	**73,952**	**76,708**
(Note 28)	**1,175**	**58,502**	**127,161**	**185,663**

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies as at December 31, 2016 and 2015:

			Terms						Outstanding Amounts			
Loan Amount	Date of Loan Agreement	Lender(s)	Installments	Final Installment	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	2016		2015	
						(in millions)			(in millions)			
U.S. Dollar Debts												
EKN, the Export-Credit Agency of Sweden												
DMPI US$18.7M[1]	April 4, 2006	Nordea Bank AB (publ), or Nordea Bank	18 equal semi-annual	April 30, 2015	Various dates in 2006-2007	US$18.7	US$–	April 30, 2015	**US$–**	**Php–**	US$–	Php–
DMPI US$59.2M[2]	December 17, 2007	ING Bank, Societe Generale and Calyon	18 equal semi-annual	March 30, 2017	Various dates in 2008-2009	59.1	0.1	–	**3**	**168**	10	477
DMPI US$51.2M[3]	December 17, 2007	ING Bank, Societe Generale and Calyon	18 equal semi-annual	June 30, 2017	Various dates in 2008-2009	51.1	0.1	–	**3**	**146**	9	415
Smart US$49M[4] Tranche A1: US$24M; Tranche A2: US$24M; Tranche B: US$1M	June 10, 2011	Nordea Bank, subsequently assigned to SEK on July 5, 2011	10 equal semi-annual	Tranche A1 and B: December 29, 2016; Tranche A2: October 30, 2017	Various dates in 2012 and February 21, 2013	49.0	–	–	**5**[*]	**233**[*]	14[*]	674[*]
Smart US$45.6M[4] Tranche A1: US$25M; Tranche A2: US$19M; Tranche B1: US$0.9M; Tranche B2: US$0.7M	February 22, 2013	Nordea Bank, subsequently assigned to SEK on July 3, 2013	10 equal semi-annual, commencing 6 months after the applicable mean delivery date	Tranche A1 and B1: July 16, 2018; Tranche A2 and B2: April 15, 2019	Various dates in 2013-2014	45.6	–	–	**20**[*]	**986**[*]	29[*]	1,345[*]
									US$31	**Php1,533**	US$62	Php2,911

[*] *Amounts are net of unamortized discount and/or debt issuance cost.*

[1] *The purpose of this loan is to finance the supply of GSM mobile telephone equipment and related services.*

[2] *The purpose of this loan is to finance the equipment and service contracts for the Phase 7 North Luzon Expansion and Change-out Project.*

[3] *The purpose of this loan is to finance the equipment and service contracts for the Phase 7 Expansion Project in Visayas and Mindanao.*

[4] *The purpose of this loan is to finance the supply and services contracts for the modernization and expansion project.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms: Installments	Terms: Final Installment	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2016		Outstanding Amounts 2015	
						(in millions)			(in millions)			
Sinosure												
DMPI US$21M[1]	May 24, 2007	ING Bank	14 equal semi-annual	May 24, 2015	Various dates in 2008	US$20.8	US$0.2	May 22, 2015	US$–	Php–	US$–	Php–
DMPI US$12.1M[2]	May 24, 2007	ING Bank	14 equal semi-annual	May 24, 2015	Various dates in 2008	12.1	–	May 22, 2015	–	–	–	–
DMPI US$23.8M[3]	November 10, 2008	ING Bank	14 equal semi-annual	September 1, 2016	Various dates in 2008-2009	23.8	–	March 1, 2016	–	–	3	160
DMPI US$5.5M[4]	November 10, 2008	ING Bank	14 equal semi-annual	September 1, 2016	Various dates in 2008-2009	5.5	–	March 1, 2016	–	–	1	37
DMPI US$4.9M[5]	November 10, 2008	ING Bank	14 equal semi-annual	September 1, 2016	Various dates in 2008-2009	4.9	–	March 1, 2016	–	–	1	33
DMPI US$50M[6]	December 16, 2009	China Citic Bank Corporation Ltd., subsequently assigned to ING Bank on December 9, 2011	14 equal semi-annual	December 17, 2017	Various dates in 2010	48.0	2.0	June 16, 2016	–	–	14	639
DMPI US$117M[7]	September 15, 2010	China Development Bank and The Hong Kong and Shanghai Banking Corporation Limited	15 equal semi-annual	April 10, 2018	Various dates in 2011	116.3	1.0	April 11, 2016	–	–	34	1,615
									–	–	53	2,484
EKN and SEK, the Export Credit Agency of Sweden												
DMPI US$96.6M[8]	April 28, 2009	Nordea Bank and ING Bank	17 equal semi-annual	Tranche 1: February 28, 2018; Tranche 2: November 30, 2018	Various dates in 2009-2011	US$96.6	US$–	Tranche 1: August 30, 2016; Tranche 2: May 30, 2016	US$–	Php–	US$32	Php1,528

(1) *The purpose of this loan is to finance the equipment for the Phase 6 South Luzon Change Out and Expansion Project.*

(2) *The purpose of this loan is to finance the equipment for the Phase 6 NCR Expansion Project.*

(3) *The purpose of this loan is to finance the equipment and service contracts for the Phase 7 Core Expansion Project.*

(4) *The purpose of this loan is to finance the equipment and service contracts for the supply of 3G network in NCR.*

(5) *The purpose of this loan is to finance the equipment and service contracts for the Phase 7 Intelligent Network Expansion Project.*

(6) *The purpose of this loan is to finance the equipment, software and related materials for the Phase 2 3G Expansion, transmission for the Phase 2 3G Expansion and Phase 8A NCR and South Luzon BSS Expansion Projects.*

(7) *The purpose of this loan is to finance the purchase of equipment and related materials for the expansion of Phase 8A and 8B Core and IN Network Expansion; Phase 8B NCR and SLZ BSS Network Expansion Project and Phase 3 3G Network Roll-out Project. US$20 million was partially prepaid on April 10, 2013 and the remaining balance is now payable over five years in 10 semi-annual installments, with final installment on April 10, 2018.*

(8) *The purpose of this loan is to finance the supply of GSM mobile telephone equipment and related services.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms: Installment	Terms: Final Installment	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2016		Outstanding Amounts 2015	
						(in millions)			(in millions)			
Finnvera, Plc, the Finnish Export Credit Agency												
Smart US$50M[1]	October 9, 2009	FEC	10 equal semi-annual	April 7, 2015	April 7, 2010	US$50.0	US$–	April 7, 2015	US$–	Php–	US$–	Php–

(1) *The purpose of this loan is to finance the GSM equipment and services contracts.*

Loan Amount	Issuance Date	Trustee	Terms: Installments	Terms: Maturity	Repurchase: Date	Repurchase: Amount	Paid in full on	Outstanding Amounts 2016		Outstanding Amounts 2015	
						(in millions)		(in millions)			
Fixed Rate Notes											
PLDT											
US$300M[1]	March 6, 1997	Deutsche Bank Trust Company Americas	Non-amortizing	March 6, 2017	Various dates in 2008-2014	US$71.6	March 6, 2017	**US$228[*]**	**Php11,362[*]**	US$228[*]	Php10,733[*]

[*] Amounts are net of unamortized debt discount and/or debt issuance cost.

[1] This fixed rate note has a coupon rate of 8.350%. The purpose of this note is to finance service improvements and expansion programs.

Loan Amount	Date of Loan Agreement	Lender(s)	Terms: Installments	Terms: Final Installment	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2016		Outstanding Amounts 2015	
						(in millions)			(in millions)			
Term Loans												
GSM Network Expansion Facilities												
Smart												
US$60M[1]	June 6, 2011	The Bank of Tokyo-Mitsubishi UFJ, Ltd., or Bank of Tokyo	8 equal semi-annual, commencing on the 18th month from signing date	June 6, 2016	Various dates in 2012	US$60	US$–	June 6, 2016	**US$–**	**Php–**	US$7	Php353
Smart												
US$50M[2]	August 19, 2011	FEC	10 equal semi-annual, commencing 6 months after August 19, 2012	August 19, 2016	Various dates in 2012	50	–	August 19, 2016	**–**	**–**	12[*]	588[*]
Smart												
US$50M[1]	May 29, 2012	Bank of Tokyo	9 equal semi-annual, commencing on May 29, 2013	May 29, 2017	Various dates in 2012	50	–	–	**5[*]**	**276[*]**	17[*]	781[*]
									US$5	**Php276**	US$36	Php1,722

[*] Amounts are net of unamortized debt discount and/or debt issuance cost.

[1] The purpose of this loan is to finance the equipment and service contracts for the modernization and expansion project.

[2] The purpose of this loan is to finance the supply contracts for the modernization and expansion project.

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2016		Outstanding Amounts 2015	
					(in millions)			(in millions)			
Other Term Loans[1]											
PLDT											
US$150M	March 7, 2012	Syndicate of Banks with the Bank of Tokyo as Facility Agent	9 equal semi-annual, commencing on the date which falls 12 months after the date of the loan agreement, with final installment on March 7, 2017	Various dates in 2012	US$150	US$–	March 7, 2017	**US$17**	**Php830**	US$50	Php2,356
PLDT											
US$25M	March 16, 2012	Citibank, N.A.	17 equal quarterly-installments, commencing 12 months from the initial drawdown date, with final installment on May 30, 2017	May 29, 2012	25	–	May 29, 2015	**–**	**–**	–	–
PLDT											
US$300M	January 16, 2013	Syndicate of Banks with Bank of Tokyo as Facility Agent	9 equal semi-annual, commencing on the date which falls 12 months after the date of the loan agreement, with final installment on January 16, 2018	Various dates in 2013	300	–	–	**100**	**4,977**	167	7,853
Smart											
US$35M	January 28, 2013	China Banking Corporation	10 equal semi-annual, with final installment on January 29, 2018	May 7, 2013	35	–	January 30, 2017	**10[**]**	**522[**]**	18	825
								US$127	**Php6,329**	US$235	Php11,034

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

[**] This was prepaid on January 30, 2017.

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2016		Outstanding Amounts 2015	
					(in millions)			(in millions)			
Smart US$50M	March 25, 2013	FEC	9 equal semi-annual, commencing six months after drawdown date, with final installment on March 23, 2018	Various dates in 2013 and 2014	US$32	US$18	–	**US$11(*)**	**Php531(*)**	US$18(*)	Php833(*)
Smart US$80M	May 31, 2013	China Banking Corporation	10 equal semi-annual, commencing six months after drawdown date, with final installment on May 31, 2018	September 25, 2013	80	–	–	**24**	**1,194**	40	1,885
Smart US$120M	June 20, 2013	Mizuho Bank Ltd. and Sumitomo Mitsui Banking Corporation with Sumitomo as Facility Agent	8 equal semi-annual, commencing six months after drawdown date, with final installment on June 20, 2018	September 25, 2013	120	–	–	**45(*)**	**2,226(*)**	74(*)	3,501(*)
Smart US$100M	March 7, 2014	Bank of Tokyo	9 equal semi-annual, commencing 12 months after drawdown date, with final installment on March 7, 2019	Various dates in 2014 March 2, 2015	90 10	–	–	**55(*)**	**2,744(*)**	77(*)	3,625(*)
Smart US$50M	May 14, 2014	Mizuho Bank Ltd.	9 equal semi-annual, commencing 11 months after drawdown date, with final installment on May 14, 2019	July 1, 2014	50	–	–	**28(*)**	**1,372(*)**	38(*)	1,813(*)
PLDT US$100M	August 5, 2014	Philippine National Bank	Annual amortization rate of 1% of the issue price on the first year up to the fifth year from the initial drawdown date, with final installment on August 11, 2020	Various dates in 2014	100	–	–	**98**	**4,877**	99	4,665
PLDT US$50M	August 29, 2014	Metropolitan Bank and Trust Company, or Metrobank	Semi-annual amortization rate of 1% of the issue price on the first year up to the fifth year from the initial drawdown date and the balance payable upon maturity on September 2, 2020	September 2, 2014	50	–	–	**49**	**2,451**	50	2,344
PLDT US$200M Tranche A: US$150M; Tranche B: US$50M	February 26, 2015	Bank of Tokyo	Commencing 36 months after loan date, with semi-annual amortization of 23.75% of the loan amount on the first and second repayment dates and seven semi-annual amortizations of 7.5% starting on the third repayment date, with final installment on February 25, 2022	Various dates in 2015	200	–	–	**198(*)**	**9,879(*)**	198(*)	9,320(*)
Smart US$200M	March 4, 2015	Mizuho Bank Ltd.	9 equal semi-annual installments commencing on the date which falls 12 months after the loan date, with final installment on March 4, 2020	Various dates in 2015	200	–	–	**154(*)**	**7,663(*)**	197(*)	9,299(*)
								US$662	**Php32,937**	US$791	Php37,285

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2016		2015	
					(in millions)			(in millions)			
Smart											
US$100M	December 7, 2015	Mizuho Bank Ltd.	13 equal semi-annual installments commencing on the date which falls 12 months after the loan date, with final installment on December 7, 2022	Various dates in 2016	US$100	US$–	–	**US$91[*]**	**Php4,521[*]**	(US$2)[1]	(Php77)[1]
PLDT											
US$25M	March 22, 2016	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 30, 2023	March 30, 2016	25	–	–	**25[*]**	**1,234[*]**	–	–
US$25M	January 31, 2017	NTT Finance Corporation	Non-amortizing, payable upon maturity	–	–	–	–	**–**	**–**	–	–
								116	**5,755**	(2)	(77)
								US$905	**Php45,021**	US$1,024	Php48,242

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

(1) *Amounts pertain to debt issuance cost.*

Loan Amount	Date of Loan Agreement	Facility Agent	Installments	Date of Issuance/ Drawdown	Prepayments Amount	Prepayments Date	Outstanding Amounts 2016	2015
					(in millions)		(in millions)	
Philippine Peso Debts								
Fixed Rate Corporate Notes[1]								
Smart								
Php5,500M Series A: Php1,910M;	March 15, 2012	Metrobank	Series A: 1% annual amortization starting March 19, 2013, with the balance of 96% payable on March 20, 2017;	Drawn and issued on March 19, 2012	Php1,376	July 19, 2013	**Php3,930[*]**	Php3,966[*]
Series B: Php3,590M			Series B: 1% annual amortization starting March 19, 2013 with the balance of 91% payable on March 19, 2022					
PLDT								
Php1,500M	July 25, 2012	Metrobank	Annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on July 27, 2019	July 27, 2012	1,188	July 29, 2013	**288**	291
PLDT								
Php8,800M Series A: Php4,610M;	September 19, 2012	Metrobank	Series A: 1% annual amortization on the first up to sixth year, with the balance payable on September 21, 2019;	September 21, 2012	2,055	June 21, 2013	**6,475**	6,543
Series B: Php4,190M			Series B: 1% annual amortization on the first up to ninth year, with the balance payable on September 21, 2022					
PLDT								
Php6,200M Series A: 7-year notes Php3,775M;	November 20, 2012	BDO Unibank, Inc., or BDO	Series A: Annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 22, 2019;	November 22, 2012	–	–	**5,952**	6,014
Series B: 10-year notes Php2,425M			Series B: Annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 22, 2022					
							Php16,645	Php16,814

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

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

Loan Amount	Date of Loan Agreement	Facility Agent	Installments	Date of Issuance/ Drawdown	Prepayments Amount	Prepayments Date	Outstanding Amounts 2016	Outstanding Amounts 2015
					(in millions)		(in millions)	
Smart Php1,376M Series A: Php742M; Series B: Php634M	June 14, 2013	Metrobank	Series A: Annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 97% payable on March 20, 2017; Series B: Annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 92% payable on March 21, 2022	June 19, 2013	Php–	–	**Php1,335**	Php1,349
PLDT Php2,055M Series A: Php1,735M; Series B: Php320M	June 14, 2013	Metrobank	Series A: Annual amortization rate of 1% of the issue price up to the fifth year and the balance payable upon maturity on September 21, 2019; Series B: Annual amortization rate of 1% of the issue price up to the eighth year and the balance payable upon maturity on September 21, 2022	June 21, 2013	–	–	**1,973**	1,993
PLDT Php1,188M	July 19, 2013	Metrobank	Annual amortization rate of 1% of the issue on the first year up to the fifth year from the issue date and the balance payable upon maturity on July 27, 2019	July 29, 2013	–	–	**1,152**	1,164
							4,460	4,506
							Php21,105	Php21,320

Loan Amount	Date of Loan Agreement	Paying Agent	Terms	Date of Issuance/ Drawdown	Prepayments Amount	Prepayments Date	Outstanding Amounts 2016	Outstanding Amounts 2015
					(in millions)		(in millions)	
Fixed Rate Retail Bonds(1) PLDT Php15,000M	January 22, 2014	Philippine Depositary Trust Corp.	Php12.4B – non-amortizing, payable in full upon maturity on February 6, 2021; Php2.6B – non-amortizing payable in full on February 6, 2024	February 6, 2014	Php–	–	**Php14,902**(*)	Php14,883(*)

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

(1) *This fixed rate retail corporate bond is comprised of Php12.4 billion and Php2.6 billion due in 2021 and 2024 with a coupon rate of 5.225% and 5.2813%, respectively. The purpose of this loan is to finance capital expenditures and/or refinance existing loan obligations which were utilized for network expansion and improvement programs.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2016	Outstanding Amounts 2015
					(in millions)			(in millions)	
Term Loans ***Unsecured Term Loans***(1) PLDT Php2,000M	March 20, 2012	RCBC	Annual amortization rate of 1% on the fifth year up to the ninth year from the initial drawdown date and the balance payable upon maturity on April 12, 2022	April 12, 2012	Php2,000	Php–	–	**Php2,000**	Php2,000
PLDT Php3,000M	April 27, 2012	Land Bank of the Philippines, or LBP	Annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity on July 18, 2017	July 18, 2012	3,000	–	January 18, 2017	**2,880**(**)	2,910
PLDT Php2,000M	May 29, 2012	LBP	Annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity on June 27, 2017	June 27, 2012	2,000	–	–	**1,920**	1,940
								Php6,800	Php6,850

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

(**) *This loan was prepaid on January 18, 2017.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2016	2015
					(in millions)			(in millions)	
Smart Php1,000M	June 7, 2012	LBP	Annual amortization rate of 1% of the principal amount commencing on the first year of the initial drawdown up to the fourth year and the balance payable upon maturity on August 22, 2017	August 22, 2012	1,000	–	February 22, 2017	**Php960**[***]	Php970
DMPI Php1,500M	June 27, 2012	BPI, BPI Asset Management and Trust Group and ALFM Peso Bond Fund, Inc.	Annual amortization rate of 1% of the principal amount with the balance payable upon maturity on June 29, 2019	Various dates in 2012	1,500	–	July 1, 2015	**–**	–
PLDT Php200M	August 31, 2012	Manufacturers Life Insurance Co. (Phils.), Inc.	Payable in full upon maturity on October 9, 2019	October 9, 2012	200	–	–	**200**	200
PLDT Php1,000M	September 3, 2012	Union Bank of the Philippines, or Union Bank	Annual amortization rate of 1% of the first year up to the sixth year from the initial drawdown date and the balance payable upon maturity on January 13, 2020	January 11, 2013	1,000	–	–	**970**	980
PLDT Php1,000M	October 11, 2012	Philippine American Life and General Insurance Company, or Philam Life	Payable in full upon maturity on December 5, 2022	December 3, 2012	1,000	–	–	**1,000**	1,000
Smart Php3,000M	December 17, 2012	LBP	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on December 20, 2019	Various dates in 2012-2013	3,000	–	–	**2,880**	2,910
PLDT Php2,000M	November 13, 2013	BPI	Annual amortization rate of 1% on the first year up to the sixth year from the initial drawdown and the balance payable upon maturity on November 22, 2020	Various dates in 2013-2014	2,000	–	–	**1,940**	1,960
Smart Php3,000M	November 25, 2013	Metrobank	Annual amortization rate of 10% of the total amount drawn for the six years and the final installment is payable upon maturity on November 27, 2020	November 29, 2013	3,000	–	–	**2,093**[*]	2,391[*]
Smart Php3,000M	December 3, 2013	BPI	Annual amortization rate of 1% of the total amount drawn for the first six years and the final installment is payable upon maturity on December 10, 2020	December 10, 2013	Php3,000	Php–	–	**2,901**[*]	2,929[*]
Smart Php3,000M	January 29, 2014	LBP	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021	February 5, 2014	3,000	–	–	**2,931**[*]	2,959
Smart Php500M	February 3, 2014	LBP	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021	February 7, 2014	500	–	–	**490**	495
								Php16,365	Php16,794

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

(***) *This loan was prepaid on February 22, 2017.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2016	2015
					(in millions)			(in millions)	
Smart Php2,000M	March 26, 2014	Union Bank	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on March 29, 2021	March 28, 2014	2,000	–	–	**Php1,960**	Php1,980
PLDT Php1,500M	April 2, 2014	Philam Life	Payable in full upon maturity on April 4, 2024	April 4, 2014	1,500	–	–	**1,500**	1,500
Smart Php500M	April 2, 2014	BDO	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on April 2, 2021	April 4, 2014	500	–	–	**490**	495
PLDT Php1,000M	May 23, 2014	Philam Life	Payable in full upon maturity on May 28, 2024	May 28, 2014	1,000	–	–	**1,000**	1,000
PLDT Php1,000M	June 9, 2014	LBP	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on June 13, 2024	June 13, 2014	1,000	–	–	**980**	990
PLDT Php1,500M	July 28, 2014	Union Bank	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on July 31, 2024	July 31, 2014	1,500	–	–	**1,470**	1,485
PLDT Php2,000M	February 25, 2015	BPI	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on March 24, 2025	March 24, 2015	2,000	–	–	**1,980**	2,000
PLDT Php3,000M	June 26, 2015	BPI	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on June 30, 2025	June 30, 2015	3,000	–	–	**2,970**	3,000
PLDT Php5,000M	August 3, 2015	Metrobank	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on September 23, 2025	Various dates in 2015	5,000	–	–	**4,950**	5,000
Smart Php5,000M	August 11, 2015	Metrobank	Annual amortization rate of 1% of the principal amount on the first year up to the ninth year commencing on the first year anniversary of the initial drawdown date and the balance payable upon maturity on September 1, 2025	September 1, 2015	5,000	–	–	**4,928**(*)	4,975(*)
Smart Php5,000M	December 11, 2015	BPI	Annual amortization rate of 1% of the principal amount on the first year up to the ninth year commencing on the first year anniversary of the initial drawdown date and the balance payable upon maturity on December 21, 2025	December 21, 2015	5,000	–	–	**4,927**(*)	5,000
								Php27,155	Php27,425

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2016	2015
					(in millions)			(in millions)	
Smart Php5,000M	December 16, 2015	Metrobank	Annual amortization rate of 1% of the principal amount up to the tenth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on June 29, 2026	December 28, 2015	5,000	–	–	Php4,927(*)	Phph5,000
Smart Php7,000M	December 18, 2015	China Banking Corporation	Annual amortization rate of 1% of the principal amount on the third year up to the sixth year from the initial drawdown date, with balance payable upon maturity on December 28, 2022	December 28, 2015 and February 24, 2016	7,000	–	–	6,973(*)	1,000
PLDT Php3,000M	July 1, 2016	Metrobank	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on February 22, 2027	February 20, 2017	3,000	–	–	–	–
PLDT Php6,000M	July 1, 2016	Metrobank	Annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on August 30, 2023	August 30, 2016 and November 10, 2016	6,000	–	–	5,971(*)	–
PLDT Php8,000M	July 14, 2016	Security Bank	Semi-annual amortization rate of 1% of the total amount drawn starting from the end of the first year after the initial drawdown date until the ninth year and the balance payable on maturity on March 1, 2027	February 27, 2017	8,000	–	–	–	–
PLDT Php6,500M	September 20, 2016	BPI	Annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on November 2, 2023	November 2, 2016 and December 19, 2016	6,500	–	–	6,483(*)	–
Smart Php3,000M	September 28, 2016	BDO	Annual amortization rate of 1% of the principal amount on the first year up to the ninth year commencing on the first year anniversary of the initial drawdown date and the balance payable upon maturity on October 5, 2026	October 5, 2016	3,000	–	–	2,985	–
Smart Php5,400M	September 28, 2016	UBP	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown date and the balance payable upon maturity on October 24, 2023	October 24, 2016 and November 21, 2016	5,400	–	–	5,374	–
PLDT Php5,300M	October 14, 2016	BPI	Annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on December 19, 2023	December 19, 2016	5,300	–	–	5,300	–
Smart Php2,500M	October 27, 2016	China Banking Corporation	Annual amortization rate of 10% of the amount drawn starting on the third year up to the sixth year, with balance payable upon maturity on December 8, 2023	December 8, 2016	2,500	–	–	2,500	–
								Php40,513	Php6,000

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

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2016	2015
					(in millions)			(in millions)	
Smart Php4,000M	October 28, 2016	Security Bank	Semi-annual amortization rate of 1% of the total amount drawn from first year up to the ninth year and balance payable upon maturity	–	–	–	–	–	–
Smart Php1,000M	December 16, 2016	Philippine National Bank, or PNB	Annual amortization rate of 1% of the total amount drawn starting on the first anniversary of the advance up to the ninth anniversary of the advance and balance payable upon maturity	–	–	–	–	–	–
Smart Php2,000M	December 22, 2016	LBP	Annual amortization rate of 1% of the total amount drawn starting on the first anniversary of the advance up to the ninth anniversary of the advance and balance payable upon maturity	–	–	–	–	–	–
PLDT Php3,500M	December 23, 2016	LBP	Annual amortization rate of 1% on the first year up to the ninth year after the drawdown date and the balance payable upon maturity	–	–	–	–	–	–
								–	–
								Php90,833	Php57,069

Compliance with Debt Covenants

PLDT's debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, such as total debt to EBITDA and interest cover ratio, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

The principal factors that could negatively affect our ability to comply with these financial ratio covenants and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso relative to the U.S. dollar, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Of our total consolidated debts, approximately 31% and 42% were denominated in U.S. dollars as at December 31, 2016 and 2015, respectively. Considering our consolidated hedges and U.S. dollar cash balances allocated for debt, the unhedged portion of the consolidated debt amounts were approximately 8% and 17% as at December 31, 2016 and 2015, respectively, and therefore, these financial ratios and other tests are expected to be negatively affected by any weakening of the Philippine peso relative to the U.S. dollar. See *Note 28 – Financial Assets and Liabilities – Foreign Currency Exchange Risk*.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) making or permitting any material change in the character of its business; (b) selling, leasing, transferring or disposing of all or substantially all of its assets or any significant portion thereof other than in the ordinary course of business; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; and (e) merging or consolidating with any other company.

Furthermore, certain of DMPI's debt instruments contain provisions wherein DMPI may be declared in default in case of a change in control in DMPI.

PLDT's debt instruments and guarantees for DMPI loans also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (f) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. Smart's loan agreements include compliance with financial tests such as Smart's consolidated debt to consolidated EBITDA and debt service coverage ratio. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair the guarantors' ability to perform their obligations under its loan agreements.

DMPI's liabilities are guaranteed up to a certain extent by Digitel and PLDT. In addition, the loan agreements contain covenants which, among others, restrict the incurrence of loans or debts not in the ordinary course of business, merger or disposition of any substantial portion of Digitel and DMPI's assets, distribution of capital or profits, redemption of any of its issued shares, and reduction of Digitel and DMPI's registered and paid-up capital.

The loan agreements with suppliers, banks (foreign and local alike) and other financial institutions provide for certain restrictions and requirements with respect to, among others, maintenance of percentage of ownership of specific shareholders, incurrence of additional long-term indebtedness or guarantees and creation of property encumbrances.

As at December 31, 2016 and 2015, we were in compliance with all of our debt covenants. See *Note 28 – Financial Assets and Liabilities – Derivative Financial Instruments*.

Obligations under Finance Leases

The consolidated future minimum payments for finance leases and the long-term portion of obligations under finance leases (which cover various office equipment and vehicles) in the aggregate amount to nil and Php1 million as at December 31, 2016 and 2015, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 3 – Management's Use of Accounting Estimates, Judgments and Assumptions – Leases, Note 9 – Property and Equipment,* and *Note 28 – Financial Assets and Liabilities*.

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume, permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

22. Deferred Credits and Other Noncurrent Liabilities

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Accrual of capital expenditures under long-term financing	**13,673**	19,743
Provision for asset retirement obligations (Note 9)	**1,582**	1,437
Unearned revenues	**270**	245
Others	**79**	57
	15,604	21,482

Accrual of capital expenditures under long-term financing represent expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks.

The following table summarizes all changes to asset retirement obligations for the years ended December 31, 2016 and 2015:

	2016	2015
	(in million pesos)	
Provision for asset retirement obligations at beginning of the year	**1,437**	2,068
Additional liability recognized during the year	**147**	(88)
Accretion expenses	**36**	–
Settlement of obligations and others	**(38)**	(543)
Provision for asset retirement obligations at end of the year	**1,582**	1,437

23. Accounts Payable

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Suppliers and contractors (Note 28)	**46,820**	46,487
Carriers and other customers (Note 28)	**2,422**	3,014
Taxes (Note 27)	**1,972**	1,134
Related parties (Notes 25 and 28)	**290**	507
Others	**1,446**	1,537
	52,950	52,679

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

For terms and conditions pertaining to related parties, see *Note 25 – Related Party Transactions*.

For detailed discussion on the PLDT Group's liquidity risk management processes, see *Note 28 – Financial Assets and Liabilities – Liquidity Risk*.

24. Accrued Expenses and Other Current Liabilities

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Accrued utilities and related expenses (Notes 25 and 28)	**48,898**	46,256
Accrued taxes and related expenses (Note 27)	**9,922**	9,561
Liability from redemption of preferred shares (Notes 20 and 28)	**7,883**	7,906
Unearned revenues (Note 22)	**6,990**	7,456
Accrued employee benefits and other provisions (Notes 25, 26 and 28)	**6,214**	6,290
Accrued interests and other related costs (Notes 21 and 28)	**1,412**	1,284
Others (Note 10)	**10,900**	5,533
	92,219	84,286

Accrued utilities and related expenses pertain to costs incurred for electricity and water consumption, repairs and maintenance, selling and promotions, professional and other contracted services, rent, insurance and security services.

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

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

Other accrued expenses and other current liabilities are non-interest-bearing and are normally settled within a year. This pertains to other costs incurred for operations-related expenses pending receipt of invoice and statement of accounts from suppliers. The account also includes the unpaid portion of PLDT's investments in VTI, Bow Arken and Brightshare. See *Note 10 – Investments in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare*.

25. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. Transactions with related parties are on an arm's length basis, similar to transactions with third parties.

Settlement of outstanding balances of related party transactions at year-end are expected to be settled with cash. The PLDT Group has not recorded any impairment of receivables relating to amounts owed by related parties as at December 31, 2016 and 2015. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The following table provides the summary of outstanding balances as at December 31, 2016 and 2015 transactions that have been entered into with related parties:

	Classifications	Terms	Conditions	2016	2015
				(in million pesos)	
Indirect investment in joint ventures through PCEV:					
Meralco	Accrued expenses and other current liabilities (Note 24)	Electricity charges – immediately upon receipt of invoice	Unsecured	**327**	472
		Pole rental – 45 days upon receipt of invoice	Unsecured	**–**	4
Meralco Industrial Engineering Services Corporation, or MIESCOR	Accrued expenses and other current liabilities (Note 24)	Outside and inside plant – 20 days upon receipt of invoice	Unsecured	**–**	6
MPIC	Advances and other noncurrent assets – net of current portion (Note 10)	Due on 2018 to 2020; non-interest-bearing	Unsecured	**6,514**	–
	Trade and other receivables (Notes 10 and 17)	Due on June 1, 2017; non-interest-bearing	Unsecured	**1,838**	–
Indirect investment in associate through ACeS Philippines:					
AIL	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	30 days upon receipt of invoice	Unsecured	**–**	4
Transactions with major stockholders, directors and officers:					
NTT Finance Corporation	Interest-bearing financial liabilities (Note 21)	Non-amortizing, payable upon maturity on March 30, 2023	Unsecured	**1,244**	–
Asia Link B.V., or ALBV	Accounts payable (Note 23)	30 days upon receipt of invoice	Unsecured	**–**	46
NTT World Engineering Marine Corporation	Accrued expenses and other current liabilities (Note 24)	1st month of each quarter; non-interest-bearing	Unsecured	**35**	50
NTT Communications	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**54**	12
NTT Worldwide Telecommunications Corporation	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**2**	3
JGSHI and Subsidiaries	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	Immediately upon receipt of invoice	Unsecured	**2**	4
NTT DOCOMO	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**41**	5
Malayan Insurance Co., Inc., or Malayan	Accrued expenses and other current liabilities (Note 24)	Immediately upon receipt of invoice	Unsecured	**11**	5

	Classifications	Terms	Conditions	2016	2015
				(in million pesos)	
Others:					
Various	Trade and other receivables (Note 17)	30 days upon receipt of invoice	Unsecured	**1,416**	1,588

The following table provides the summary of transactions that have been entered into with related parties for the years ended December 31, 2016, 2015 and 2014 in relation with the table above.

	Classifications	2016	2015	2014
			(in million pesos)	
Indirect investment in joint ventures through PCEV:				
Meralco	Repairs and maintenance	**2,401**	2,328	2,929
	Rent	**272**	264	298
MIESCOR	Repairs and maintenance	**144**	165	81
	Construction-in-progress	**67**	95	83
Republic Surety and Insurance Co., Inc., or RSIC	Insurance and security services	**1**	3	3
Indirect investment in associate through ACeS Philippines:				
AIL	Cost of sales (Note 5)	**–**	16	25
Transactions with major stockholders, directors and officers:				
JGSHI and Subsidiaries	Rent	**125**	303	332
	Repairs and maintenance	**57**	20	46
	Communication, training and travel	**2**	2	5
ALBV	Professional and other contracted services	**183**	203	222
Malayan	Insurance and security services	**242**	236	206
Gotuaco del Rosario and Associates, or Gotuaco	Insurance and security services	**156**	–	–
NTT DOCOMO	Professional and other contracted services	**95**	90	67
NTT World Engineering Marine Corporation	Repairs and maintenance	**18**	60	26
NTT Worldwide Telecommunications Corporation	Selling and promotions	**10**	14	15
NTT Finance Corporation	Financing costs	**19**	–	–
NTT Communications	Professional and other contracted services	**77**	77	75
	Rent	**7**	10	12
Others:				
Various	Revenues	**781**	864	761

a. *Agreements between PLDT and certain subsidiaries with Meralco*

In the ordinary course of business, Meralco provides electricity to PLDT and certain subsidiaries' offices within its franchise area. Total electricity costs, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php2,401 million, Php2,328 million and Php2,929 million for the years ended December 31, 2016, 2015 and 2014, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php327 million and Php472 million as at December 31, 2016 and 2015, respectively.

PLDT and Smart have a Pole Attachment Contracts with Meralco, wherein Meralco leases its pole spaces to accommodate PLDT's and Smart's cable network facilities. Total fees under these contracts, which were presented as part of rent in our consolidated income statements, amounted to Php272 million, Php264 million and Php298 million for the years ended December 31, 2016, 2015 and 2014, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to nil and Php4 million as at December 31, 2016 and 2015, respectively.

See also *Note 10 – Investments in Associates and Joint Ventures – Investment in Beacon – Beacon's Acquisition of Additional Meralco Shares* for additional transactions involving Meralco.

b. *Agreements between PLDT and MIESCOR*

PLDT has an existing Outside and Inside Plant Contracted Services Agreement with MIESCOR, a subsidiary of Meralco, which will expire on February 28, 2018. Under the agreement, MIESCOR assumes full and overall responsibility for the implementation and completion of any assigned project such as cable and civil works that are required for the provisioning and restoration of lines and recovery of existing plant.

Total fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php32 million, Php45 million and Php24 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total amounts capitalized to property and equipment amounted to Php4 million, Php3 million and Php7 million for the years ended December 31, 2016, 2015 and 2014, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php25 thousand and Php6 million as at December 31, 2016 and 2015, respectively.

PLDT also has an existing One Area One Partner for Outside Plant Subscriber Line Rehabilitation, Repair, Installation and Related Activities agreement with MIESCOR, from January 1, 2011 and extended until March 31, 2017. Under the agreement, MIESCOR is responsible for the customer line installation, repair, rehabilitation and maintenance activities of cables and cabinets in the areas awarded to them.

Total fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php112 million, Php120 million and Php57 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total amounts capitalized to property and equipment amounted to Php63 million, Php92 million and Php76 million for the years ended December 31, 2016, 2015 and 2014, respectively. There were no outstanding obligations under this agreement as at December 31, 2016 and 2015.

c. *Transactions with Republic Surety and Insurance Co., Inc., or RSIC*

Since 2012, PLDT has had insurance policies with RSIC, a wholly-owned subsidiary of Meralco, covering material damages for buildings, building improvements and equipment. Total fees under the related contracts, which were presented as part of insurance and security services in our consolidated income statements, amounted to Php1 million for the year ended December 31, 2016 and Php3 million for each of the years ended December 31, 2015 and 2014. There were no outstanding obligations for these contracts as at December 31, 2016, 2015 and 2014.

d. *Air Time Purchase Agreement between PLDT, AIL and Related Agreements*

Under the Founder NSP Air Time Purchase Agreement, or ATPA, entered into with AIL in March 1997, which was amended in December 1998, or Original ATPA, PLDT was granted the exclusive right to sell AIL services, through ACeS Philippines, as national service provider, or NSP, in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AIL a minimum of US$5 million worth of air time, or Minimum Air Time Purchase Obligation, annually for ten years commencing on January 1, 2002, or the Minimum Purchase Period, the expected date of commercial operations of the Garuda I Satellite. In the event that AIL's aggregate billed revenue was less than US$45 million in any given year, the Original ATPA also required PLDT to make supplemental air time purchase payments of up to US$15 million per year during the Minimum Purchase Period, or the Supplemental Air Time Purchase Obligation.

On February 1, 2007, the parties to the Original ATPA entered into an amendment to the Original ATPA on substantially the terms attached to the term sheet negotiated with the relevant banks, or Amended ATPA. Under the Amended ATPA, the Minimum Air Time Purchase Obligation was amended and replaced in its entirety with the obligation of PLDT to purchase from AIL a minimum of US$500 thousand worth of air time annually over a period ending upon the earlier of: (i) the expiration of the Minimum Purchase Period; and (ii) the date on which all indebtedness incurred by AIL to finance the AIL System is repaid. Furthermore, the Amended ATPA unconditionally released PLDT from any obligations arising out of or in connection with the Original ATPA prior to the date of the Amended ATPA, except for obligations to pay for billable units used prior to such date.

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.

Subsequently, AIL and Inmarsat entered into a 12-month transitional period, wherein AIL shall continue to utilize Inmarsat system through I4F1 Satellite. On December 31, 2015, end of the transition period, AIL then terminated all satellite phone service subscriptions with Inmarsat.

Total fees under the Amended ATPA, which were presented as part of cost of sales in our consolidated income statements, amounted to nil, Php16 million and Php25 million for the years ended December 31, 2016, 2015 and 2014, respectively. See *Note 5 – Income and Expenses – Cost of Sales*. Under the Amended ATPA, the outstanding obligations of PLDT, which were presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to nil and Php4 million as at December 31, 2016 and 2015, respectively.

e. *Transactions with Major Stockholders, Directors and Officers*

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, had a direct or indirect material interest as at December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014 are as follows:

1. *Agreement between Smart and ALBV*

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group and its Philippine affiliates. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business which provides for payment of technical service fees equivalent to a rate of 0.5% of the consolidated net revenues of Smart. Effective February 1, 2014, the parties agreed to reduce the technical service fee rate from 0.5% to 0.4% of the consolidated net revenues of Smart. The agreement, which expired on February 23, 2016 was renewed until February 23, 2018 and is subject to further renewal upon mutual agreement of the parties. Total service fees charged to operations under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php183 million, Php203 million and Php222 million for the years ended December 31, 2016, 2015 and 2014, respectively. Under this agreement, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to nil and Php46 million as at December 31, 2016 and 2015, respectively.

2. *Various Agreements with NTT Communications and/or its Affiliates*

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- *Service Agreement.* On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant. The fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php18 million, Php60 million and Php26 million for the years ended December 31, 2016, 2015 and 2014, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php35 million and Php50 million as at December 31, 2016 and 2015, respectively;

- *Advisory Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000. The fees under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php77 million for each of the years ended December 31, 2016 and 2015 and Php75 million for the year ended December 31, 2014. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php52 million and Php10 million as at December 31, 2016 and 2015, respectively;

- *Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses. The fees under this agreement, which were presented as part of rent in our consolidated income statements, amounted to Php7 million, Php10 million and Php12 million for the years ended December 31, 2016, 2015 and 2014, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php2 million as at December 31, 2016 and 2015; and

- *Arcstar Licensing Agreement and Arcstar Service Provider Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines. The fees under this agreement, which were presented as part of selling and promotions in our consolidated income statements, amounted to Php10 million, Php14 million and Php15 million for the years ended December 31, 2016, 2015 and 2014, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php2 million and Php3 million as at December 31, 2016 and 2015, respectively.

3. *Transactions with JGSHI and Subsidiaries*

PLDT and certain of its subsidiaries have existing agreements with Universal Robina Corporation and Robinsons Land Corporation for office and business office rental. Total fees under these contracts, which were presented as part of rent in our consolidated income statements, amounted to Php125 million, Php303 million and Php332 million for the years ended December 31, 2016, 2015 and 2014, respectively. Under these agreements, the outstanding obligations, which were presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php211 thousand and Php2 million as at December 31, 2016 and 2015, respectively.

There were also other transactions such as airfare, electricity, marketing expenses and bank fees, which were presented as part of selling and promotions, communication, training and travel, repairs and maintenance and professional and other contracted services, in our consolidated income statements, amounted to Php59 million, Php22 million and Php51 million for the years ended December 31, 2016, 2015 and 2014, respectively. Under these agreements, the outstanding obligations for these transactions, which were presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php2 million each as at December 31, 2016 and 2015.

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

An Advisory Services Agreement was entered into by NTT DOCOMO and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DOCOMO will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php95 million, Php90 million and Php67 million for the years ended December 31, 2016, 2015 and 2014, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php41 million and Php5 million as at December 31, 2016 and 2015, respectively.

5. *Transactions with Malayan*

PLDT and certain of its subsidiaries have insurance policies with Malayan covering directors, officers, liability to employees and material damages for buildings, building improvements, equipment and motor vehicles. The premiums are directly paid to Malayan. Total fees under these contracts, which were presented as part of insurance and security services in our consolidated income statements, amounted to Php242 million, Php236 million and Php206 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Under this agreement, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php11 million and Php5 million as at December 31, 2016 and 2015, respectively.

6. *Transactions with Gotuaco*

   Gotuaco acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. Total fees under these contracts, which were presented as part of insurance and security services in our consolidated income statement, amounted to Php156 million for the year ended December 31, 2016. Under this agreement, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statement of financial position, amounted to Php597 thousand as at December 31, 2016. Under this agreement, outstanding prepayments, which were presented as part of prepayments in our consolidated statement of financial position, amounted to Php712 thousand as at December 31, 2016.

7. *Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO*

   In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DOCOMO pursuant to a Stock SPA dated January 31, 2006 between NTT Communications and NTT DOCOMO, the FP Parties, NTT Communications and NTT DOCOMO entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DOCOMO, including:

   - certain contractual veto rights over a number of major decisions or transactions; and

   - rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

   Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

   - *Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DOCOMO.* Each of NTT Communications and NTT DOCOMO has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.

   - *Limitation on Competition.* NTT Communications, NTT DOCOMO and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DOCOMO with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.

   - *Business Cooperation.* PLDT and NTT DOCOMO agreed in principle to collaborate with each other on the business development, roll-out and use of a Wireless-Code Division Multiple Access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DOCOMO.

- *Additional Rights of NTT DOCOMO.* Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:

    1. NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the Board of Directors of each PLDT and Smart;

    2. PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DOCOMO, or which NTT DOCOMO has announced publicly an intention to carry on;

    3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and

    4. PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

  NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock as at December 31, 2016 and 2015.

- *Change in Control.* Each of NTT Communications, NTT DOCOMO and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A "Hostile Transferee" is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DOCOMO, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed; or (e) whose intention is otherwise not bona fide; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DOCOMO in good faith whether such person should be considered a Hostile Transferee.

- *Termination.* If NTT Communications, NTT DOCOMO or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

f. Others

1. *Agreement of PLDT and Smart with TV5 Network, Inc., or TV5*

   In 2010, PLDT and Smart entered into advertising placement agreements with TV5, a subsidiary of MediaQuest, which is a wholly-owned investee company of PLDT Beneficial Trust Fund for the airing and telecast of advertisements and commercials of PLDT and Smart on TV5's television network for a period of five years. The costs of telecast of each advertisement shall be applied and deducted from the placement amount only after the relevant advertisement or commercial is actually aired on TV5's television network. In June 2014, Smart and TV5 agreed to amend the liquidation schedule under the original advertising placement agreement by extending the term of expiry from 2015 to 2018. Total prepayment under the advertising placement agreements amounted to Php414 million and Php533 million as at December 31, 2016 and 2015, respectively.

2. *Agreement of PLDT, Smart and DMPI with Dakila Cable TV Corp. or Dakila*

   In May 2015, PLDT, Smart and DMPI entered into a four-year agreement with Dakila commencing with the launch of the OTT video-on-demand service, or iflix service, in the Philippines on June 18, 2015. iflix service is provided by iFlix Sdn Bhd and Dakila is the authorized reseller of the iflix service in the Philippines. Under the agreement, PLDT, Smart and DMPI were appointed by Dakila to act as its internet service providers with an authority to resell and distribute the iflix service to their respective subscribers on a monthly and annual basis. Total prepayment related to the agreement in 2015 amounted to US$3.1 million, or Php138.2 million. Content cost recognized for the years ended December 31, 2016 and 2015 amounted to Php106 million and Php51 million, respectively. Total unamortized cost under prepayment amounted to nil and US$1.9 million, or Php87 million, as at December 31, 2016 and 2015, respectively.

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

   PLDT and certain of its subsidiaries provide telephone, data communication and other services to various related parties. The revenues under these services amounted to Php781 million, Php864 million and Php761 million for the years ended December 31, 2016, 2015 and 2014, respectively.

   The outstanding receivables of PLDT and certain of its subsidiaries, which were presented as part of trade and other receivables, advances and other noncurrent assets – net of current portion in our consolidated statements of financial position, from these transactions amounted to Php1,416 million and Php1,588 million as at December 31, 2016 and 2015, respectively.

   See *Note 10 – Investments in Associates and Joint Ventures – Investment in MediaQuest PDRs and Sale of PCEV's Beacon Shares to MPIC* and *Note 19 – Prepayments – Agreement of PLDT and Smart with TV5* for other related party transactions.

4. *Advances to VTI, Bow Arken and Brightshare*

   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 largest amounts of the advances outstanding to PLDT since the date of assignment to PLDT were: (i) Php11,038 million from VTI and its subsidiaries; (ii) Php238 million from Bow Arken and its subsidiaries; and (iii) Php83 million from Brightshare. The amounts of the advances outstanding to PLDT as at December 31, 2016 were: (i) Php12,332 million from VTI and its subsidiaries; (ii) Php248 million from Bow Arken and its subsidiaries; and (iii) Php83 million from Brightshare. The advances were presented as part of investments as at December 31, 2016. See *Note 10 – Investments in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare* for other details.

Compensation of Key Officers of the PLDT Group

The compensation of key officers of the PLDT Group by benefit type for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
		(in million pesos)	
Short-term employee benefits	527	602	768
Post-employment benefits (Note 26)	50	43	39
Other long-term employee benefits (Note 26)	–	–	14
Total compensation paid to key officers of the PLDT Group	577	645	821

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

Total fees paid for board meetings and board committee meetings amounted to Php57 million, Php55 million and Php45 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

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

26. Employee Benefits

Pension

Defined Benefit Pension Plans

PLDT has defined benefit pension plans, operating under the legal name "The Board of Trustees for the account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT Company" and covering all of our permanent and regular employees. Certain subsidiaries of PLDT have not yet drawn up a specific retirement plan for its permanent or regular employees. For the purpose of complying with Revised PAS 19, pension benefit expense has been actuarially computed based on defined benefit plan.

PLDT's actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of accrued (prepaid) benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
		(in million pesos)	
Changes in the present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	21,602	23,072	19,497
Interest costs on benefit obligation	1,071	1,050	970
Service costs	1,066	1,113	986
Actuarial losses – experience	369	3	332
Actual benefits paid/settlements	(241)	(2,112)	(92)
Actuarial losses (gains) – economic assumptions	(694)	(1,414)	1,479
Curtailments and others (Note 5)	(31)	(110)	(100)
Present value of defined benefit obligations at end of the year	23,142	21,602	23,072

	2016	2015	2014
		(in million pesos)	
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	**11,439**	9,950	9,187
Actual contributions	**5,708**	7,086	5,510
Interest income on plan assets	**600**	519	489
Actual benefits paid/settlements	**(241)**	(2,112)	(92)
Return on plan assets (excluding amount included in net interest)	**(5,546)**	(4,004)	(5,144)
Fair value of plan assets at end of the year	**11,960**	11,439	9,950
Unfunded status – net	**(11,182)**	(10,163)	(13,122)
Accrued benefit costs	**11,197**	10,178	13,125
Prepaid benefit costs (Note 19)	**15**	15	3
Components of net periodic benefit costs:			
Service costs	**1,066**	1,113	986
Interest costs – net	**471**	531	481
Curtailment/settlement gain	**–**	(29)	(6)
Net periodic benefit costs (Note 5)	**1,537**	1,615	1,461

Actual net losses on plan assets amounted to Php4,946 million, Php3,485 million and Php4,655 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Based on the latest actuarial valuation, our expected contribution to the defined benefit plan in 2017 will amount to Php1,783 million.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at December 31, 2016:

	(in million pesos)
2017	**313**
2018	**320**
2019	**450**
2020	**595**
2021	**831**
2022 to 2060	**95,637**

The average duration of the defined benefit obligation at the end of the reporting period is 10 to 20 years.

The weighted average assumptions used to determine pension benefits for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Rate of increase in compensation	**6.0%**	6.0%	6.0%
Discount rate	**5.3%**	5.0%	4.5%

We have adopted mortality rates in accordance with the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries, which provides separate rates for males and females.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming if all other assumptions were held constant:

	2016	
	Increase (Decrease)	
		(in million pesos)
Discount rate	**1%**	**(2,521)**
	(1%)	**2,951**
Future salary increases	**1%**	**2,899**
	(1%)	**(2,526)**

PLDT's Retirement Plan

The Board of Trustees, which manages the beneficial trust fund, is composed of: (i) a member of the Board of Directors of PLDT, who is not a beneficiary of the Plan; (ii) a member of the Board of Directors or a senior officer of PLDT, who is a beneficiary of the Plan; (iii) a senior member of the executive staff of PLDT; and (iv) two persons who are not executives nor employees of PLDT.

Benefits are payable in the event of termination of employment due to: (i) compulsory, optional, or deferred retirement; (ii) death while in active service; (iii) physical disability; (iv) voluntary resignation; or (v) involuntary separation from service. For a plan member with less than 15 years of credited services, retirement benefit is equal to 100% of final compensation for every year of service. For those with at least 15 years of service, retirement benefit is equal to 125% of final compensation for every year of service, with such percentage to be increased by an additional 5% for each completed year of service in excess of 15 years, but not to exceed a maximum of 200%. In case of voluntary resignation after attainment of age 40 and completion of at least 15 years of credited service, benefit is equal to a percentage of his vested retirement benefit, in accordance with percentages prescribed in the retirement plan.

The Board of Trustees of the beneficial trust fund uses an investment approach with the objective of maximizing the long-term expected return of plan assets.

The majority of Plan's investment portfolio consists of listed and unlisted equity securities while the remaining portion consists of passive investments like temporary cash investments and fixed income investments.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk.

Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the Board of Trustees invests at least the equivalent amount of actuarially computed expected compulsory retirement benefit payments for the period to liquid/semi-liquid assets such as treasury notes, treasury bills, savings and time deposits with commercial banks.

Price risk pertains mainly to fluctuations in market prices of equity securities listed in the PSE. In order to effectively manage price risk, the Board of Trustees continuously assesses these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

The following table sets forth the fair values, which are equal to the carrying values, of PLDT's plan assets recognized as at December 31, 2016 and 2015:

	2016	2015
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Unlisted equity investments	**8,898**	8,258
Shares of stock	**2,426**	2,621
Corporate bonds	**106**	–
Government securities	**23**	41
Investment properties	**4**	10
Mutual funds	**3**	61
Total noncurrent financial assets	**11,460**	10,991
Current Financial Assets		
Cash and cash equivalents	**412**	360
Receivables	**4**	5
Total current financial assets	**416**	365
Total PLDT's Plan Assets	**11,876**	11,356
Subsidiaries Plan Assets	**84**	83
Total Plan Assets of Defined Benefit Pension Plans	**11,960**	11,439

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

Unlisted Equity Investments

As at December 31, 2016 and 2015, this account consists of:

	2016	2015	**2016**	2015
	% of Ownership		(in million pesos)	
MediaQuest	**100%**	100%	**8,267**	7,672
Tahanan Mutual Building and Loan Association, Inc., or TMBLA, (net of subscriptions payable of Php32 million)	**100%**	100%	**400**	365
BTFHI	**100%**	100%	**192**	182
Superior Multi Parañaque Homes, Inc.	**100%**	100%	**38**	38
Bancholders, Inc., or Bancholders	**100%**	100%	**1**	1
			8,898	8,258

Investment in MediaQuest

MediaQuest was registered with the Philippine SEC on June 29, 1999 primarily to purchase, subscribe for or otherwise acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property or every kind and description, and to pay thereof in whole or in part, in cash or by exchanging, stocks, bonds and other evidences of indebtedness or securities of this any other corporation. Its investments include common shares of stocks of various communication, broadcasting and media entities.

On May 8, 2012, the Board of Trustees of the Beneficial Trust Fund approved the issuance by MediaQuest of PDRs amounting to Php6 billion. The underlying shares of these PDRs are the shares of stocks of Cignal TV held by MediaQuest through Satventures (Cignal TV PDRs). On the same date, MediaQuest Board of Directors approved the investment in Cignal TV PDRs by ePLDT, which give ePLDT a 40% economic interest in Cignal TV. In June 2012, MediaQuest received a deposit for future PDRs subscription of Php4 billion from ePLDT. Additional deposits of Php1 billion each were received on July 6, 2012 and August 9, 2012.

On January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php3.6 billion. The underlying shares of these additional PDRs are the shares of Satventures held by MediaQuest (Satventures PDRs), the holder of which will have a 40% economic interest in Satventures. Satventures is a wholly-owned subsidiary of MediaQuest and the investment vehicle for Cignal TV. From March to August 2013, MediaQuest received from ePLDT an amount aggregating to Php3.6 billion representing deposits for future PDRs subscription. The Satventures PDRs and Cignal TV PDRs were subsequently issued on September 27, 2013, providing ePLDT an effective 64% economic interest in Cignal TV.

Also, on January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php1.95 billion. The underlying shares of these additional PDRs are the shares of stocks of Hastings held by MediaQuest (Hastings PDRs). Hastings is a wholly-owned subsidiary of MediaQuest, which holds all the print-related investments of MediaQuest, including equity interests in the three leading newspapers: The Philippine Star, Philippine Daily Inquirer, and Business World. From June 2013 to October 2013, MediaQuest received from ePLDT an amount aggregating to Php1.95 billion representing deposits for future PDRs subscription.

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

On May 21, 2015, ePLDT's Board of Directors approved an additional Php800 million investment in Hastings PDRs and settlement of the Php200 million balance of the Php500 million Hastings PDR investment in 2014. Subsequently, on May 30, 2015, the Board of Trustees of the Beneficial Trust Fund and the Board of Directors of MediaQuest approved the issuance of Php3,250 million Hastings PDRs. This provided ePLDT with 70% economic interest in Hastings. See *Note 10 – Investments in Associates and Joint Ventures – Investment in MediaQuest PDRs*.

In 2016 and 2015, the Board of Trustees of the Beneficial Trust Fund approved additional investments in MediaQuest amounting to Php5,500 million and Php5,090 million, respectively, to fund MediaQuest's investment requirements, which amounts were fully drawn by MediaQuest during the respective year of approval.

PAS 19 requires employee benefit plan assets to be measured at fair value. The fair values of the investments in MediaQuest were measured using an income approach valuation technique using cash flows projections based on financial budgets and forecasts approved by MediaQuest's Board of Directors, covering a five-year period from 2017 to 2021.

Other key assumptions used in the cash flow projections include revenue growth, operating margin and capital expenditures. The pre-tax discount rates applied to cash flow projections range from 10% to 11%. Cash flows beyond the five-year period are determined using 3.0% to 4.5% growth rates.

Investment in TMBLA

TMBLA was incorporated for the primary purpose of accumulating the savings of its stockholders and lending funds to them for housing programs. The beneficial trust fund has a direct subscription in shares of stocks of TMBLA in the amount of Php112 million. The related unpaid subscription of Php32 million is included in unlisted equity investments. The cumulative change in the fair market value of this investment amounted to Php320 million and Php285 million as at December 31, 2016 and 2015, respectively.

Investment in BTFHI

BTFHI was incorporated for the primary purpose of acquiring voting preferred shares in PLDT and while the owner, holder of possessor thereof, to exercise all the rights, powers, and privileges of ownership or any other interest therein.

On October 26, 2012, BTFHI subscribed to a total of 150 million shares of Voting Preferred Stock of PLDT at a subscription price of Php1.00 per share for a total subscription price of Php150 million. Total cash dividend income amounted to Php10 million for each of the years ended December 31, 2016, 2015 and 2014. Dividend receivables amounted to Php2 million each as at December 31, 2016 and 2015.

Shares of Stocks

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Common shares		
PSE	**1,590**	1,754
PLDT	**36**	54
Others	**440**	453
Preferred shares	**360**	360
	2,426	2,621

Dividends earned on PLDT common shares amounted Php3 million, Php2 million and Php5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Preferred shares represent 300 million unlisted preferred shares of PLDT at Php10 par value as at December 31, 2016 and 2015, net of subscription payable of Php2,640 million. These shares, which bear dividend of 13.5% per annum based on the paid-up subscription price, are cumulative, non-convertible and redeemable at par value at the option of PLDT. Dividends earned on this investment amounted to Php47 million for the year ended December 31, 2016 and Php49 million for each of the years ended December 31, 2015 and 2014.

Corporate Bonds

Investment in corporate bonds includes various long-term peso and dollar denominated bonds with maturities ranging from August 2019 to June 2024 and fixed interest rates from 4.38% to 6.94% per annum. Total investment in corporate bonds amounted to Php106 million as at December 31, 2016.

Government Securities

Investment in government securities includes Fixed Rate Treasury Notes bearing interest rates ranging from 5.87% to 5.88% per annum. These securities are fully guaranteed by the government of the Republic of the Philippines. Total investment in government securities amounted to Php23 million and Php41 million as at December 31, 2016 and 2015, respectively.

Mutual Funds

Investment in mutual funds includes a local equity fund, which aims to out-perform benchmarks in various indices as part of its investment strategy. Total investment in mutual funds amounted to Php3 million and Php61 million as at December 31, 2016 and 2015, respectively.

Investment Properties

Investment properties include one condominium unit (a bare 58 square meter unit) located in Ayala-FGU Building along Alabang-Zapote Road in Muntinlupa City. A similar unit of a larger floor area (127 square meters) located on the same building was sold in April 2016. Total fair value of investment properties amounted to Php4 million and Php10 million as at December 31, 2016 and 2015, respectively.

The asset allocation of the Plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor. This considers the expected benefit cash flows to be matched with asset durations.

The allocation of the fair value of the assets for the PLDT pension plan as at December 31, 2016 and 2015 are as follows:

	2016	2015
Investments in listed and unlisted equity securities	**95%**	96%
Temporary cash investments	**4%**	3%
Debt and fixed income securities	**1%**	–
Investments in mutual funds	**–**	1%
	100%	100%

Defined Contribution Plans

Smart's and certain of its subsidiaries' contributions to the plan are made based on the employees' years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and certain of its subsidiaries regularly monitor compliance with R.A. 7641. As at December 31, 2016 and 2015, Smart and certain of its subsidiaries were in compliance with the requirements of R.A. 7641.

Smart's and certain of its subsidiaries' actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of prepaid benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
		(in million pesos)	
Changes in the present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	**2,116**	2,149	1,685
Service costs	**284**	289	241
Interest costs on benefit obligation	**94**	98	92
Actuarial losses (gains) – economic assumptions	**1**	(67)	98
Actuarial losses (gains) – experience	**(77)**	(217)	75
Actual benefits paid/settlements	**(226)**	(96)	(42)
Curtailment and others	**(15)**	(40)	–
Present value of defined benefit obligations at end of the year	**2,177**	2,116	2,149

	2016	2015	2014
		(in million pesos)	
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	**2,388**	2,205	1,884
Actual contributions	**201**	227	261
Interest income on plan assets	**125**	92	92
Return on plan assets (excluding amount included in net interest)	**(74)**	(40)	10
Actual benefits paid/settlements	**(226)**	(96)	(42)
Fair value of plan assets at end of the year	**2,414**	2,388	2,205
Funded status – net (Note 19)	**237**	272	56
Accrued benefit costs	**9**	19	6
Prepaid benefit costs	**246**	291	62
Components of net periodic benefit costs:			
Service costs	**284**	289	241
Curtailment/settlement gain	**(15)**	(23)	–
Interest costs – net	**(31)**	7	–
Net periodic benefit costs (Note 5)	**238**	273	241

Smart's net consolidated pension benefit costs amounted to Php238 million, Php273 million and Php241 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Actual net gains on plan assets amounted to Php51 million, Php52 million and Php102 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Based on the latest actuarial valuation, Smart and certain of its subsidiaries expect to contribute the amount of approximately Php331 million to its defined benefit plan in 2017.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at December 31, 2016:

	(in million pesos)
2017	**102**
2018	**78**
2019	**85**
2020	**136**
2021	**102**
2022 to 2060	**19,212**

The average duration of the defined benefit obligation at the end of the reporting period is 12 to 20 years.

The weighted average assumptions used to determine pension benefits for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Rate of increase in compensation	**5.0%**	5.0%	7.0%
Discount rate	**5.2%**	5.0%	4.5%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2016, assuming if all other assumptions were held constant:

	Increase (Decrease)	
	(in million pesos)	
Discount rate	**(1%)**	**(6)**
	1%	**15**
Future salary increases	**1%**	**15**
	(1%)	**(7)**

Smart's Retirement Plan

The fund is being managed and invested by BPI Asset Management and Trust Group, as Trustee, pursuant to an amended trust agreement dated February 21, 2012.

The plan's investment portfolio seeks to achieve regular income, long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the Trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. The portfolio mix is kept at 60% to 90% for debt and fixed income securities, while 10% to 40% is allotted to equity securities.

The following table sets forth the fair values, which are equal to the carrying values, of Smart's plan assets recognized as at December 31, 2016 and 2015:

	2016	2015
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Domestic fixed income	**1,390**	1,411
Philippine foreign currency bonds	**478**	352
International equities	**475**	460
Domestic equities	**379**	424
International fixed income	**163**	–
Total noncurrent financial assets	**2,885**	2,647
Current Financial Assets		
Cash and cash equivalents	**237**	431
Receivables	**1**	4
Total current financial assets	**238**	435
Total plan assets	**3,123**	3,082
Employee's share, forfeitures and mandatory reserve account	**709**	694
Total Plan Assets of Defined Contribution Plans	**2,414**	2,388

Domestic Fixed Income

Investments in domestic fixed income include Philippine peso denominated bonds, such as government securities and corporate debt securities, and a local fixed income fund. The Philippine peso denominated bonds earned between 2.80% and 11.25% interest for the years ended December 31, 2016 and 2015. Total investments in domestic fixed income amounted to Php1,390 million and Php1,411 million as at December 31, 2016 and 2015, respectively.

Philippine Foreign Currency Bonds

Investments in Philippine foreign currency bonds include U.S. dollar denominated fixed income instruments issued by the Philippine government and local corporations, and a U.S. dollar denominated fixed income fund. The investments under this category earned between 3.70% and 10.62% interest for the years ended December 31, 2016 and 2015. Total investment in Philippine foreign currency bonds amounted to Php478 million and Php352 million as at December 31, 2016 and 2015, respectively.

International Equities

Investments in international equities include mutual funds managed by ING International and a U.S. dollar denominated global equity fund. Total investment in international equities amounted to Php475 million and Php460 million as at December 31, 2016 and 2015, respectively.

Domestic Equities

Investments in domestic equities include direct equity investments in common shares listed in the PSE. These investments earn on stock price appreciation and dividend payments. Total investment in domestic equities amounted to Php379 million and Php424 million as at December 31, 2016 and 2015, respectively. This includes investment in PLDT shares with fair value of Php11 million and Php31 million as at December 31, 2016 and 2015, respectively.

International Fixed Income

Investments in international fixed income include mutual funds which are invested in diversified portfolios of high-yield foreign currency denominated bonds. Total investments in international fixed income amounted to Php163 million and nil as at December 31, 2016 and 2015, respectively.

Cash and Cash Equivalents

This pertains to the fund's excess liquidity in Philippine peso and U.S. dollars including investments in time deposits, money market funds and other deposit products of banks with duration or tenor less than a year.

The asset allocation of the Plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor. This considers the expected benefit cash flows to be matched with asset durations.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk.

Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the Plan Trustees invests a portion of the fund in readily tradeable and liquid investments which can be sold at any given time to fund liquidity requirements.

Price risk pertains mainly to fluctuations in market prices of equity securities listed in the PSE. In order to effectively manage price risk, the Plan Trustees continuously assesses these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

The allocation of the fair value of Smart and certain of its subsidiaries pension plan assets as at December 31, 2016 and 2015 is as follows:

	2016	2015
Investments in debt and fixed income securities and others	**73%**	71%
Investments in listed and unlisted equity securities	**27%**	29%
	100%	100%

27. Provisions and Contingencies

PLDT's Local Business and Franchise Tax Assessments

Pursuant to a decision of the Supreme Court on March 25, 2003 in the case of PLDT vs. City of Davao declaring PLDT not exempt from the local franchise tax, PLDT started paying local franchise tax to various Local Government Units, or LGU. As at December 31, 2016, PLDT has no contested LGU assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT contested the imposition of local business taxes in addition to local franchise tax by the City of Tuguegarao for the years 2006 to 2011 by filing a Petition with the Regional Trial Court, or RTC, of the City of Makati on July 8, 2011. In an order dated October 12, 2012, the RTC, following a Motion to Dismiss filed by the City of Tuguegarao, dismissed the petition for lack of jurisdiction. Upon denial of its Motion for Reconsideration, PLDT filed a Petition for Review before the Court of Tax Appeals, or CTA, which dismissed the said Petition and upheld the decision of the RTC. On July 28, 2014, PLDT filed a Motion for Reconsideration which was also denied by the CTA. PLDT filed a Petition before the CTA En Banc on November 3, 2014. On June 17, 2016, CTA En Banc affirmed the Decision of CTA Division and dismissed the petition for lack of jurisdiction. PLDT filed its Motion for Reconsideration on the said Decision of CTA En Banc last July 12, 2016. Said motion for reconsideration was denied by CTA En Banc in a Resolution dated November 15, 2016. PLDT will appeal the case before the Supreme Court.

PLDT also contested the imposition of local business tax in addition to local franchise tax by the City of Tuguegarao for the years 2012 to 2014. The case was filed on January 14, 2015 before the Second Judicial Region of Tuguegarao City. Upon motion by both parties and considering that the case involves legal issues, the Court issued an Order terminating the pre-trial conference and ordering the parties to submit their respective Memorandum last July 27, 2016 and the case is now submitted for decision. On November 3, 2016, PLDT received a Judgment dated September 26, 2016 issued by the Court in favor of the City of Tuguegarao. PLDT filed its Motion for Reconsideration on the said Judgment last November 18, 2016.

Smart's Local Business and Franchise Tax Assessments

The Province of Cagayan issued a tax assessment against Smart for alleged local franchise tax. In 2011, Smart appealed the assessment to the RTC of Makati on the ground that Smart cannot be held liable for local franchise tax mainly because it has no sales office within the Province of Cagayan pursuant to Section 137 of the Local Government Code (Republic Act No. 7160). The RTC issued a Temporary Restraining Order and a writ of preliminary injunction. On April 30, 2012, the RTC rendered a decision nullifying the tax assessment. The Province of Cagayan was also directed to cease and desist from imposing local franchise taxes on Smart's gross receipts. The Province of Cagayan then appealed to the CTA. In a Decision promulgated on July 25, 2013, the CTA ruled that the franchise tax assessment is null and void for lack of legal and factual justifications. Cagayan's Motion for Reconsideration was denied. Cagayan then appealed before the CTA En Banc. The CTA En Banc issued a Decision dated December 8, 2015 affirming the nullity of the tax assessment.

In 2015, the City of Manila issued assessments for alleged business tax deficiencies and cell sites regulatory fees and charges. Smart protested the assessments. After Manila denied the protest, Smart appealed to the RTC of the City of Manila, arguing that it is not liable for local business taxes on income realized from its telecommunications operations and that the assessments were a clear circumvention of Manila City Ordinance No. 8299 exempting Smart from the payment of local franchise tax. The assessment for regulatory fees was contested for being void, as they were made without a valid and legal basis. In the Decision promulgated on March 9, 2016, the RTC declared the local business tax and cell site regulatory fee assessments as invalid and void. The City of Manila filed a Petition for Review with the Court of Tax Appeals seeking to reverse the Decision. Smart has already filed its Comment to the Petition and awaiting for further orders from the Court.

Digitel's Franchise Tax Assessment and Real Property Tax Assessment

In the case of Digitel vs. Province of Pangasinan (G.R. No. 152534, February 23, 2007), the Supreme Court held that Digitel is liable to the Province of Pangasinan for franchise tax from November 13, 1992 and real property tax only on real properties not actually, directly and exclusively used in the franchise operations from February 17, 1994. Digitel has fully settled its obligation with the Province of Pangasinan with respect to franchise tax and is currently in talks with the Province for the settlement of the real property tax.

DMPI's Local Business and Real Property Taxes Assessments

In DMPI vs. City of Cotabato, DMPI filed a Petition in 2010 for Prohibition and Mandamus against the City of Cotabato due to their threats to close its cell sites due to alleged real property tax delinquencies. The RTC denied the petition. DMPI appealed with the CTA. The CTA ordered the City of Cotabato to file their Comment.

In the DMPI vs. City of Davao, DMPI filed in 2011 a Petition for Prohibition and Mandamus and sought the Court's intervention due to the threats issued by the City of Davao to stop the operations of DMPI business centers in the locality due to lack of business permits. DMPI contended that the City of Davao's act of refusing to process its applications due to failure to pay real property taxes and business taxes is unwarranted. Davao's Legal Officer and City Assessor confirmed that DMPI's machinery is exempt from real property tax. On March 20, 2015, the Court has approved DMPI's Motion which prayed for the dismissal of the case.

In the DMPI vs. City Government of Malabon, DMPI filed a Petition for Prohibition and Mandamus against the LGU to prevent the auction sale of DMPI sites in its jurisdiction for alleged real property tax liabilities. DMPI was able to secure a TRO to defer the sale. The judicial dispute resolution for the case has been terminated. The Pre-Trial Conference is set on June 15, 2017. The parties are still exploring options to settle the matter amicably.

DMPI's Local Tower Fee Assessments

In DMPI vs. Municipality of San Mateo, DMPI filed in 2011 a petition for Prohibition and Mandamus with Preliminary Injunction and TRO against the Tower Fee Ordinance of the Municipality of San Mateo. In 2014, the RTC ruled in favor of DMPI and declared the ordinance void and without legal force and effect. The Municipality of San Mateo appealed with the CA. The case has been submitted for resolution.

Meanwhile, in DMPI vs. the City Government of Santiago City and the City Permits and License Inspection Office of Santiago City, Isabela (CA-G.R. SP No. 127253) (Special Civil Action Case No. 36-0360, February 2011), the City Government of Santiago City filed an appeal with the CA after the lower court granted DMPI's petition and ruled as unconstitutional the provision of the ordinance imposing the Php200 thousand per cell site per annum. On May 5, 2015, the Appeal was dismissed and the ruling issued by the trial court was affirmed.

DMPI vs. City of Trece Martires – In 2010, DMPI petitioned to declare void the City of Trece Martires ordinance of imposing tower fee of Php150 thousand for each cell site annually. Application for the issuance of a preliminary injunction by DMPI is pending resolution.

Globe Telecom, et al. vs. City of Lipa – In 2006, Globe filed a Protest of Assessment questioning the act of the City of Lipa in assessing tower fees for its sites amounting to Php105 thousand per year. Smart, Digitel and DMPI submitted a joint memorandum in June 2013 pertaining to the issue. However, the Sangguniang Panglungsod has since repealed the ordinance, and issued instead Tax Ordinance No. 177, which imposes a one-time regulatory fee of Php50 thousand for every tower to be constructed in the City of Lipa. The Joint Motion to Dismiss filed by Smart and DMPI on June 8, 2015 is pending resolution.

ACeS Philippines' Local Business and Franchise Tax Assessments

ACeS Philippines has a pending case with the Supreme Court (ACeS Philippines Satellite Corporation vs. Commissioner of Internal Revenue Supreme Court G.R. No. 226680) for alleged 2006 deficiency withholding tax. On July 23, 2014, the CTA Second Division affirmed the assessment of the Commissioner of Internal Revenue for deficiency basic withholding tax, surcharge plus deficiency interest and delinquency interest until full payment. On November 18, 2014, ACeS Philippines filed a Petition for Review with the CTA En Banc. On August 16, 2016, the CTA En Banc also affirmed the assessment with finality. Hence, on October 19, 2016, ACeS Philippines filed a petition before the Supreme Court assailing the decision of the CTA. ACeS Philippines intends to file a formal request for compromise of tax liabilities before the BIR while the case is pending before the Supreme Court. No outstanding Letter of Authority for other years.

Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI

Since 1990, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into compromise agreements in the past (one in February 1990, and another one in March 1999), these agreements have not put to rest their issues against each other. Accordingly, to avoid further protracted litigation and improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other) ETPI, on one hand, submitted its claims with a cap of Php2.8 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Pursuant to an agreement between PLDT and ETPI, the arbitration proceedings were suspended and eventually terminated.

In an agreement, Globe and PLDT have agreed that they shall cause ETPI, within a reasonable time after May 30, 2016, to dismiss Civil Case No. 17694 entitled Eastern Telecommunications Philippines, Inc. vs. Philippine Long Distance Telephone Company, and all related or incidental proceedings (including the voluntary arbitration between ETPI and PLDT), and PLDT, in turn, simultaneously, shall withdraw its counterclaims against ETPI in the same entitled case, all with prejudice.

In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition

On June 29, 2011, the Supreme Court of the Philippines, or the Court, promulgated a Decision in the case of Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al. (G.R. No. 176579) (the "Gamboa Case"), holding that "the term 'capital' in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors and thus only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares)". This decision reversed earlier opinions issued by the Philippine SEC that non-voting preferred shares are included in the computation of the 60%-40% Filipino-alien equity requirement of certain economic activities, such as telecommunications (which is a public utility under Section 11, Article XII of the 1987 Constitution).

Although PLDT is not a party to the Gamboa Case, in its decision, the Court directed the Philippine SEC "to apply this definition of the term 'capital' in determining the extent of allowable foreign ownership in PLDT, and if there is a violation of Section 11, Article XII of the 1987 Constitution, to impose the appropriate sanctions under the law." Although the parties to the Gamboa Case filed Motions for Reconsideration of the decision and argued their positions before the Court, the Court ultimately denied the motions on October 9, 2012.

Meanwhile, on July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of Amended Articles of Incorporation of PLDT, or the Amendments to the Articles, which subclassified its authorized preferred capital into preferred shares with full voting rights, or Voting Preferred Shares, and serial preferred shares without voting rights. The Amendments to the Articles were subsequently approved by the stockholders of PLDT and the Philippine SEC.

On October 15, 2012, PLDT and BTFHI, a Filipino corporation and a wholly-owned company of The Board of Trustees for the Account of the Beneficial Trust Fund created pursuant to the PLDT's Benefit Plan, entered into a Subscription Agreement, pursuant to which PLDT issued 150 million Voting Preferred Shares to BTFHI at Php1.00 per share reducing the percentage of PLDT's voting stock held by foreigners from 56.62% (based on Voting Common Stock) as at October 15, 2012 to 18.37% (based on Voting Common and Preferred Stock) as at April 15, 2013.

On May 20, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, Series of 2013, or the Philippine SEC Guidelines MC No. 8, which we believe was intended to fulfill the Court's directive to the Philippine SEC in the Gamboa Case. The Philippine SEC Guidelines provided that "the required percentage of Filipino ownership shall be applied to BOTH: (a) the total number of outstanding shares of stock entitled to vote in the election of directors; AND (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors." PLDT believes it was, and continues to be, compliant with the Philippine SEC Guidelines. As at March 21, 2017, PLDT's foreign ownership was 28.04% of its outstanding shares entitled to vote (Common and Voting Preferred Shares), and 15.41% of its total outstanding capital stock. Therefore, we believe that as at March 21, 2017, PLDT is in compliance with the requirement of Section 11, Article XII of the 1987 Constitution.

On June 10, 2013, Jose M. Roy III filed a petition for certiorari with the Supreme Court against the Philippine SEC, Philippine SEC Chairperson Teresita Herbosa and PLDT, claiming: (1) that the Philippine SEC Guidelines violates the Court's decision in the Gamboa Case (on the basis that (a) the 60-40 ownership requirement be imposed on "each class of shares" and (b) Filipinos must have full beneficial ownership of 60% of the outstanding capital stock of corporations subject to the foreign ownership requirements); and (2) that the PLDT Beneficial Trust Fund is not a Filipino-owned entity and consequently, the corporations owned by PLDT Beneficial Trust Fund, including BTFHI, cannot be considered Filipino-owned corporations.

PLDT raised several procedural and substantive arguments against the petition, including in particular, that (a) the Philippine SEC Guidelines merely implemented the dispositive portion of the decision in the Gamboa Case, and that the dispositive portion of the Gamboa Case that defines "capital" is properly reflected in the Philippine SEC Guidelines, and (b) the fundamental requirements which need to be satisfied in order for PLDT Beneficial Trust Fund and BTFHI to be considered Filipino (for PLDT Beneficial Trust Fund's Trustees to be Filipinos and for 60% of the Fund to accrue to the benefit of Philippine nationals) are satisfied with respect to the PLDT Beneficial Trust Fund, and therefore, PLDT Beneficial Trust Fund and BTFHI are Filipino shareholders for purposes of classifying their 150 million Voting Preferred Shares in PLDT. As a result, more than 60% of PLDT's total voting stock is Filipino-owned and PLDT is compliant with the Constitutional ownership requirements.

In 2013, the Philippine SEC and Chairperson Teresita Herbosa also raised a number of arguments for dismissal of the petition for being procedurally flawed and for lack of merit.

In May 2014, the petitioner filed a consolidated reply and a motion for the issuance of a temporary restraining order to prevent PLDT from holding its 2014 annual stockholders meeting. The temporary restraining order was denied and PLDT held its 2014 annual meeting on June 10, 2014 as scheduled.

On February 10, 2015, PLDT filed a consolidated memorandum setting forth its arguments against the petition.

The Supreme Court, in a Resolution dated June 14, 2016, granted the Omnibus Motion: (i) for Leave to Intervene; and (ii) to Admit Comment-in-Intervention, dated May 30, 2016, filed by counsel for Intervenor Shareholders Association of the Philippines, Inc., or Sharephil, noted the aforesaid Comment-in-Intervention, and required the adverse parties to file a Reply to the Comment-in-Intervention within a non-extendible period of 10 days from receipt thereof. On July 5, 2016, PLDT was furnished a copy of the Opposition and Reply to Interventions of the PSE and Sharephil dated June 30, 2016 and filed by Petitioner Jose M. Roy III.

The Supreme Court, in a Decision dated November 22, 2016, dismissed the petitions filed by Jose M. Roy III and other petitioners-in-intervention against Philippine SEC Chairperson, Teresita Herbosa (the "Decision"). The Decision upheld the validity of the Philippine SEC Guidelines MC No. 8, or MC No. 8, which requires public utility corporations to maintain at least 60% Filipino ownership in both its "total number of outstanding shares of stock entitled to vote in the election of directors" and its "total number of outstanding shares of stock, whether or not entitled to vote in the election of directors" and declared the same to be compliant with the Court's ruling in the Gamboa Case. Consequently, the Court ruled that MC No. 8 cannot be said to have been issued with grave abuse of discretion.

In the course of discussing the petitions, the Supreme Court expressly rejected petitioners' argument that the 60% Filipino ownership requirement for public utilities must be applied to each class of shares. According to the Court, the position is "simply beyond the literal text and contemplation of Section 11, Article XII of the 1987 Constitution" and the petitioners' suggestion would "effectively and unwarrantedly amend or change" the Court's ruling in the Gamboa Case. In categorically rejecting the petitioners' claim, the Court declared and stressed that its Gamboa ruling "did not make any definitive ruling that the 60% Filipino ownership requirement was intended to apply to each class of shares." On the contrary, according to the Court, "nowhere in the discussion of the term "capital" in Section 11, Article XII of the 1987 Constitution in the Gamboa Decision did the Court mention the 60% Filipino equity requirement to be applied to each class of shares."

In respect of ensuring Filipino ownership and control of public utilities, the Court noted that this is already achieved by the requirements under MC No. 8. According to the Court, "since Filipinos own at least 60% of the outstanding shares of stock entitled to vote directors, which is what the Constitution precisely requires, then the Filipino stockholders control the corporation – i.e., they dictate corporate actions and decisions…"

The Court further noted that the application of the Filipino ownership requirement as proposed by petitioners "fails to understand and appreciate the nature and features of stocks and financial instruments" and would "greatly erode" a corporation's "access to capital – which a stock corporation may need for expansion, debt relief/repayment, working capital requirement and other corporate pursuits." The Court reaffirmed that "stock corporations are allowed to create shares of different classes with varying features" and that this "is a flexibility that is granted, among others, for the corporation to attract and generate capital (funds) from both local and foreign capital markets" and that "this access to capital – which a stock corporation may need for expansion, debt relief/prepayment, working capital requirement and other corporate pursuits – will be greatly eroded with further unwarranted limitations that are not articulated in the Constitution." The Court added that "the intricacies and delicate balance between debt instruments (liabilities) and equity (capital) that stock corporations need to calibrate to fund their business requirements and achieve their financial targets are better left to the judgment of their boards and officers, whose bounden duty is to steer their companies to financial stability and profitability and who are ultimately answerable to their shareholders."

The Court went on to say that "too restrictive definition of 'capital', one that was never contemplated in the Gamboa Decision, will surely have a dampening effect on the business milieu by eroding the flexibility inherent in the issuance of preferred shares with varying terms and conditions. Consequently, the rights and prerogatives of the owners of the corporation will be unwarrantedly stymied." Accordingly, the Court said that the petitioners' "restrictive interpretation of the term "capital" would have a tremendous (adverse) impact on the country as a whole – and to all Filipinos."

Arbitration Case between Smart and Harris Caprock Communications, Inc. (U.S.A.), or HCC, and Caprock Communications International Limited (United Kingdom), or CCI, together Claimants

In December 2011, Smart engaged the services of HCC and CCI, a wholly-owned subsidiary of HCC, for the expansion of its SmartLink GSM. Subsequently, the parties executed three agreements: (i) Agreement for Bandwidth and Teleport Services with CCI dated May 21, 2012, or the "Bandwidth Agreement; (ii) Agreement for Warehousing and Installation Services with CCI dated August 27, 2012, or the Installation Agreement; and (iii) Agreement for the Sale and Purchase of Equipment with HCC dated September 27, 2012.

HCC failed to deliver the equipment in accordance with the delivery schedule and delivered defective equipment. Claimants also failed to activate Phase 1 of the satellite beams and installed only 13 units of antennas and beams. Thus, Smart issued a Termination Notice dated December 15, 2012 for all the three agreements. In their letter dated December 18, 2012, Claimants requested Smart to keep the contracts alive. Thus, Smart issued its commercial response on December 29, 2012. Claimants requested Smart to withdraw the termination notice; otherwise, they will claim damages, premised on their position that Smart cannot terminate the contracts for convenience. Smart did not withdraw the termination notice. The parties failed to reach an amicable settlement with Claimants claiming US$35 million in damages, while Smart wanted reimbursement of its deposit.

On October 19, 2016, a Singapore International Arbitration Center – Arbitral Tribunal issued a Final Partial Award adjudging Smart liable to the Claimants in the amount of US$6.5 million, consisting of equipment delivered to Smart, liability to third parties, performance bond, monthly service fees, loss of profit, installation fees, excluding interest.

In an Order dated December 23, 2016, the Arbitral Tribunal issued its Final Award on Costs, awarding Claimants the amount of US$1.6 million, representing arbitration costs, legal fees and other expenses. On December 29, 2016, Smart paid the amount of US$8.5 million, or Php424 million, to Claimants as settlement, based on external counsel's opinion on the imprudence of pursuing further legal proceedings.

Other disclosures required by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, were not provided as it may prejudice our position in on-going claims, litigations and assessments. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Provision* for legal contingencies and tax assessments.

28. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables, cash and short-term deposits, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies – Financial Instruments*.

The following table sets forth our consolidated financial assets and financial liabilities as at December 31, 2016 and 2015:

	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for-sale financial investments	Financial liabilities carried at amortized cost	Total financial assets and liabilities
				(in million pesos)			
Assets as at December 31, 2016							
Noncurrent:							
Available-for-sale financial investments	–	–	–	–	12,189	–	12,189
Investment in debt securities and other long-term investments – net of current portion	224	150	–	–	–	–	374
Derivative financial assets – net of current portion	–	–	–	499	–	–	499
Advances and other noncurrent assets – net of current portion	9,152	–	–	–	–	–	9,152
Current:							
Cash and cash equivalents	38,722	–	–	–	–	–	38,722
Short-term investments	2,736	–	2	–	–	–	2,738
Trade and other receivables	24,436	–	–	–	–	–	24,436
Current portion of derivative financial assets	–	–	66	176	–	–	242
Current portion of investment in debt securities and other long-term investments	124	202	–	–	–	–	326
Current portion of advances and other noncurrent assets	7,916	–	–	–	–	–	7,916
Total assets	83,310	352	68	675	12,189	–	96,594
Liabilities as at December 31, 2016							
Noncurrent:							
Interest-bearing financial liabilities – net of current portion	–	–	–	–	–	151,759	151,759
Derivative financial liabilities – net of current portion	–	–	–	2	–	–	2
Customers' deposits	–	–	–	–	–	2,431	2,431
Deferred credits and other noncurrent liabilities	–	–	–	–	–	13,720	13,720
Current:							
Accounts payable	–	–	–	–	–	50,975	50,975
Accrued expenses and other current liabilities	–	–	–	–	–	74,868	74,868
Current portion of interest-bearing financial liabilities	–	–	–	–	–	33,273	33,273
Dividends payable	–	–	–	–	–	1,544	1,544
Current portion of derivative financial liabilities	–	–	16	209	–	–	225
Total liabilities	–	–	16	211	–	328,570	328,797
Net assets (liabilities)	83,310	352	52	464	12,189	(328,570)	(232,203)

	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for-sale financial investments	Financial liabilities carried at amortized cost	Total financial assets and liabilities
				(in million pesos)			
Assets as at December 31, 2015							
Noncurrent:							
Available-for-sale financial investments	–	–	–	–	15,711	–	15,711
Investment in debt securities and other long-term investments – net of current portion	595	357	–	–	–	–	952
Derivative financial assets – net of current portion	–	–	–	145	–	–	145
Advances and other noncurrent assets – net of current portion	2,580	–	–	–	–	–	2,580
Current:							
Cash and cash equivalents	46,455	–	–	–	–	–	46,455
Short-term investments	744	–	685	–	–	–	1,429
Trade and other receivables	24,898	–	–	–	–	–	24,898
Current portion of derivative financial assets	–	–	10	16	–	–	26
Current portion of investment in debt securities and other long-term investments	–	51	–	–	–	–	51
Current portion of advances and other noncurrent assets	7,936	–	–	–	–	–	7,936
Total assets	**83,208**	**408**	**695**	**161**	**15,711**	**–**	**100,183**
Liabilities as at December 31, 2015							
Noncurrent:							
Interest-bearing financial liabilities – net of current portion	–	–	–	–	–	143,982	143,982
Derivative financial liabilities – net of current portion	–	–	659	77	–	–	736
Customers' deposits	–	–	–	–	–	2,430	2,430
Deferred credits and other noncurrent liabilities	–	–	–	–	–	19,788	19,788
Current:							
Accounts payable	–	–	–	–	–	51,542	51,542
Accrued expenses and other current liabilities	–	–	–	–	–	66,844	66,844
Current portion of interest-bearing financial liabilities	–	–	–	–	–	16,911	16,911
Dividends payable	–	–	–	–	–	1,461	1,461
Current portion of derivative financial liabilities	–	–	22	284	–	–	306
Total liabilities	**–**	**–**	**681**	**361**	**–**	**302,958**	**304,000**
Net assets (liabilities)	**83,208**	**408**	**14**	**(200)**	**15,711**	**(302,958)**	**(203,817)**

The following table sets forth our consolidated offsetting of financial assets and liabilities recognized as at December 31, 2016 and 2015:

	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set-off in the statement of financial position	Net amount presented in the statement of financial position
		(in million pesos)	
December 31, 2016			
Current Financial Assets			
Trade and other receivables			
Foreign administrations	9,391	4,200	5,191
Domestic carriers	15,555	15,335	220
Total	24,946	19,535	5,411
Current Financial Liabilities			
Accounts payable			
Suppliers and contractors	46,857	37	46,820
Carriers and other customers	5,311	1,446	3,865
Total	52,168	1,483	50,685

	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set-off in the statement of financial position	Net amount presented in the statement of financial position
		(in million pesos)	
December 31, 2015			
Current Financial Assets			
Trade and other receivables			
Foreign administrations	9,623	4,424	5,199
Domestic carriers	12,777	12,323	454
Total	**22,400**	**16,747**	**5,653**
Current Financial Liabilities			
Accounts payable			
Suppliers and contractors	46,532	45	46,487
Carriers and other customers	9,109	6,095	3,014
Total	**55,641**	**6,140**	**49,501**

There are no financial instruments subject to an enforceable master netting arrangement as at December 31, 2016 and 2015.

The following table sets forth our consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at December 31, 2016 and 2015 other than those whose carrying amounts are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	2016	2015	**2016**	2015
		(in million pesos)		
Noncurrent Financial Assets				
Investment in debt securities and other long-term investments	**374**	952	**377**	972
Advances and other noncurrent assets	**9,152**	2,580	**7,743**	2,305
Total	**9,526**	3,532	**8,120**	3,277
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities:				
Long-term debt	**151,759**	143,982	**146,654**	145,731
Customers' deposits	***2,431***	*2,430*	***1,879***	*1,868*
Deferred credits and other noncurrent liabilities	***13,720***	*19,788*	***12,457***	*17,973*
Total	**167,910**	166,200	**160,990**	165,572

Below are the list of our consolidated financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as required for our complete sets of consolidated financial statements as at December 31, 2016 and 2015. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

	2016			2015		
	Level 1(1)	**Level 2(2)**	**Total**	Level 1(1)	Level 2(2)	Total
			(in million pesos)			
Noncurrent Financial Assets						
Available-for-sale financial investments – Listed equity securities	**10,173**	**–**	**10,173**	14,695	–	14,695
Derivative financial assets – net of current portion	**–**	**499**	**499**	–	145	145
Current Financial Assets						
Short-term investments	**–**	**2**	**2**	–	685	685
Current portion of derivative financial assets	**–**	**242**	**242**	–	26	26
Total	**10,173**	**743**	**10,916**	14,695	856	15,551

	2016			2015		
	Level 1[(1)]	**Level 2**[(2)]	**Total**	Level 1[(1)]	Level 2[(2)]	Total
			(in million pesos)			
Noncurrent Financial Liabilities						
Derivative financial liabilities	**–**	**2**	**2**	–	736	736
Current Financial Liabilities						
Derivative financial liabilities	**–**	**225**	**225**	–	306	306
Total	**–**	**227**	**227**	–	1,042	1,042

(1) *Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.*
(2) *Fair values determined using inputs other than quoted market prices that are either directly or indirectly observable for the assets or liabilities.*

As at December 31, 2016 and 2015, we have no financial instruments measured at fair values using inputs that are not based on observable market data (Level 3). As at December 31, 2016 and 2015, there were no transfers into and out of Level 3 fair value measurements.

As at December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Long-term financial assets and liabilities:

Fair value is based on the following:

Type	Fair Value Assumptions	Fair Value Hierarchy
Noncurrent portion of advances and other noncurrent assets	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus counterparties' credit spread.	Level 3
Fixed Rate Loans: U.S. dollar notes	Quoted market price.	Level 1
Investment in debt securities	Fair values were determined using quoted prices. For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.	Level 1 Level 2
Other loans in all other currencies	Estimated fair value is based on the discounted value of future cash flows using the applicable Commercial Interest Reference Rate and PDST-F (valid until March 31, 2015) and PDST-R2* (valid after March 31, 2015) rates for similar types of loans plus PLDT's credit spread.	Level 3
Variable Rate Loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.	Level 2

* *PDST-F was replaced by PDST-R2 on April 1, 2015 per BAP Memo dated January 8, 2015.*

Derivative Financial Instruments:

Forward foreign exchange contracts, foreign currency swaps and interest rate swaps: The fair values were computed as the present value of estimated future cash flows using market U.S. dollar and Philippine peso interest rates as at valuation date.

The valuation techniques considered various inputs including the credit quality of counterparties.

Available-for-sale financial investments: Fair values of available-for-sale financial investments, which consist of listed shares, were determined using quoted prices. For investments where there is no active market and fair value cannot be determined, investments are carried at cost less any accumulated impairment losses.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, trade and other receivables, accounts payable, accrued expenses and other current liabilities and dividends payable approximate their carrying values as at the end of the reporting period.

Derivative Financial Instruments

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period.

As at December 31, 2016 and 2015, we have taken into account the counterparties' credit risks (for derivative assets) and our own non-performance risk (for derivative liabilities) and have included a credit or debit valuation adjustment, as appropriate, by assessing the maximum credit exposure and taking into account market-based inputs which considers the risk of default occurring and corresponding losses once the default event occurs. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

The table below sets out the information about our consolidated derivative financial instruments as at December 31, 2016 and 2015:

							2016		2015	
	Original Notional Amount	Trade Date	Underlying Transaction in U.S. Dollar	Termination Date	Weighted Average Hedge Cost	Weighted Average Foreign Exchange Rate in Php	Notional	Net Mark-to-market Gains (Losses)	Notional	Net Mark-to-market Gains (Losses)
	(in millions)		(in millions)				(in millions)			
Transactions not designated as hedges:										
PLDT										
Long-term currency swaps	US$262	2001 and 2002	300 Notes 2017	March 6, 2017	3.42%	49.85	**US$202**	**Php1**	US$202	(Php655)
Forward foreign exchange contracts		Various dates in 2015	U.S. dollar liabilities	Various dates in 2015 and 2016	–	46.97	**–**	**–**	22	6
		Various dates in 2016	U.S. dollar liabilities	Various dates in 2016	–	–	**–**	**–**	–	–
		October 2016	U.S. dollar liabilities	November 29, 2016	–	–	**–**	**–**	–	–
	3	February 15, 2017	U.S. dollar liabilities	March 3, 2017	–	49.95	**–**	**–**	–	–
Smart										
Forward foreign exchange contracts		March and May 2015	200 Mizuho facility	Various dates in 2015	–	44.83	**–**	**–**	–	–
		Various dates in 2015	U.S. dollar liabilities	Various dates in 2015 and 2016	–	46.95	**–**	**–**	13	4
		Various dates in 2016	U.S. dollar liabilities	Various dates in 2016	–	47.01	**–**	**–**	–	–
		August and September 2016	U.S. dollar liabilities	Various dates in 2017	–	46.79	**48**	**50**	–	–
	8	October and November 2016	U.S. dollar liabilities	January 2017	–	48.46	**–**	**–**	–	–
	7	Various dates in 2017	U.S. dollar liabilities	Various dates in 2017	–	50.05	**–**	**–**	–	–
Foreign exchange options	5[a]	August 10, 2016	U.S. dollar liabilities	November 14, 2016	–	46.82 46.90 47.98	**–**	**–**	–	–
	6[b]	October 2016	U.S. dollar liabilities	April 2017	–	47.96 48.75 49.75	**11**	**4**	–	–
	3[c]	Various dates in 2017	U.S. dollar liabilities	July 2017	–	49.34 50.50 51.50	**–**	**–**	–	–
DMPI										
Interest rate swaps	54	October 7, 2008	59 loan facility	March 30, 2017	3.88%	–	**3**	**(2)**	10	(14)
	47	October 7, 2008	51 loan facility	June 30, 2017	3.97%	–	**3**	**(3)**	9	(12)
								Php50		(Php671)

	Original Notional Amount	Trade Date	Underlying Transaction in U.S. Dollar	Termination Date	Weighted Average Hedge Cost	Weighted Average Foreign Exchange Rate in Php	2016 Notional	2016 Net Mark-to-market Gains (Losses)	2015 Notional	2015 Net Mark-to-market Gains (Losses)
	(in millions)		(in millions)				(in millions)			
Transactions designated as hedges:										
PLDT										
Interest rate swaps[d]	30	January 23, 2015	150 term loan	March 7, 2017	2.11%	–	**US$8**	**Php–**	US$23	Php2
	240	2013 and 2015	300 term loan	January 16, 2018	2.17%	–	**100**	**9**	167	10
	100	August 2014	100 PNB	August 21, 2020	3.46%	–	**98**	**(50)**	99	(86)
	50	September 2014	50 MBTC	September 2, 2020	3.47%	–	**49**	**(29)**	50	(47)
	150	April and June 2015	200 term loan	February 25, 2022	2.70%	–	**150**	**(35)**	150	(95)
Long-term currency swaps[e]	140	October 2015 to June 2016	300 term loan	January 16, 2018	2.20%	46.67	**94**	**230**	90	18
	4	January 2017	100 PNB	August 11, 2020	1.01%	49.79	**–**	**–**	–	–
Smart										
Interest rate swaps[f]	45	May 8, 2013	60 loan facility	June 6, 2016	1.53%	–	**–**	**–**	7	–
	38	May 9, 2013	50 loan facility	August 19, 2016	1.43%	–	**–**	**–**	13	1
	44	May 16, 2013	50 loan facility	May 29, 2017	1.77%	–	**6**	**1**	17	2
	110	Various dates in 2013 and 2014	120 loan facility	June 20, 2018	2.22%	–	**45**	**9**	75	6
	85	Various dates in 2014 and 2015	100 loan facility	March 7, 2019	2.23%	–	**49**	**6**	68	(9)
	50	October 2, 2014	50 loan facility	May 14, 2019	2.58%	–	**28**	**–**	39	(10)
	200	Various dates in 2015	200 loan facility	March 4, 2020	2.10%	–	**156**	**39**	200	1
	30	February 2016	100 loan facility	December 7, 2021	2.03%	–	**30**	**22**	–	–
Long-term currency swaps[g]	100	Various dates in 2015	200 loan facility	March 5, 2018	2.21%	46.66	**60**	**155**	100	7
	45	Various dates in 2016	100 loan facility	December 7, 2018	1.93%	46.55	**36**	**107**	–	–
	6	Various dates in 2017	80 loan facility	May 31, 2018	1.10%	49.80	**–**	**–**	–	–
								464		(200)
								Php514		(Php871)

(a) If the Philippine peso to U.S. dollar spot exchange rate on the maturity date settles between Php46.90 to Php47.98, Smart will purchase the U.S. dollar for Php46.90. However, if on maturity, the exchange rate settles above Php47.98, Smart will purchase the U.S. dollar for Php46.90 plus the excess above Php47.98, and if the exchange rate is lower than Php46.90, Smart will purchase the U.S. dollar at the prevailing Philippine peso to U.S. dollar spot exchange rate, subject to a floor of Php46.82.

(b) If the Philippine peso to U.S. dollar spot exchange rate on the maturity date settles between Php48.75 to Php49.75, Smart will purchase the U.S. dollar for Php48.75. However, if on maturity, the exchange rate settles above Php49.75, Smart will purchase the U.S. dollar for Php48.75 plus the excess above Php49.75, and if the exchange rate is lower than Php48.75, Smart will purchase the U.S. dollar at the prevailing Philippine peso to U.S. dollar spot exchange rate, subject to a floor of Php47.96.

(c) If the Philippine peso to U.S. dollar spot exchange rate on the maturity date settles between Php50.50 to Php51.50, Smart will purchase the U.S. dollar for Php50.50. However, if on maturity, the exchange rate settles above Php51.50, Smart will purchase the U.S. dollar for Php50.50 plus the excess above Php51.50, and if the exchange rate is lower than Php50.50, Smart will purchase the U.S. dollar at the prevailing Philippine peso to U.S. dollar spot exchange rate, subject to a floor of Php49.34.

(d) PLDT's interest rate swap agreements outstanding as at December 31, 2016 and 2015 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market losses amounting to Php82 million and Php172 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2016 and 2015, respectively. Interest accrual on the interest rate swaps amounting to Php23 million and Php44 million were recorded as at December 31, 2016 and 2015, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the years ended December 31, 2016 and 2015.

(e) PLDT's long-term principal only-currency swap agreements entered into in 2015 and 2016 were designated as cash flow hedges, wherein effective portion of the movements in the fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market gains amounting to Php275 million and Php18 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2016 and 2015, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php45 million and nil were recognized as at December 31, 2016 and 2015, respectively. The amounts recognized as other comprehensive income are transferred to profit or loss when the hedged loan is revalued for changes in the foreign exchange rate. The ineffective portion of the movements in the fair value amounting to Php8 million and nil were recognized in our consolidated income statements for the years ended December 31, 2016 and 2015, respectively.

(f) Smart's interest swap agreements outstanding as at December 31, 2016 and 2015 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market loss amounting to Php79 million and mark-to-market gain amounting to Php14 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2016 and 2015, respectively. Interest accrual on the interest rate swaps amounting to Php2 million and Php23 million were recognized as at December 31, 2016 and 2015, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the years ended December 31, 2016 and 2015.

(g) Smart's long-term principal only-currency swap agreements outstanding as at December 31, 2016 and 2015 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market gains amounting to Php284 million and Php27 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2016 and 2015, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php22 million and Php20 million were recognized as at December 31, 2016 and 2015, respectively. The amounts recognized as other comprehensive income are transferred to profit or loss when the hedged loan is revalued for changes in the foreign exchange rate. The ineffective portion of the movements in the fair value amounting to Php9 million and nil were recognized in our consolidated income statements for the years ended December 31, 2016 and 2015, respectively.

	2016	2015
	(in million pesos)	
Presented as:		
Noncurrent assets	**499**	145
Current assets	**242**	26
Noncurrent liabilities	**(2)**	(736)
Current liabilities	**(225)**	(306)
Net assets (liabilities)	**514**	(871)

Movements of our consolidated mark-to-market gains (losses) for the years ended December 31, 2016 and 2015 are summarized as follows:

	2016	2015
	(in million pesos)	
Net mark-to-market losses at beginning of the year	**(871)**	(1,618)
Gains on derivative financial instruments (Note 4)	**1,539**	781
Settlements, accretions and conversions	**141**	320
Net fair value gains on cash flow hedges charged to other comprehensive income	**76**	5
Effective portion recognized in the profit or loss for the cash flow hedges	**(371)**	(359)
Net mark-to-market gains (losses) at end of the year	**514**	(871)

Our consolidated analysis of gains (losses) on derivative financial instruments for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015	2014
		(in million pesos)	
Gains on derivative financial instruments (Note 4)	**1,539**	781	208
Hedge costs	**(543)**	(361)	(309)
Net gains (losses) on derivative financial instruments	**996**	420	(101)

Financial Risk Management Objectives and Policies

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.

Liquidity Risk

Our exposure to liquidity risk refers to the risk that our financial requirements, working capital requirements and planned capital expenditures are not met.

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-term and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates, managed funds and other structured products linked to the Republic of the Philippines. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

Our cash position remains sufficient to support our planned capital expenditure requirements and service our debt and financing obligations; however, we may be required to finance a portion of our future capital expenditures from external financing sources. We have cash and cash equivalents, and short-term investments amounting to Php38,722 million and Php2,738 million, respectively, as at December 31, 2016, which we can use to meet our short-term liquidity needs. See *Note 16 – Cash and Cash Equivalents*.

The following table discloses a summary of maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at December 31, 2016 and 2015:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in million pesos)		
December 31, 2016					
Loans and receivables:	*95,924*	*86,338*	*4,951*	*4,483*	*152*
Advances and other noncurrent assets	17,278	7,916	4,727	4,483	152
Cash equivalents	32,338	32,338	–	–	–
Short-term investments	2,736	2,736	–	–	–
Investment in debt securities and other long-term investments	348	124	224	–	–
Retail subscribers	20,290	20,290	–	–	–
Corporate subscribers	9,333	9,333	–	–	–
Foreign administrations	5,819	5,819	–	–	–
Domestic carriers	354	354	–	–	–
Dealers, agents and others	7,428	7,428	–	–	–
HTM investments:	*352*	*202*	–	*150*	–
Investment in debt securities and other long-term investments	352	202	–	150	–
Financial instruments at FVPL:	*2*	*2*	–	–	–
Short-term investments	2	2	–	–	–
Available-for-sale financial investments	*12,189*	–	*1,000*	–	*11,189*
Total	108,467	86,542	5,951	4,633	11,341
December 31, 2015					
Loans and receivables:	*91,978*	*88,602*	*2,697*	*516*	*163*
Advances and other noncurrent assets	10,717	7,936	2,102	516	163
Cash equivalents	39,103	39,103	–	–	–
Short-term investments	744	744	–	–	–
Investment in debt securities and other long-term investments	595	–	595	–	–
Retail subscribers	19,750	19,750	–	–	–
Corporate subscribers	9,263	9,263	–	–	–
Foreign administrations	5,514	5,514	–	–	–
Domestic carriers	540	540	–	–	–
Dealers, agents and others	5,752	5,752	–	–	–
HTM investments:	*408*	*51*	*207*	*150*	–
Investment in debt securities and other long-term investments	408	51	207	150	–
Financial instruments at FVPL:	*685*	*685*	–	–	–
Short-term investments	685	685	–	–	–
Available-for-sale financial investments	*15,711*	–	–	–	*15,711*
Total	108,782	89,338	2,904	666	15,874

The following table discloses a summary of maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at December 31, 2016 and 2015:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in million pesos)		
December 31, 2016					
Debt[1]:	*223,130*	*21,883*	*64,751*	*51,414*	*85,082*
Principal	185,663	21,138	46,931	40,886	76,708
Interest	37,467	745	17,820	10,528	8,374
Lease obligations:	*18,456*	*10,734*	*3,581*	*1,972*	*2,169*
Operating lease	18,456	10,734	3,581	1,972	2,169
Other obligations:	*134,057*	*117,717*	*1,793*	*12,593*	*1,954*
Derivative financial liabilities[2]:	247	106	141	–	–
Long-term currency swap	100	100	–	–	–
Interest rate swap	147	6	141	–	–
Various trade and other obligations:	133,810	117,611	1,652	12,593	1,954
Suppliers and contractors	60,494	46,820	1,113	12,561	–
Utilities and related expenses	40,166	40,118	48	–	–
Liability from redemption of preferred shares	7,883	7,883	–	–	–
Employee benefits	6,191	6,191	–	–	–
Customers' deposits	2,431	–	445	32	1,954
Carriers and other customers	2,422	2,422	–	–	–
Dividends	1,544	1,544	–	–	–
Others	12,679	12,633	46	–	–
Total contractual obligations	375,643	150,334	70,125	65,979	89,205

	Payments Due by Period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in million pesos)		
December 31, 2015					
Debt[1]:	*195,603*	*1,716*	*78,007*	*41,890*	*73,990*
Principal	161,568	1,411	61,847	34,355	63,955
Interest	34,035	305	16,160	7,535	10,035
Lease obligations:	*17,920*	*10,161*	*3,640*	*2,003*	*2,116*
Operating lease	17,919	10,160	3,640	2,003	2,116
Finance lease	1	1	–	–	–
Other obligations:	*139,148*	*110,874*	*23,378*	*3,012*	*1,884*
Derivative financial liabilities[2]:	6,067	10	6,050	7	–
Long-term currency swap	5,670	–	5,670	–	–
Interest rate swap	397	10	380	7	–
Various trade and other obligations:	133,081	110,864	17,328	3,005	1,884
Suppliers and contractors	66,229	46,487	16,788	2,954	–
Utilities and related expenses	38,155	38,155	–	–	–
Liability from redemption of preferred shares	7,906	7,906	–	–	–
Employee benefits	6,262	6,262	–	–	–
Carriers and other customers	3,014	3,014	–	–	–
Customers' deposits	2,430	–	495	51	1,884
Dividends	1,461	1,461	–	–	–
Others	7,624	7,579	45	–	–
Total contractual obligations	**352,671**	**122,751**	**105,025**	**46,905**	**77,990**

[1] *Consists of long-term debt, including current portion; gross of unamortized debt discount and debt issuance costs.*
[2] *Gross liabilities before any offsetting application.*

Debt

See *Note 21 – Interest-bearing Financial Liabilities – Long-term Debt* for a detailed discussion of our debt.

Operating Lease Obligations

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites telecommunications equipment locations and various office equipment. These lease contracts are subject to certain escalation clauses.

The consolidated future minimum lease commitments payable with non-cancellable operating leases as at December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Within one year	**10,911**	10,318
After one year but not more than five years	**5,376**	5,485
More than five years	**2,169**	2,116
Total	**18,456**	17,919

Finance Lease Obligations

See *Note 21 – Interest-bearing Financial Liabilities – Obligations under Finance Leases* for the detailed discussion of our long-term finance lease obligations.

Other Obligations – Various Trade and Other Obligations

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits and other related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php133,810 million and Php133,081 million as at December 31, 2016 and 2015, respectively. See *Note 23 – Accounts Payable* and *Note 24 – Accrued Expenses and Other Current Liabilities*.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php6,788 million and Php46 million as at December 31, 2016 and 2015, respectively. These commitments will expire within one year. The amount in 2016 includes standby letters of credit issued in relation with PLDT's acquisition of VTI, Bow Arken and Brightshare as at December 31, 2016. See *Note 10 – Investments in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare*.

Collateral

We have not made any pledges as collateral with respect to our financial liabilities as at December 31, 2016 and 2015.

Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, a substantial portion of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. dollar-linked and U.S. dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange purchase contracts, currency swap contracts and currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized in our consolidated other comprehensive income until the hedged transaction affects our consolidated income statement or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the period.

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2016 and 2015:

	2016		2015	
	U.S. Dollar	**Php**(1)	U.S. Dollar	Php(2)
	(in millions)			
Noncurrent Financial Assets				
Investment in debt securities and other long-term investments	**7**	**348**	26	1,206
Derivative financial assets – net of current portion	**10**	**499**	3	145
Advances and other noncurrent assets – net of current portion	**–**	**18**	–	16
Total noncurrent financial assets	**17**	**865**	29	1,367
Current Financial Assets				
Cash and cash equivalents	**419**	**20,847**	379	17,874
Short-term investments	**55**	**2,720**	24	1,156
Trade and other receivables – net	**158**	**7,853**	142	6,690
Current portion of derivative financial assets	**5**	**242**	1	26
Current portion of advances and other noncurrent assets	**–**	**8**	–	19
Total current financial assets	**637**	**31,670**	546	25,765
Total Financial Assets	**654**	**32,535**	575	27,132

	2016		2015	
	U.S. Dollar	**Php**(1)	U.S. Dollar	Php(2)
	(in millions)			
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	**680**	**33,831**	1,104	52,040
Derivative financial liabilities – net of current portion	**–**	**2**	16	736
Other noncurrent liabilities	**–**	**5**	–	6
Total noncurrent financial liabilities	**680**	**33,838**	1,120	52,782
Current Financial Liabilities				
Accounts payable	**191**	**9,477**	99	4,685
Accrued expenses and other current liabilities	**171**	**8,513**	153	7,216
Current portion of interest-bearing financial liabilities	**496**	**24,671**	341	16,058
Current portion of derivative financial liabilities	**5**	**225**	7	306
Total current financial liabilities	**863**	**42,886**	600	28,265
Total Financial Liabilities	**1,543**	**76,724**	1,720	81,047

(1) *The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php49.77 to US$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2016.*

(2) *The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php47.12 to US$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2015.*

As at March 23, 2017, the Philippine peso-U.S. dollar exchange rate was Php50.34 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have increased in Philippine peso terms by Php507 million as at December 31, 2016.

Approximately 31% and 42% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at December 31, 2016 and 2015, respectively. Consolidated foreign currency-denominated debt decreased to Php58,192 million as at December 31, 2016 from Php67,620 million as at December 31, 2015. See *Note 21 – Interest-bearing Financial Liabilities*. The aggregate notional amount of our consolidated outstanding long-term principal only-currency swap contracts was US$392 million as at December 31, 2016 and 2015. Consequently, the unhedged portion of our consolidated debt amounts was approximately 19% (or 8%, net of our consolidated U.S. dollar cash balances allocated for debt) and 30% (or 17%, net of our consolidated U.S. dollar cash balances) as at December 31, 2016 and 2015, respectively.

Approximately, 16% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the year ended December 31, 2016 as compared with approximately 18% for the year ended December 31, 2015. Approximately, 9% of our consolidated expenses were denominated in U.S. dollars and/or linked to the U.S. dollar in 2016 and 2015. In this respect, the higher weighted average exchange rate of the Philippine peso against the U.S. dollar increased our revenues and expenses, and consequently, affects our cash flow from operations in Philippine peso terms. In view of the anticipated continued decline in dollar-denominated/dollar-linked revenues, which provide a natural hedge against our foreign currency exposure, we are progressively refinancing our dollar-denominated debts in Philippine pesos.

The Philippine peso depreciated by 5.62% against the U.S. dollar to Php49.77 to US$1.00 as at December 31, 2016 from Php47.12 to US$1.00 as at December 31, 2015. As at December 31, 2015, the Philippine peso depreciated by 5.32% against the U.S. dollar to Php47.12 to US$1.00 from Php44.74 to US$1.00 as at December 31, 2014. As a result of our consolidated foreign exchange movements, as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange losses of Php2,785 million, Php3,036 million and Php382 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Management conducted a survey among our banks to determine the outlook of the Philippine peso-U.S. dollar exchange rate until March 31, 2017. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 0.77% as compared to the exchange rate of Php49.77 to US$1.00 as at December 31, 2016. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 0.77% as at December 31, 2016, with all other variables held constant, profit after tax for the year ended December 31, 2016 would have been approximately Php183 million lower/higher and our consolidated stockholders' equity as at December 31, 2016 would have been approximately Php159 million lower/higher, mainly as a result of consolidated foreign exchange gains and losses on conversion of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates.

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and short-term borrowings with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. We enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our liabilities and not for trading purposes.

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at December 31, 2016 and 2015. Financial instruments that are not subject to interest rate risk were not included in the table.

As at December 31, 2016

	In U.S. Dollars							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	In Php	In Php	In U.S. Dollar	In Php
									(in millions)		
Assets:											
Investment in Debt Securities and Other Long-term Investments											
U.S. Dollar	3	4	–	–	–	7	348	–	348	7	350
Interest rate	4.0000%	3.5000% to 4.0000%	–	–	–	–	–	–	–	–	–
Philippine Peso	4	–	–	3	–	7	352	–	352	7	353
Interest rate	4.2180% to 4.2500%	–	–	4.8400%	–	–	–	–	–	–	–
Cash in Bank											
U.S. Dollar	17	–	–	–	–	17	850	–	850	17	850
Interest rate	0.0100% to 0.5000%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	73	–	–	–	–	73	3,652	–	3,652	73	3,652
Interest rate	0.0010% to 1.6250%	–	–	–	–	–	–	–	–	–	–
Other Currencies	1	–	–	–	–	1	22	–	22	1	22
Interest rate	0.0100% to 0.5000%	–	–	–	–	–	–	–	–	–	–
Temporary Cash Investments											
U.S. Dollar	366	–	–	–	–	366	18,239	–	18,239	366	18,239
Interest rate	0.2500% to 4.7500%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	283	–	–	–	–	283	14,099	–	14,099	283	14,099
Interest rate	0.1250% to 5.000%	–	–	–	–	–	–	–	–	–	–
Short-term Investments											
U.S. Dollar	55	–	–	–	–	55	2,738	–	2,738	55	2,738
Interest rate	1.6500% to 4.0000%	–	–	–	–	–	–	–	–	–	–
	802	4	–	3	–	809	40,300	–	40,300	809	40,303
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Notes	228	–	–	–	–	228	11,366	4	11,362	233	11,606
Interest rate	8.3500%	–	–	–	–	–	–	–	–	–	–
U.S. Dollar Fixed Loans	5	42	9	15	4	75	3,726	20	3,706	77	3,813
Interest rate	1.9000%	1.4100% to 2.8850%	1.4100% to 2. 8850%	2.8850%	2.8850%	–	–	–	–	–	–
Philippine Peso	153	59	287	405	1,485	2,389	118,881	303	118,578	2,267	112,818
Interest rate	5.2854% to 5.5808%	3.9000% to 6.2600%	3.9000% to 6.2600%	3.9000% to 6.2600%	3.9000% to 6.2600%	–	–	–	–	–	–
Variable Rate											
U.S. Dollar	39	440	100	241	52	872	43,410	286	43,124	872	43,410
Interest rate	0.3000% to 1.6000% over LIBOR	0.7900% to 1.6000% over LIBOR	0.7900% to 1.4500% over LIBOR	0.7900% to 1.4500% over LIBOR	0.7900% to 1.0500% over LIBOR	–	–	–	–	–	–
Philippine Peso	–	3	2	161	–	166	8,280	18	8,262	166	8,280
Interest rate	–	BSP overnight rate to 1.0000% over PDST-R2	BSP overnight rate to 1.0000% over PDST-R2	BSP overnight rate to 1.0000% over PDST-R2	–	–	–	–	–	–	–
	425	544	398	822	1,541	3,730	185,663	631	185,032	3,615	179,927

As at December 31, 2015

	In U.S. Dollars							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	In Php	In Php	In U.S. Dollar	In Php
									(in millions)		
Assets:											
Investment in Debt Securities and Other Long-term Investments											
U.S. Dollar	–	11	2	–	–	13	596	–	596	13	605
Interest rate	–	4.0000% to 10.0000%	3.5000%	–	–	–	–	–	–	–	–
Philippine Peso	–	5	–	3	–	8	407	–	407	9	418
Interest rate	–	4.2500%	–	4.8400%	–	–	–	–	–	–	–
Cash in Bank											
U.S. Dollar	35	–	–	–	–	35	1,651	–	1,651	35	1,651
Interest rate	0.0100% to 1.0000%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	82	–	–	–	–	82	3,880	–	3,880	82	3,880
Interest rate	0.0010% to 2.0000%	–	–	–	–	–	–	–	–	–	–
Other Currencies	1	–	–	–	–	1	24	–	24	1	24
Interest rate	0.0100% to 0.5000%	–	–	–	–	–	–	–	–	–	–
Temporary Cash Investments											
U.S. Dollar	315	–	–	–	–	315	14,829	–	14,829	315	14,829
Interest rate	0.2500% to 4.7500%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	515	–	–	–	–	515	24,274	–	24,274	515	24,274
Interest rate	0.2500% to 4.6875%	–	–	–	–	–	–	–	–	–	–
Short-term Investments											
U.S. Dollar	24	–	–	–	–	24	1,156	–	1,156	24	1,156
Interest rate	2.1622% to 3.9940%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	6	–	–	–	–	6	273	–	273	6	273
Interest rate	1.5000%	–	–	–	–	–	–	–	–	–	–
	978	**16**	**2**	**3**	**–**	**999**	**47,090**	**–**	**47,090**	**1,000**	**47,110**
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Notes	–	228	–	–	–	228	10,761	29	10,732	247	11,617
Interest rate	–	8.3500%	–	–	–	–	–	–	–	–	–
U.S. Dollar Fixed Loans	5	51	42	17	11	126	5,945	41	5,904	134	6,298
Interest rate	1.9000%	1.4100% to 3.9550%	1.4100% to 3.9550%	1.4100% to 3.9550%	2.8850%	–	–	–	–	–	–
Philippine Peso	–	205	21	337	1,243	1,806	85,100	171	84,929	1,803	84,965
Interest rate	–	4.4850% to 6.2600%	4.4850% to 6.2600%	4.4850% to 6.2600%	4.5500% to 6.2600%	–	–	–	–	–	–
Variable Rate											
U.S. Dollar	25	542	217	273	34	1,091	51,397	413	50,984	1,091	51,396
Interest rate	0.8500% to 1.0000% over LIBOR	0.3000% to 1.8000% over LIBOR	0.7900% to 1.8000% over LIBOR	0.7900% to 1.4500% over LIBOR	0.9500% over LIBOR	–	–	–	–	–	–
Philippine Peso	–	4	2	102	70	178	8,365	22	8,343	177	8,365
Interest rate	–	BSP overnight rate - 0.3500% to BSP overnight rate	BSP overnight rate - 0.3500% to BSP overnight rate	BSP overnight rate - 0.3500% to BSP overnight rate	BSP overnight rate - 0.3500% to BSP overnight rate	–	–	–	–	–	–
	30	**1,030**	**282**	**729**	**1,358**	**3,429**	**161,568**	**676**	**160,892**	**3,452**	**162,641**

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the particular instrument.

Approximately 28% and 38% of our consolidated debts were variable rate debts as at December 31, 2016 and 2015, respectively. Consolidated variable rate debt decreased to Php51,690 million as at December 31, 2016 from Php62,117 million as at December 31, 2015. Considering the aggregate notional amount of our consolidated outstanding long-term interest rate swap contracts of US$724 million and US$875 million as at December 31, 2016 and 2015, respectively, approximately 92% and 87% of our consolidated debts were fixed as at December 31, 2016 and 2015, respectively.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until March 31, 2017. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 5 basis points, or bps, and 50 bps higher/lower, respectively, as compared to levels as at December 31, 2016. If U.S. dollar interest rates had been 5 bps higher/lower as compared to market levels as at December 31, 2016, with all other variables held constant, profit after tax for the year 2016 and our consolidated stockholders' equity as at year end 2016 would have been approximately Php5 million and Php10 million, respectively, lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 50 bps higher/lower as compared to market levels as at December 31, 2016, with all other variables held constant, profit after tax for the year 2016 and our consolidated stockholders' equity as at year end 2016 would have been approximately Php6 million and Php13 million, respectively, lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

Credit Risk

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

The table below shows the maximum exposure to credit risk for the components of our consolidated statements of financial position, including derivative financial instruments as at December 31, 2016 and 2015:

	2016		
	Gross Maximum Exposure	**Collateral and Other Credit Enhancements***	**Net Maximum Exposure**
		(in million pesos)	
Loans and receivables:			
Advances and other noncurrent assets	**17,068**	**–**	**17,068**
Cash and cash equivalents	**38,722**	**270**	**38,452**
Short-term investments	**2,736**	**–**	**2,736**
Investment in debt securities and other long-term investments	**348**	**–**	**348**
Retail subscribers	**7,702**	**46**	**7,656**
Corporate subscribers	**5,506**	**188**	**5,318**
Foreign administrations	**5,191**	**–**	**5,191**
Domestic carriers	**220**	**–**	**220**
Dealers, agents and others	**5,817**	**1**	**5,816**
HTM investments:			
Investment in debt securities and other long-term investments	**352**	**–**	**352**
Financial instruments at FVPL:			
Forward foreign exchange contracts	**54**	**–**	**54**
Short-term currency swaps	**12**	**–**	**12**
Short-term investments	**2**	**–**	**2**
Available-for-sale financial investments	**12,189**	**–**	**12,189**
Derivatives used for hedging:			
Long-term currency swap	**559**	**–**	**559**
Interest rate swap	**116**	**–**	**116**
Total	**96,594**	**505**	**96,089**

* *Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2016.*

	2015		
	Gross Maximum Exposure	Collateral and Other Credit Enhancements*	Net Maximum Exposure
		(in million pesos)	
Loans and receivables:			
Advances and other noncurrent assets	10,516	–	10,516
Cash and cash equivalents	46,455	272	46,183
Short-term investments	744	–	744
Investment in debt securities and other long-term investments	595	–	595
Retail subscribers	10,210	46	10,164
Foreign administrations	5,199	–	5,199
Corporate subscribers	4,812	160	4,652
Domestic carriers	454	–	454
Dealers, agents and others	4,223	2	4,221
HTM investments:			
Investment in debt securities and other long-term investments	408	–	408
Financial instruments at FVPL:			
Short-term investments	685	–	685
Forward foreign exchange contracts	10	–	10
Available-for-sale financial investments	*15,711*	–	*15,711*
Derivatives used for hedging:			
Interest rate swap	90	–	90
Long-term currency swap	71	–	71
Total	**100,183**	**480**	**99,703**

* *Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2015.*

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at December 31, 2016 and 2015:

		Neither past due nor impaired			
	Total	Class A[(1)]	Class B[(2)]	Past due but not impaired	Impaired
			(in million pesos)		
December 31, 2016					
Loans and receivables:	***102,308***	***63,664***	***10,000***	***9,646***	***18,998***
Advances and other noncurrent assets	**17,278**	**15,312**	**1,751**	**5**	**210**
Cash and cash equivalents	**38,722**	**36,902**	**1,820**	**–**	**–**
Short-term investments	**2,736**	**2,736**	**–**	**–**	**–**
Investment in debt securities and other long-term investments	**348**	**348**	**–**	**–**	**–**
Retail subscribers	**20,290**	**2,770**	**3,639**	**1,293**	**12,588**
Corporate subscribers	**9,333**	**888**	**1,202**	**3,416**	**3,827**
Foreign administrations	**5,819**	**910**	**1,382**	**2,899**	**628**
Domestic carriers	**354**	**103**	**56**	**61**	**134**
Dealers, agents and others	**7,428**	**3,695**	**150**	**1,972**	**1,611**
HTM investments:	***352***	***352***	**–**	**–**	**–**
Investment in debt securities and other long-term investments	**352**	**352**	**–**	**–**	**–**
Financial instruments at FVPL[(3)]:	***68***	***68***	**–**	**–**	**–**
Forward exchange contracts	**54**	**54**	**–**	**–**	**–**
Short-term currency swaps	**12**	**12**	**–**	**–**	**–**
Short-term investments	**2**	**2**	**–**	**–**	**–**
Available-for-sale financial investments	***12,189***	***10,197***	***1,992***	**–**	**–**
Derivatives used for hedging:	***675***	***675***	**–**	**–**	**–**
Long-term currency swap	**559**	**559**	**–**	**–**	**–**
Interest rate swaps	**116**	**116**	**–**	**–**	**–**
Total	115,592	74,956	11,992	9,646	18,998

	Total	Neither past due nor impaired		Past due but not impaired	Impaired
		Class A(1)	Class B(2)		
		(in million pesos)			
December 31, 2015					
Loans and receivables:	*99,330*	*57,471*	*12,033*	*13,704*	*16,122*
Advances and other noncurrent assets	10,717	10,204	307	5	201
Cash and cash equivalents	46,455	41,509	4,946	–	–
Short-term investments	744	744	–	–	–
Investment in debt securities and other long-term investments	595	595	–	–	–
Retail subscribers	19,750	1,549	3,449	5,212	9,540
Corporate subscribers	9,263	1,162	1,316	2,334	4,451
Foreign administrations	5,514	933	1,744	2,522	315
Domestic carriers	540	88	100	266	86
Dealers, agents and others	5,752	687	171	3,365	1,529
HTM investments:	*408*	*408*	–	–	–
Investment in debt securities and other long-term investments	408	408	–	–	–
Available-for-sale financial investments	*15,711*	*14,721*	*990*	–	–
Financial instruments at FVPL(3):	*695*	*695*	–	–	–
Short-term investments	685	685	–	–	–
Forward foreign exchange contracts	10	10	–	–	–
Derivatives used for hedging:	*161*	*161*	–	–	–
Interest rate swaps	90	90	–	–	–
Long-term currency swap	71	71	–	–	–
Total	**116,305**	**73,456**	**13,023**	**13,704**	**16,122**

(1) *This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.*

(2) *This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.*

(3) *Gross receivables from counterparties, before any offsetting arrangements.*

The aging analysis of past due but not impaired class of financial assets as at December 31, 2016 and 2015 are as follows:

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
			(in million pesos)			
December 31, 2016						
Loans and receivables:	*102,308*	*73,664*	*4,095*	*602*	*4,949*	*18,998*
Advances and other noncurrent assets	17,278	17,063	–	–	5	210
Cash and cash equivalents	38,722	38,722	–	–	–	–
Short-term investments	2,736	2,736	–	–	–	–
Investment in debt securities and other long-term investments	348	348	–	–	–	–
Retail subscribers	20,290	6,409	1,106	41	146	12,588
Corporate subscribers	9,333	2,090	1,333	353	1,730	3,827
Foreign administrations	5,819	2,292	730	156	2,013	628
Domestic carriers	354	159	48	2	11	134
Dealers, agents and others	7,428	3,845	878	50	1,044	1,611
HTM investments:	*352*	*352*	–	–	–	–
Investment in debt securities and other long-term investments	352	352	–	–	–	–
Financial instruments at FVPL:	*68*	*68*	–	–	–	–
Forward foreign exchange contracts	54	54	–	–	–	–
Short-term currency swaps	12	12	–	–	–	–
Short-term investments	2	2	–	–	–	–
Available-for-sale financial investments	*12,189*	*12,189*	–	–	–	–
Derivatives used for hedging:	*675*	*675*	–	–	–	–
Long-term currency swap	559	559	–	–	–	–
Interest rate swaps	116	116	–	–	–	–
Total	115,592	86,948	4,095	602	4,949	18,998

	Total	Neither past due nor impaired	Past due but not impaired 1-60 days	61-90 days	Over 91 days	Impaired
			(in million pesos)			
December 31, 2015						
Loans and receivables:	*99,330*	*69,504*	*5,436*	*1,306*	*6,962*	*16,122*
Advances and other noncurrent assets	10,717	10,511	–	–	5	201
Cash and cash equivalents	46,455	46,455	–	–	–	–
Short-term investments	744	744	–	–	–	–
Investment in debt securities and other long-term investments	595	595	–	–	–	–
Retail subscribers	19,750	4,998	2,064	499	2,649	9,540
Foreign administrations	5,514	2,677	314	290	1,918	315
Corporate subscribers	9,263	2,478	1,165	335	834	4,451
Domestic carriers	540	188	63	62	141	86
Dealers, agents and others	5,752	858	1,830	120	1,415	1,529
HTM investments:	*408*	*408*	–	–	–	–
Investment in debt securities and other long-term investments	408	408	–	–	–	–
Available-for-sale financial investments	*15,711*	*15,711*	–	–	–	–
Financial instruments at FVPL:	*695*	*695*	–	–	–	–
Short-term investments	685	685	–	–	–	–
Forward foreign exchange contracts	10	10				
Derivatives used for hedging:	*161*	*161*	–	–	–	–
Interest rate swaps	90	90	–	–	–	–
Long-term currency swap	71	71				
Total	**116,305**	**86,479**	**5,436**	**1,306**	**6,962**	**16,122**

Impairment Assessments

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Our impairment assessments are classified into two areas: individually assessed allowance and collectively assessed allowances.

Individually assessed allowance

We determine the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. We also recognize an impairment for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with our policy.

Capital Management Risk

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. On August 5, 2014, the PLDT Board of Directors approved an amendment to our dividend policy, increasing the dividend payout rate to 75% from 70% of our core EPS as regular dividends. In declaring dividends, we take into consideration the interest of our shareholders, as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs.

However, in view of our elevated capital expenditures to build-out a robust, superior network to support the continued growth of data traffic, plans to invest in new adjacent businesses that will complement the current business and provide future sources of profits and dividends, and management of our cash and gearing levels, the PLDT Board of Directors approved on August 2, 2016, the amendment of our dividend policy, reducing the regular dividend payout to 60% of core EPS. As part of the dividend policy, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

No changes were made in our objectives, policies or processes for managing capital during the years ended December 31, 2016, 2015 and 2014.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of PLDT Inc. and its subsidiaries as at December 31, 2016 and 2015, and each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated March 24, 2017. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-085-577
BIR Accreditation No. 08-001998-17-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908692, January 3, 2017, Makati City

March 24, 2017

Schedule A. Financial Assets
December 31, 2016

Name of Issuing Entity and Association of Each Issue	Number of Shares	Amount Shown in the Balance Sheet	Valued Based on Market Quotation at Balance Sheet Date	Income Received and Accrued
			(in millions)	
Available-for-sale financial investments				
Listed equity securities	various	Php10,173	Php–	Php–
Others	various	2,016	N/A	–
	–	**Php12,189**	**N/A**	**Php–**

Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of Financial Statements
December 31, 2016

	December 31, 2015	Additions	Collections	December 31, 2016
		(in millions)		
BayanTrade	Php1	Php9	(Php8)	Php2
Bonifacio Communications Corporation	5	85	(86)	4
Chikka Holdings Limited	2	12	(13)	1
Curo Teknika, Inc.	–	7	(6)	1
Digital Telecommunications Phils., Inc.	32,267	1,199	(2,673)	30,793
Digitel Mobile Philippines, Inc.	355	6,471	(6,822)	4
eInnovations Holdings	4	8	(4)	8
ePay Investments Pte. Ltd.	2	–	(2)	–
ePDS, Inc.	7	1	(2)	6
ePLDT, Inc.	1,338	230	(1,359)	209
iCommerce Pte. Ltd.	2	3	(2)	3
I-Contacts Corporation	3	26	(26)	3
IP Converge Data Services, Inc.	10	85	(84)	11
PLDT-Maratel, Inc.	101	153	(197)	57
Metro Kidapawan Telephone Corporation	–	1	(1)	–
Pacific Global One Aviation Co., Inc.	527	41	–	568
PayMaya Philippines, Inc.	25	70	(50)	45
PGNL (ROHQ) Phils.	6	44	(14)	36
Philcom Corporation	1,789	594	(461)	1,922
PLDT Inc.	707	10,840	(10,632)	915
Pilipinas Global Network Limited	–	1	(1)	–
PLDT (HK) Limited	18	5	(18)	5
PLDT (SG) Retail Service Pte. Ltd.	3	–	(3)	–
PLDT (SG) Pte Ltd	5	–	(5)	–
PLDT 1528 Unlimited	1	–	–	1
PLDT (US) Limited	4	61	(42)	23
PLDT Capital Pte Ltd	–	10	–	10
PLDT-ClarkTel	223	(173)	(14)	36
PLDT Digital Investments Pte. Ltd.	1,272	361	(843)	790
PLDT Global (Phils.) Corporation	1	–	(1)	–
PLDT Global Corporation	758	425	(801)	382
PLDT Malaysia Sdn. Bhd	1	–	(1)	–
PLDT Online Investments Pte. Ltd	(2)	2	–	–
SmartBroadband, Inc.	405	650	(531)	524
Smart Communications, Inc.	13,685	8,653	(11,357)	10,981
PLDT Subic Telecom, Inc.	122	30	(113)	39
Talas Data Inteliigence, Inc.	–	484	(20)	464
Voyager Innovations, Inc.	–	12	(9)	3
	Php53,647	**Php30,400**	**(Php36,201)**	**Php47,846**

All receivables eliminated during the consolidation of financial statements are classified as current. There were no receivables written off during the year.

Schedule D. Goodwill and Intangible Assets
December 31, 2016

Description	Beginning Balances[(1)]	Addition At Cost	Charged to Cost and Expenses[(2)]	Charged to Other Accounts	Other Changes Additions (Deductions)	Ending Balances
			(in millions)			
Intangible Assets with definite life						
Customer list	Php2,468	Php–	(Php511)	Php–	Php–	Php1,957
Franchise	2,241	–	(186)	–	–	2,055
Spectrum	294	–	(80)	–	–	214
Licenses	155	–	(113)	–	–	42
Others	61	175	(97)	–	(11)	128
Intangible Assets with indefinite life						
Trademark	4,505	–	–	–	–	4,505
	9,724	175	(987)	–	(11)	8,901
Goodwill	62,393	–	(980)	–	(34)	61,379
	Php72,117	**Php175**	**(Php1,967)**	**Php–**	**Php45**	**Php70,280**

(1) *Net of accumulated amortization.*
(2) *Represents amortization of intangible assets.*

Schedule E. Interest-bearing Financial Liabilities
December 31, 2016

Name of Issuer and Type of Obligation	Total Outstanding Balance	Amount shown as Current		Amount shown as Non-Current	
		Gross Amount	Debt Discount/ Debt Issuance Cost	Gross Amount	Debt Discount/ Debt Issuance Cost
		(in millions)			
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Exportkreditnamnden, or EKN					
ING Bank Societe Generale and Calyon US$59.177M	Php168	Php168	Php–	Php–	Php–
ING Bank Societe Generale and Calyon US$51.155M	146	146	–	–	–
SEK Nordea US$49M	233	235	(2)	–	–
SEK Nordea US$45.5M	986	452	(11)	550	(5)
	1,533	1,001	(13)	550	(5)
Fixed Rate Notes:					
Deutsche Bank – US$300M Notes Due 2017 (8.35%)	11,362	11,367	(5)	–	–
	11,362	11,367	(5)	–	–
Term Loans:					
GSM Network Expansion Facility					
The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU) US$50M	276	277	(1)	–	–
	276	277	(1)	–	–
Others:					
BTMU US$150M	830	830	–	–	–
BTMU US$300M	4,977	3,318	–	1,659	–
China Banking Corporation (Chinabank) US$35M	522	522	–	–	–
BTMU US$50M	531	357	(4)	178	–
Chinabank US$80M	1,194	796	–	398	–
Mizuho, Sumitomo Mitsui Banking Corporation Facility US$120M	2,226	1,493	(12)	747	(2)
BTMU US$100M	2,744	1,106	(14)	1,659	(7)
Mizuho Bank Ltd. SG, Branch US$50M	1,372	553	(7)	830	(4)
Philippine National Bank US$100M	4,877	50	–	4,827	–
Metropolitan Bank & Trust Company (Metobank) US$50M	2,451	25	–	2,426	–
BTMU US$200M	9,879	–	(29)	9,954	(46)
Mizuho Corporate Bank Ltd. (Mizuho) $200M	7,663	2,212	(39)	5,530	(40)
Mizuho US$100M	4,521	765	(20)	3,828	(52)
NTT Finance Corporation US$25M	1,234	–	(2)	1,244	(8)
	45,021	12,027	(127)	33,280	(159)

Name of Issuer and Type of Obligation	Total Outstanding Balance	Amount shown as Current		Amount shown as Non-Current	
		Gross Amount	Debt Discount/ Debt Issuance Cost	Gross Amount	Debt Discount/ Debt Issuance Cost
Philippine Peso Debts:					
Corporate Notes:					
Smart Fixed Rate Corporate Notes (2012) Php5.5B	Php3,930	Php1,143	(Php4)	Php2,803	(Php12)
PLDT Fixed Rate Corporate Notes (2012) Php1.5B	288	3	–	285	–
PLDT Fixed Rate Corporate Notes (2012) Php8.8B	6,475	67	–	6,408	–
PLDT Fixed Rate Corporate Notes (2012) Php6.2B	5,952	62	–	5,890	–
Smart Fixed Rate Corporate Notes (2013) Php1.376B	1,335	727	–	608	–
PLDT Fixed Rate Corporate Notes (2013) Php2.055B	1,973	21	–	1,952	–
PLDT Fixed Rate Corporate Notes (2013) Php1.188B	1,152	12	–	1,140	–
	21,105	2,035	(4)	19,086	(12)
Fixed Rate Retail Bonds:					
Php15B Fixed Rate Retail Bonds	14,902	–	(20)	15,000	(78)
	14,902	–	(20)	15,000	(78)
Term Loans:					
Unsecured Term Loans					
Rizal Commercial Banking Corporation Php2B	2,000	20	–	1,980	–
Land Bank of the Philippines (Landbank) Php3B	2,880	30	–	2,850	–
Landbank Php2B	1,920	1,920	–	–	–
Landbank Php1B	960	960	–	–	–
Manufacturers Life Insurance Co. (Phils.), Inc. Php200M	200	–	–	200	–
Union Bank of the Philippines (Unionbank) Php1B	970	10	–	960	–
Philippine American Life and General Insurance (Philam Life) Php1B	1,000	–	–	1,000	–
Landbank Php3B	2,880	2,880	–		–
Bank of the Philippine Islands (BPI) Php2B	1,940	20	–	1,920	–
Metrobank Php3B	2,093	300	(2)	1,800	(5)
BPI Php2B	2,901	30	(2)	2,880	(7)
Landbank Php3B and Php500M	3,421	35	(2)	3,395	(7)
Unionbank Php2B	1,960	20	–	1,940	–
Philam Life Php1.5B	1,500	–	–	1,500	–
BDO Unibank, Inc. (BDO) Php500M	490	5	–	485	–
Philam Life Php1B	1,000	–	–	1,000	–
Landbank Php1B	980	10	–	970	–
Unionbank Php1.5B	1,470	15	–	1,455	–
BPI Php2B	1,980	20	–	1,960	–
BPI Php3B	2,970	30	–	2,940	–
Metrobank Php5B	4,950	50	–	4,900	–
Metrobank Php5B	4,928	50	(2)	4,900	(20)
BPI Php5B	4,927	50	(2)	4,900	(21)
Metrobank Php5B	4,927	50	(2)	4,900	(21)
China Banking Corporation (Chinabank) Php7B	6,973	–	(8)	7,000	(19)
Metrobank Php6B	5,971	60	(4)	5,940	(25)
BPI Php6.5B	6,483	65	(2)	6,435	(15)
BDO Php3B	2,985	30	(2)	2,970	(13)
Unionbank Php5.4B	5,374	54	(3)	5,346	(23)
BPI Php5.3B	5,300	53	–	5,247	–
Chinabank Php2.5B	2,500	–	–	2,500	–
	90,833	6,767	(31)	84,273	(176)
Total Long-Term Debt	185,032	33,474	(201)	152,189	(430)
Obligations under Finance Lease	–	–	–	–	–
Total Debt	**Php185,032**	**Php33,474**	**(Php201)**	**Php152,189**	**(Php430)**

Schedule F. Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies) December 31, 2016

Name of Issuer and Type of Obligation	Total Outstanding Balance	Amount shown as Current		Amount shown as Non-Current	
		Gross Amount	Debt Discount/ Debt Issuance Cost	Gross Amount	Debt Discount/ Debt Issuance Cost
		(in millions)			
NTT Finance	Php1,234	Php–	(Php2)	Php1,244	(Php8)

Schedule H. Capital Stock December 31, 2016

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved For Options, Warrants, Conversion and Other Rights	Number of Shares Held By Related Parties	Directors and Key Officers[1]	Others
			(in millions)			
Preferred Stock	**538**	**450**	**–**	**450**	**–**	**–**
Non-Voting Preferred Stock (Php10 par value)	388	300	–	300	–	–
Cumulative Convertible Series HH to II	88	–	–	–	–	–
Cumulative Nonconvertible Series IV	300	300[2]	–	300[2]	–	–
Voting Preferred Stock (Php1 par value)	150	150	–	150	–	–
Common Stock (Php5 par value)	**234**	**216**	**–**	**99**[3]	**1**	**116**

(1) *Consists of 591,868 common shares directly and indirectly owned by directors and executive officers as at January 31, 2017.*
(2) *Includes 300,000,000 shares subscribed for Php3,000,000,000, of which Php360,000,000 has been paid.*
(3) *Represents 25.57% beneficial ownership of First Pacific Group and its Philippine affiliates, and 20% beneficial ownership of NTT Group in PLDT's outstanding shares.*

Schedule I. Schedule of all the Effective Standards and Interpretations December 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND ENTERPRETATIONS (Effective as of December 31, 2016)		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		x		
PFRSs Practice Statement Management Commentary			x	
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	x		x
PFRS 2	Share-based Payment	x		x
PFRS 3 (Revised)	Business Combinations	x		
PFRS 4	Insurance Contracts	x		x
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	x		x
PFRS 6	Exploration for and Evaluation of Mineral Resources	x		x
PFRS 7	Financial Instruments: Disclosures	x		
	Hedge Accounting and Amendments to PFRS 7*		x	
PFRS 8	Operating Segments	x		
PFRS 9 (2014)	Financial Instruments*		x	
	Hedge Accounting and Amendments to PFRS 9*		x	
PFRS 10	Consolidated Financial Statements	x		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND ENTERPRETATIONS (Effective as of December 31, 2016)		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements	x		
	Amendments to PFRS 11, Accounting for Acquisitions of Interests in Joint Operations	x		x
PFRS 12	Disclosure of Interests in Other Entities	x		
PFRS 13	Fair Value Measurement	x		
PFRS 14	Regulatory Deferral Accounts	x		x
PFRS 15	Revenue from Contracts with Customers*		x	
PFRS 16	Leases*		x	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	x		
PAS 2	Inventories	x		
PAS 7	Statement of Cash Flows	x		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	x		
PAS 10	Events after the Reporting Period	x		
PAS 11	Construction Contracts	x		x
PAS 12	Income Taxes	x		
PAS 16	Property, Plant and Equipment	x		
	Amendments to PAS 16, Agriculture: Bearer Plants	x		x
	Amendment to PAS 16, Clarification of Acceptable Methods of Depreciation and Amortization	x		x
PAS 17	Leases	x		
PAS 18	Revenue	x		
PAS 19 (Revised)	Employee Benefits	x		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	x		x
PAS 21	The Effects of Changes in Foreign Exchange Rates	x		
PAS 23 (Revised)	Borrowing Costs	x		
PAS 24 (Revised)	Related Party Disclosures	x		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	x		x
PAS 27 (Amended)	Separate Financial Statements	x		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	x		
PAS 29	Financial Reporting in Hyperinflationary Economies	x		x
PAS 32	Financial Instruments: Presentation	x		
PAS 33	Earnings per Share	x		
PAS 34	Interim Financial Reporting	x		x
PAS 36	Impairment of Assets	x		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	x		
PAS 38	Intangible Assets	x		
	Amendments to PAS 38, Clarification of Acceptable Methods of Depreciation and Amortization	x		x
PAS 39	Financial Instruments: Recognition and Measurement	x		
	Hedge Accounting and Amendments to PAS 39*		x	
PAS 40	Investment Property	x		
	Amendments to PAS 40, Transfers of Investment Property*		x	
PAS 41	Agriculture	x		x
	Amendments to PAS 41, Agriculture: Bearer Plants	x		x
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	x		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	x		x
IFRIC 4	Determining Whether an Arrangement Contains a Lease	x		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	x		x
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	x		x
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	x		x
IFRIC 9	Reassessment of Embedded Derivatives	x		
IFRIC 10	Interim Financial Reporting and Impairment	x		x
IFRIC 12	Service Concession Arrangements	x		x
IFRIC 13	Customer Loyalty Programmes	x		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	x		x
IFRIC 15	Agreements for the Construction of Real Estate*		x	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	x		x
IFRIC 17	Distributions of Non-cash Assets to Owners	x		x

PHILIPPINE FINANCIAL REPORTING STANDARDS AND ENTERPRETATIONS (Effective as of December 31, 2016)		Adopted	Not Adopted	Not Applicable
IFRIC 18	Transfers of Assets from Customers	x		x
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	x		x
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	x		x
IFRIC 21	Levies	x		x
IFRIC 22	Foreign Currency Transactions and Advance Consideration*		x	
SIC-7	Introduction of the Euro	x		x
SIC-10	Government Assistance - No Specific Relation to Operating Activities	x		x
SIC-15	Operating Leases - Incentives	x		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	x		x
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	x		
SIC-29	Service Concession Arrangements: Disclosures	x		x
SIC-31	Revenue - Barter Transactions Involving Advertising Services	x		x
SIC-32	Intangible Assets - Web Site Costs	x		

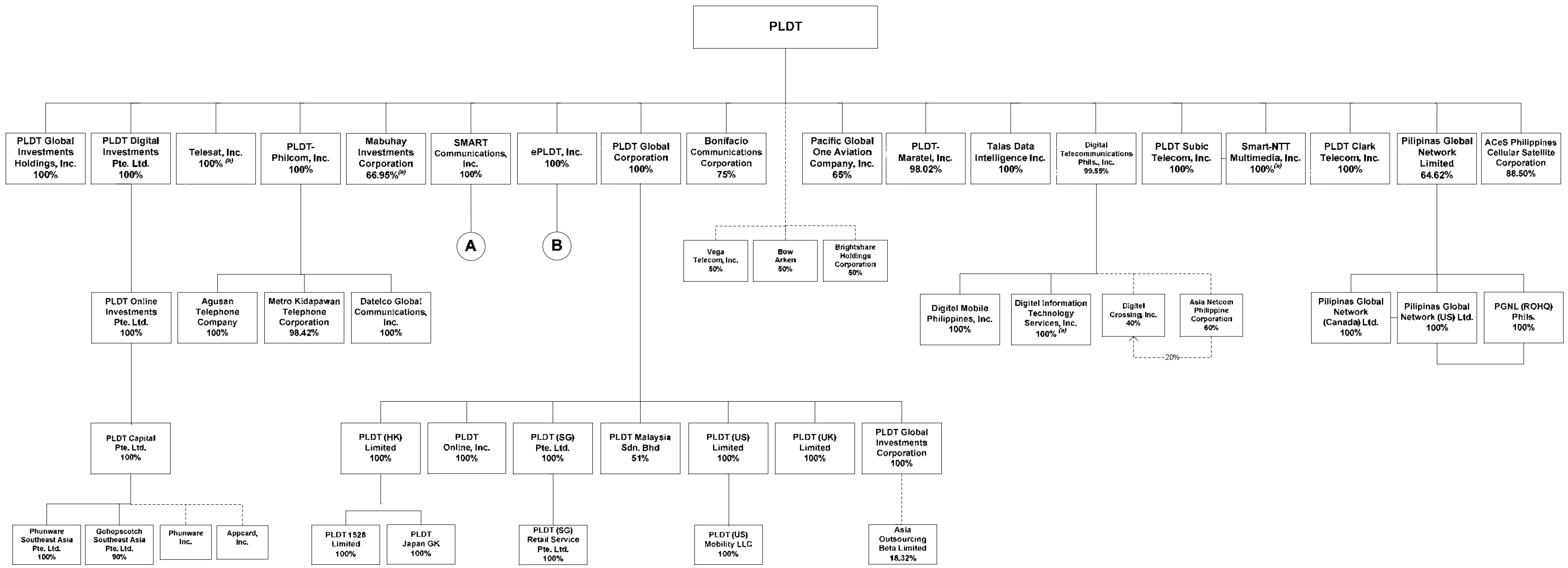
** Standards or amendments which will become effective subsequent to December 31, 2016.*

Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration December 31, 2016

		Amount (in millions)
Parent Company's unappropriated retained earnings available for dividends as at January 1, 2015		Php17,383
Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)	(Php523)	
Fair value adjustments of investment property resulting to gain	(862)	
Fair value adjustments (mark-to-market gains)	(2,260)	(3,645)
Unappropriated retained earnings as adjusted at beginning of the year		13,738
Parent Company's net income attributable to equity holders of PLDT for the year	29,841	
Less: Unrealized income – net of tax during the year		
Fair value adjustments of investment property resulting to gain	(11)	
Fair value adjustments (mark-to-market gains)	(662)	29,168
Cash dividends declared during the year		
Common stocks	(22,902)	
Preferred stocks	(59)	(22,961)
Parent Company's unappropriated Retained Earnings Available for Dividend at end of the year		**Php19,945**

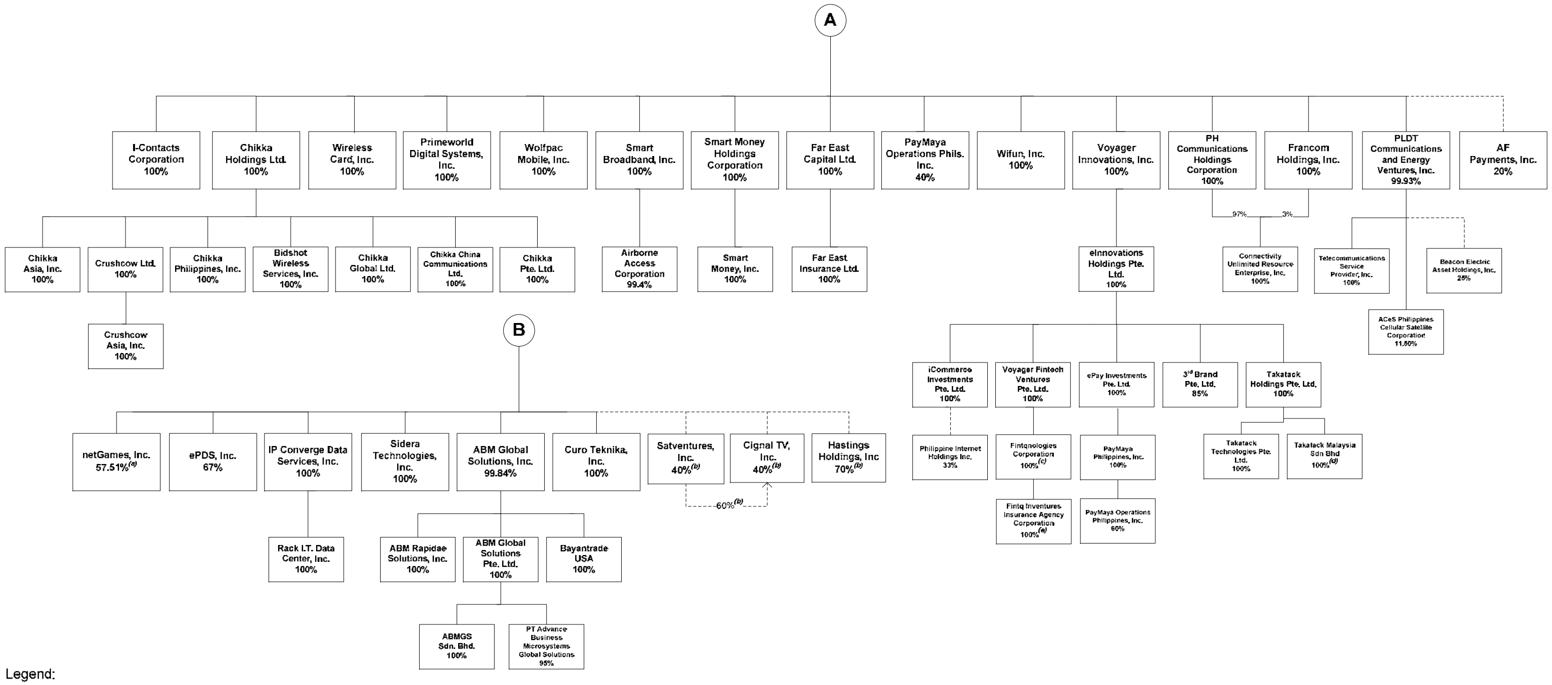
As at December 31, 2016, the consolidated unappropriated retained earnings amounted to Php3,483 million while the Parent Company's unappropriated retained earnings amounted to Php24,261 million. The difference of Php20,778 million pertains to the effect of PAS 27 in our investments in subsidiaries, associates and joint ventures accounted for under the equity method.

Schedule K. Map of the Relationships of the Companies within the Group
December 31, 2016



Legend:

------------ Joint Ventures and Associates



Legend:

------------ Joint Ventures and Associates

[(a)] *Ceased commercial operations.*
[(b)] *Economic interest.*
[(c)] *On April 27, 2016, Voyager incorporated its financial technology unit FINTQ focusing on customer-centric, demand-driven and mobile-first financial technology platforms.*
[(d)] *On April 12, 2016, Takatack Malaysia was incorporated in Malaysia to provide development, maintenance and support services and sales and marketing to enable the entire digital commerce ecosystem in favor of consumers, merchants, service providers and other third parties.*
[(e)] *On December 19, 2016, Fintq Inventures Insurance Agency Corporation was incorporated in the Philippines to engage in business as an insurance agent for the distribution, marketing and sale of insurance products such as life, non-life, accident and health insurance and pre-need projects and services.*

Schedule L. Financial Soundness Indicators
December 31, 2016 and 2015

	2016	2015
Current Ratio[1]	0.47:1.0	0.58:1.0
Net Debt to Equity Ratio[2]	1.33:1.0	0.99:1.0
Net Debt to EBITDA Ratio[3]	2:35:1.0	1.61:1.0
Total Debt to EBITDA Ratio[4]	3.03:1.0	2.29:1.0
Asset to Equity Ratio[5]	4.39:1.0	4.01:1.0
Interest Coverage Ratio[6]	3.95:1.0	5.20:1.0
Profit Margin[7]	12%	13%
Return on Assets[8]	4%	5%
Return on Equity[9]	18%	18%
EBITDA Margin[10]	39%	43%

[1] Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)
[2] Net Debt to equity ratio is measured as total debt (long-term debt, including current portion) less cash and cash equivalent and short-term investments divided by total equity attributable to equity holders of PLDT.
[3] Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion) less cash and cash equivalent and short-term investments divided by EBITDA for the year.
[4] Total Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion) divided by EBITDA for the year.
[5] Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of PLDT.
[6] Interest coverage ratio is measured by EBIT, or earnings before interest and taxes for the year, divided by total financing cost for the year.
[7] Profit margin is derived by dividing net income for the year with total revenues for the year.
[8] Return on assets is measured as net income for the year divided by average total assets.
[9] Return on Equity is measured as net income for the year divided by average total equity attributable to equity holders of PLDT.
[10] EBITDA margin for the year is measured as EBITDA divided by service revenues for the year.
EBITDA for the year is measured as net income for the year excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing cost, interest income, equity share in net earnings (losses) of associated and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) – net for the year.

CONTACT INFORMATION

Customer Care Services
(for service-related concerns)

PLDT CUSTOMER CARE
Call Center: 171
Non-PLDT subscribers who wish to contact PLDT: (632) 888-8171
Email address: customercare@pldt.com
Facebook: PLDT Home
Twitter: @PLDT_Cares

Internet users can access information about PLDT and its products and services at: www.pldthome.com

Information
(for general inquiries)

Ramon Cojuangco Building (RCB)
Telephone: (632) 893-0015

Makati General Office (MGO)
Telephone: (632) 816-8659

Twitter: @pldt
Facebook: /PLDTpublicaffairs
Instagram: @pldt

Shareholder Services
(for inquiries on dividends, stock certificates, and related matters)

PLDT Shareholder Services
Telephone: (632) 843-1285 or 1-800-10-8300411 (Toll Free)
Fax: (632) 813-2292
Email address: pldtshareholderservices@pldt.com.ph

Registrars and Transfer Agents

COMMON STOCK[1] AND VOTING PREFERED STOCK

Philippine Registrar and Transfer Agent

BDO UNIBANK, INC., - TRUST & INVESTMENTS GROUP
Securities Services & Corporate Agencies
15/F BDO Corporate Center, South Tower
7899 Makati Ave., Makati City 0726

Telephone: (632) 878-4961
(632) 878-4053
Fax: (632) 878-4056
Email address: bdo-stock-transfer@bdo.com.ph

NON-VOTING SERIAL PREFERRED STOCK

10% CUMULATIVE CONVERTIBLE PREFERRED STOCK Series JJ[2]

SERIES IV CUMULATIVE NON-CONVERTIBLE REDEEMABLE PREFERRED STOCK

RIZAL COMMERCIAL BANKING CORPORATION
G/F West Wing, 221 GPL (Grepalife) Building,
Sen. Gil Puyat Avenue, Makati City, Philippines

Telephone: (632) 892-7566
(632) 892-9362
(632) 553-6937
Fax: (632) 902-3139
Email address: abmadrid@rcbc.com
joscruz@rcbc.com
affadriquela@rcbc.com

Depositary of American Depositary Shares

AMERICAN DEPOSITARY RECEIPT FACILITY[3]

JPMorgan Chase Bank, N.A.
P.O. Box 64507
St. Paul, MN 55164-0507
U.S. Domestic Toll Free: (1-800) 990-1135
International Telephone No.: (1-651) 453-2128
Email address: jpmorgan.adr@wellsfargo.com
Website: www.adr.com

Investor Relations
(for financial and operating information on PLDT)

PLDT INVESTOR RELATIONS CENTER
12/F, Ramon Cojuangco Building
Makati Avenue, Makati City, Philippines
Telephone: (632) 816-8024
Fax: (632) 810-7138
Email address: pldt_ir_center@pldt.com.ph

Corporate Governance

CORPORATE GOVERNANCE OFFICE
Email address: corpgov@pldt.com.ph

PLDT's Corporate Governance Manual, Code of Business Conduct and Ethics and NYSE Section 303A.11 Disclosure, which summarizes the difference between PLDT's corporate governance practices and those required of U.S. companies listed on the NYSE, and its reports on Form 17-A (Philippines) and Form 20-F (U.S.) may be downloaded from:

Corporate Governance Manual –
http://www.pldt.com/docs/default-source/corporate-governance-files/cg-manual-/pldt-manual-on-corporate-governance-.pdf?sfvrsn=0

Code of Business Conduct and Ethics –
http://www.pldt.com/docs/default-source/policies/pldt-code-of-business-conduct-and-ethics.pdf?sfvrsn=4

NYSE 303A.11 Disclosure –
http://www.pldt.com/docs/default-source/compliance/corporate-governance-materials/nyse-section-303a-11-disclosure.pdf?sfvrsn=0

FORM 20-F
http://www.pldt.com/investor-relations/annual-and-sustainability-reports#USSEC

FORM 17-A
http://www.pldt.com/investor-relations/annual-and-sustainability-reports#PhilSEC

Corporate Business Group
(for corporate accounts concerns)

Telephone: 88-ALPHA (25742)
Fax: (632) 860-6112
Email address: info@pldtalpha.com
Website: www.pldtalpha.com

SME Business Group
(for small and medium enterprise concerns)

Telephone: 101888
Email address: smenationinquiry@pldt.com.ph
Website: www.smenation.com.ph

Supplier Relationship Management
(for inquiries on vendor accreditation)

Telephone: (632) 844-2361 or (632) 573-4946
Fax: (632) 860-6551
Email address: srm@pldt.com.ph or vendorrelationmgnt@pldt.com.ph

Recruitment

Hotline: (632) 8-PLDTHR or (632) 8-753847
Email address: pldthr@pldt.com.ph

[1] *The shares of Common Capital Stock of PLDT Inc. are listed on the Philippine Stock Exchange (ticker: TEL).*

[2] *The Shares of Series JJ 10% Cumulative Convertible Preferred Stock of PLDT are listed on the Philippine Stock Exchange. All the outstanding shares of 10% Cumulative Convertible Preferred Stock Series A to FF, Series GG, Series HH (issued in 2007), Series HH (issued in 2008) and Series II were redeemed and retired on January 19, 2012, August 30, 2012, May 16, 2013, May 16, 2014 and May 11, 2016, respectively.*

[3] *PLDT Inc. has established an American Depositary Receipt facility under which American Depositary Shares (ticker: PHI) representing shares of Common Capital Stock are listed and traded on the New York Stock Exchange. The American Depositary Shares are evidenced by American Depositary Receipts issued by the Depositary.*

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