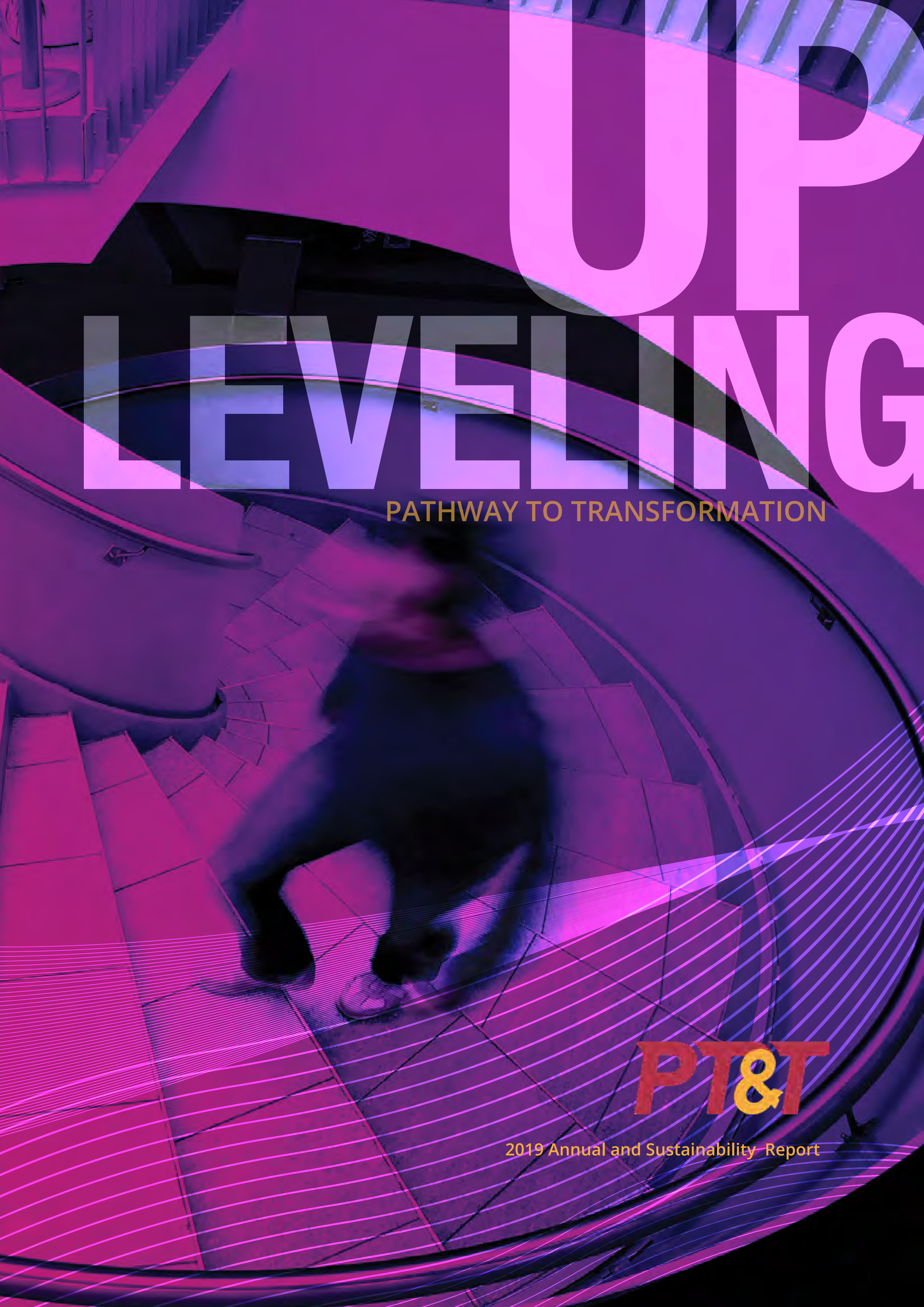

# UP LEVELING

## PATHWAY TO TRANSFORMATION

PT&T

2019 Annual and Sustainability Report

# MISSION-VISION STATEMENT

We are the leading digital service provider of world-class solutions that enable Filipinos everywhere – to enrich their lives, connect communities, and contribute to nation-building.

# CORE VALUES

**Commitment to Excellence**
We consistently deliver results based on world class and excellent standards.

**Customer-Centricity**
We are driven by our customers' lifestyle and business needs.

**Collaboration**
We work effectively with all function areas and job levels to positively impact business performance.

**Honor**
We are true to our promise.

**Agility**
We are determined to be efficient, effective, and responsive in an ever-changing environment.

**Accountability**
We take personal responsibility for our actions and outcomes. We drive our objectives to successful completion.

**Innovation**
We will be a leader and driver of innovation.

**Nation**
We will contribute to nation-building.

**Stakeholder Value**
We engage all our stakeholders to enhance and extend our value as an organization.

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# ABOUT THIS ANNUAL AND SUSTAINABILITY REPORT

**Note on Forward-Looking Statements**
Certain statements and illustrations contained in this report may constitute "forward-looking statements" within the meaning of applicable securities laws and regulations. These statements (including plans, objectives, projections, and estimates) and illustrations include information that does not relate solely to historical or current facts, and can be identified by the use of words such as **"may," "believe," "expect," "anticipate," "assume," "estimate," "plan" or "continue,"** and similar expressions or by future or conditional verbs such as **"should," "would"** and **"could."**

Such statements are based on current expectations of future events, estimates, and certain assumptions of our management. These are therefore subject to certain risk factors and uncertainties, some of which are beyond our control, and which could cause the actual results, financial situation, or performance to differ materially from the estimates or developments that are implied in these forward-looking statements. We do not assume any obligation to update these forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting such statements.

## Reporting Standards

This report covers all financial information and environmental, social, and governance performance of PT&T's major businesses namely Broadband and IT Services.

The information contained in this report covers the period from January 1 to December 31, 2019. The report is anchored on materiality and discloses performance data that have been validated across the Company. Data have been presented over a three-year period for comparability where possible. This report has been prepared in accordance with the GRI Standards: Core option.

## Financial Statements

Alas Oplas & Co., CPAs is the external auditor of PT&T's financial statements, with Gadiosa R. Martinez as the lead engagement partner. More information about the audit process is found on pages 64 to 65, while the financial statements can be found by on pages 80 to 182 or by scanning the QR code on page 78..

## Feedback

PT&T welcomes inquiries and feedback on this report. Please e-mail investors@ptt.com.ph

Scan the QR code to access this report for online browsing.

# ESG HIGHLIGHTS

## ENVIRONMENTAL

**13,500**
fiber kilometers

**60**
kilograms papers saved

## SOCIAL

**1,760**
subscribers
Retail: 89%
Wholesale: 11%

**3,415**
training hours
1,469 1,946

**100%**
of 10 employees trained related to health and safety of employees

**234**
total employees
140 94

**53,760**
safe man-hours*
*since new management take-over in August 2017*

## GOVERNANCE

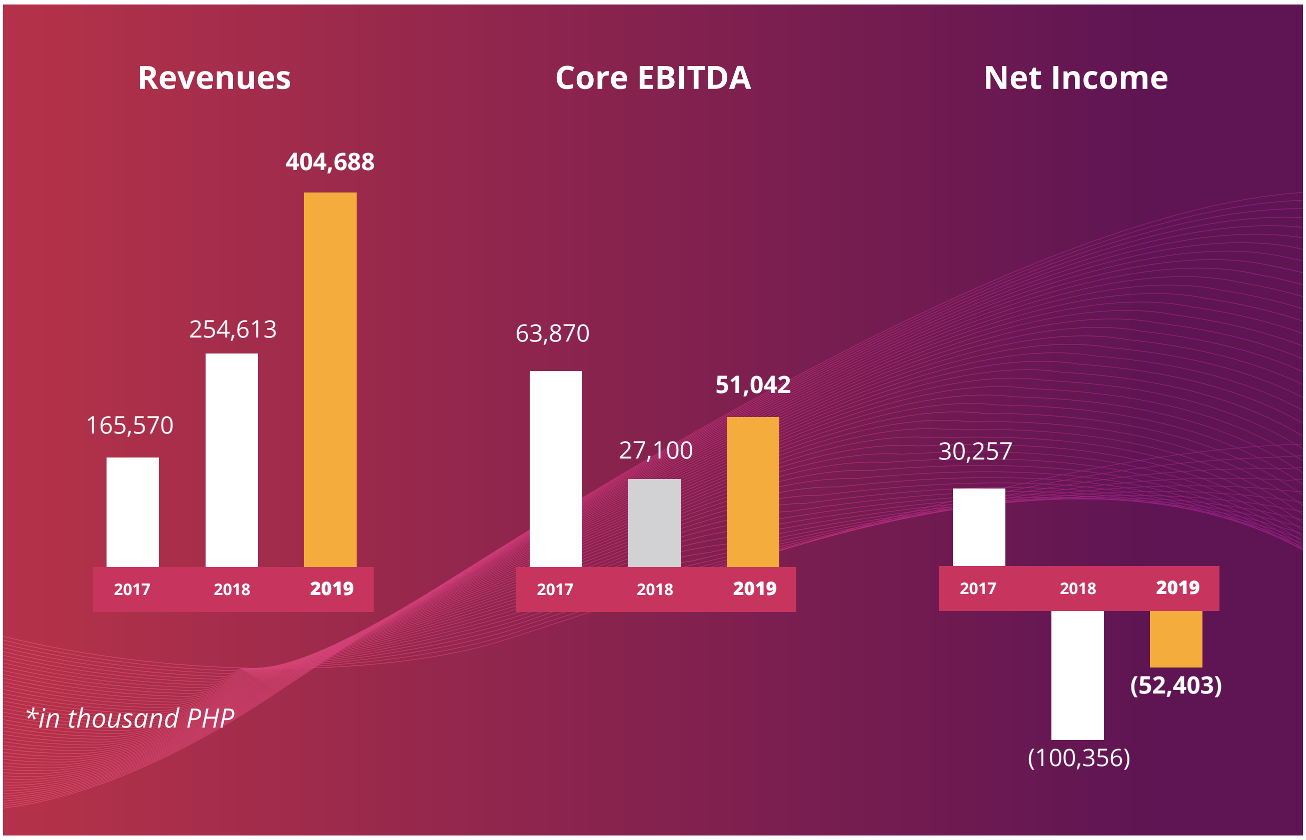
**Board Committees**

1. Executive
2. Nomination
3. Audit
4. Compensation and Remuneration
5. Board Risk Oversight
6. Related Party Transactions
7. Corporate Governance

**Board Composition (executive and non-executive)**

| | | |
|---|---|---|
| 1. | Salvador B. Zamora II | Non-executive; Chairman |
| 2. | James G. Velasquez | Executive; Director |
| 3. | Miguel Marco A. Bitanga | Executive; Director |
| 4. | Salvador T. Zamora III | Non-executive; Director |
| 5. | Serafin C. Ledesma Jr. | Non-executive; Independent Director |
| 6. | Roberto B. Ortiz | Non-executive Independent Director |
| 7. | Bienvenido S. Santos | Non-executive; Independent Director |

# FINANCIAL HIGHLIGHTS




# ECONOMIC PERFORMANCE

*in thousand PHP*

| | Dec 2019 | Dec 2018 | Dec 2017 |
|---|---|---|---|
| **Direct economic value generated** | | | |
| Revenues | **396,044** | 245,520 | 152,744 |
| Other income | **8,645** | 9,093 | 12,826 |
| **Direct economic value distributed:** | | | |
| Operating costs | **140,701** | 174,167 | 64,376 |
| Employee wages and benefits | **203,824** | 126,996 | 58,800 |
| Payments to suppliers, other operating costs | **66,405** | 16,772 | 3,395 |
| Dividends given to stockholders and interest payments to loan providers | **39,935** | 33,473 | 30,423 |
| Taxes given to government | **3,352** | 3,561 | 3,142 |
| Non-core income | **-** | - | (53,880) |
| Income Tax | **2,873** | - | 29,067 |
| **Economic value retained** | **(52,403)** | (100,356) | 30,527 |

# GEOGRAPHIC REACH

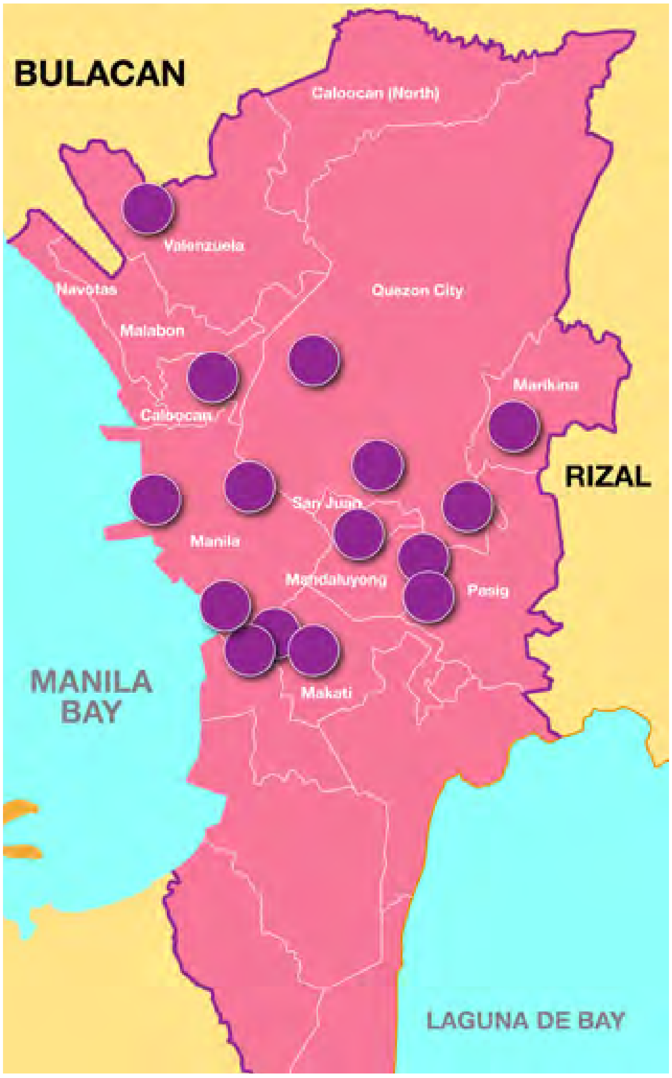
We have expanded our nationwide network coverage over the past two years covering almost 40 percent of the total Philippine population in high growth potential areas where access or distribution is still underdeveloped.

- National Capital Region
- CALABARZON (Cavite, Laguna, Batangas, Rizal, Quezon)
- Bulacan
- Pampanga

## NORTH RING

| | |
|---|---|
| **Addressable Market** | 12,462,000 |
| **Subscribers/Clients** | 1,018 |
| **Fiber Kilometers** | 7,358 |
| ***Backbone*** | 3,540 |
| ***Access*** | 2,890 |
| ***Last Mile*** | 928 |

Making its presence felt by serving large industries and communities in its coverage, North Ring's achievements have continued to create meaningful change with over 1,000 subscribers/clients served. It is comprised of thirteen cities with an estimated addressable market of about 12.5 million. Strengthening the core area, the North Ring aggressively works toward numerous business development opportunities in the provision of network distribution.



# SOUTH RING

| | |
|---|---|
| Addressable Market | 4,035,000 |
| Subscribers/Clients | 415 |
| Fiber Kilometers | 1,770 |
| *Backbone* | 1,062 |
| *Access* | 339 |
| *Last Mile* | 369 |


Marked by several wins with new partnerships across the coverage area in support of the company's geographic expansion, the South Ring continues to navigate the evolving technological advancement as it explored opportunities in key potential business and economic areas. It is comprised of six cities with an estimated addressable market of over 4 million. Its expansion leverages on the track record set by the North Ring.

**13,500**
fiber kilometers
from 9,000 in 2017

**39**
nodes from 36 in 2017
*(+15 ready for activation)*

**14,000**
poles from 12,000 in 2017
*(+46,000 via Joint Pole Agreement)*

**36**
distribution equipment

**16**
backhaul radios
maintained

**47**
manholes
maintained and upgraded

**24**
towers
maintained and upgraded

# LAKE RING

| | |
|---|---|
| Addressable Market | 14,880,000 |
| Subscribers/Clients | 55 |
| Fiber Kilometers | 4,373 |
| *Backbone* | 2,433 |
| *Access* | 1,675 |
| *Last Mile* | 264 |


Comprised of six cities with an addressable market of almost 15 million, the Lake Ring is steadily becoming urbanized due to its proximity to Metro Manila. Looking to gain a foothold in adjacent provinces, the Lake Ring endeavors to close more network distribution contracts, consolidating the area's fragmented connectivity market.

# HISTORY

## 1962

**PT&T was founded**
A national carrier for 57 years delivering some of the Philippines' first services such as Pocketbell (pager/beeper) and Telegram

## 1980

Became the dominant message and data carrier throughout the Philippines

## 1980-1990

Expanded the range and footprint of services to include the country's first national packet data, leased long lines, and private and public long distance network interexchange

# KEY MILESTONES

## Under previous management

**Oct 2003**
Debt Restructuring Agreements did not materialize

**Dec 2004**
Voluntary suspension of trading

**Aug 2009**
Start of Corporate Rehabilitation

**Nov 2012**
Extension of Corporate Term to another 50 years (2062)

**July 2016**
Extension of Franchise for another 25 years (2041)

## 1990

**Publicly listed in PSE**
Became a founding member of the Telecoms Infrastructure of the Philippines (TELICPHIL)

## TODAY

The new PT&T's built for purpose infrastructure means that clients are provided highly efficient, low latency and high value data connectivity

# Post-management Takeover

**Aug 2017**
- Takeover of new owners (Menlo Capital)
- PT&T request to lift trading suspension

**Jan - June 2018**
- Invested ₱100 million to rehabilitate existing network
- Signed MOU with TransCo for Nationwide Fiber Backbone
- Completed a 2-year Technical Feasibility Study
- Profitability after 13 years

**Oct - Dec 2018**
- Increase in Authorized Capital Stock
- Accomplished SEC-MSRD Requirements and paid penalties
- Participated in the Third Telco Bidding
- Rehab Court granted early exit

**Jun 2019**
Accomplished PSE Reportorial Requirements and paid penalties

**Feb 2020**
Received SEC's Order of Certificate of Good Standing

# Fueling Growth
# Redefining Value

**To our Shareholders,**

There is no certainty in this world, other than transformation.

In the 1970s to mid-1990s, PT&T was the leader in the commercial paging industry through Pocketbell. At that point, we were ahead of the curve until technological advancements occurred in speed and scale that had completely changed many of our business areas and left us unable to compete and eventually led us to enter corporate rehabilitation. The realization that challenges and opportunities will emerge from multiple directions and demand different solutions prompted us to rethink, react, and reinvent.

In August 2017, Menlo Capital Corporation acquired 560 million of our shares from Republic Telecommunications Holdings, equivalent to 37.33 percent ownership, and subsequently took over management of the company. By December 2018, we were granted an early exit from corporate rehabilitation—five years ahead of the approved plan. Today, we have returned the company to a solid footing after having paid part of our obligations to the relevant regulators, completing our reportorial requirements to the Philippine Stock Exchange.

# MESSAGE FROM THE CHAIRMAN

"...challenges and opportunities will emerge from multiple directions and demand different solutions..."

# 2019 PERFORMANCE HIGHLIGHTS

**₱405M**

operating revenues

**59%**

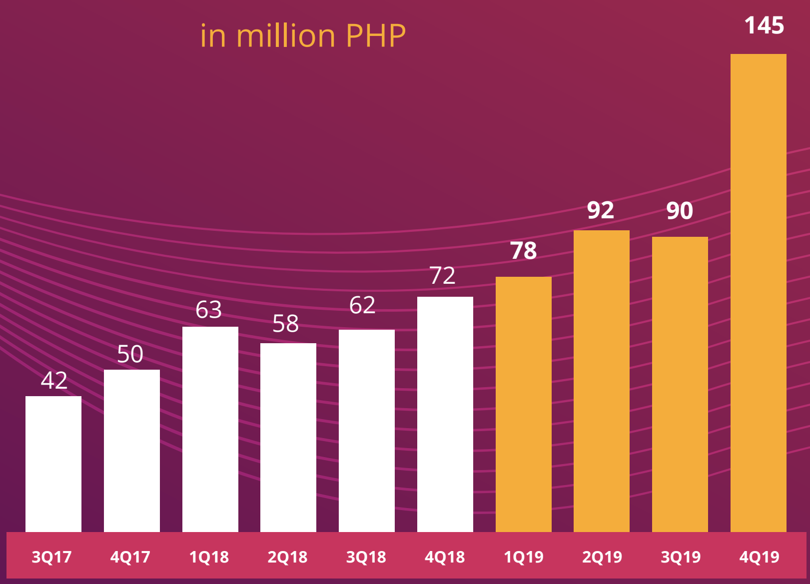
year-on-year increase in revenue

**2019: A Year of Execution and Momentum**
2019 was a milestone year for our company. We saw operating revenues reach ₱405 million for the first time in our recent history, up 59 percent year-on-year, along with increases in EBITDA and its related margin. This included fixed broadband revenues which climbed to ₱354 million, with subscriber count growing 38 percent year-on-year and giving rise to 19 quarters of continuous recurring revenue growth.

In June, we also introduced a new business segment, Information Technology (IT) Services, that generated ₱42 million of revenues in less than a year, winning several contracts from 10 new unique clients. This is a key element in our transformation to becoming a digital services

## QUARTERLY REVENUE

in million PHP




"..performing strongly for ten straight quarters since the new management took over in 2017."

provider offering portfolio in Connectivity, Security and Availability, and IT Solutions segments. And last but not least, we continued to partner with other local and international telecom companies so we can serve clients that are beyond our reach through third party circuits. Overall, we had good progress.

**Transforming Our World Post-COVID19**
As I was drafting my letter to you, the coronavirus disease (COVID-19) continues to unfold throughout the world. Events arising from it were still changing by the hour, prompting forecasts of how precisely this pandemic will affect the new normal to seem unproductive. However, I do know we will endure and gain strength because in the process, it has fast tracked technology adoption in almost every way.

To pave the way for a better world, we need infrastructure to make broadband internet connections more widely available in the country. That is why, we have moved from aspirations to action. We started to build a nationwide backbone for wholesale and retail markets. And we launched the facilities for large enterprises segment in Laguna and Cavite, and for residential segment in Mandaluyong and Cavite. In doing so, we believe we are creating real impact and addressing the challenges of our time.

On behalf of our Board of Directors, I would like to extend my gratitude to our management team, staff, business partners, and creditors for their commitment and contribution to the company, and to our loyal shareholders for their continued support. I am confident that the new PT&T will weather the challenges of this decade and will continue to prosper, with a strong financial base and deep purpose of providing efficient services to the Filipinos.

**SALVADOR B. ZAMORA II**
Chairman

# Bridging Gaps Improving Lives

**Dear Shareholders,**

Decades of experience have earned PT&T an established reputation for being at the forefront of telecommunications technology. Throughout the years, we have applied our expertise to enable various services for the Filipinos, including Telex, Telegraph, Vodex, Leased Channels, Digital Data Services, Fax Gram, and Public Switched Data Network. While these services are no longer available today and were replaced by a host of new technology solutions, it cannot be denied that they were considered the latest telecom services and technology of their time.

Re-establishing in 2017 was the inflection point where we decisively repositioned PT&T to a clear pathway to the future. We have transformed from being a telecommunications company providing connectivity requirements to becoming a digital services provider with differentiated strategic competencies. The result, we believe, is a stronger and more focused organization, with the potential to build a relevant, much larger, and more sustainable enterprise over the years to come.

# REPORT OF THE PRESIDENT

"Re-establishing in 2017 was the inflection point where we decisively repositioned PT&T to a clear pathway to the future."

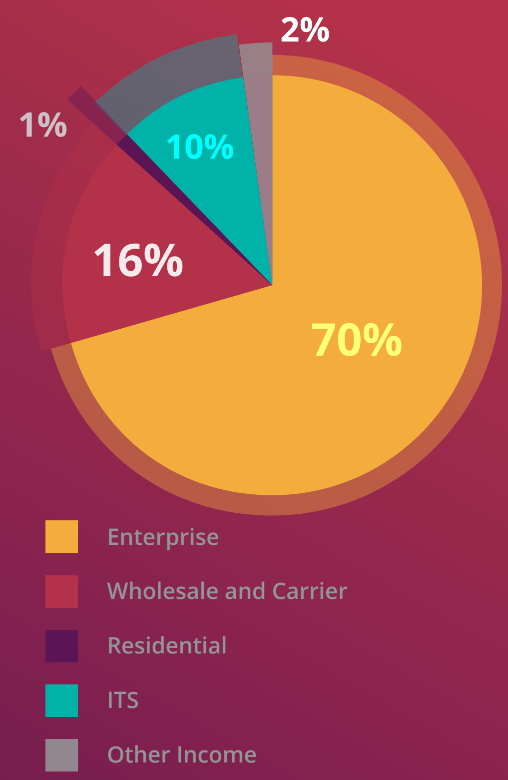
# 2019 PERFORMANCE HIGHLIGHTS

**2019: A Year of Expansion and Acceleration**
For many reasons, it is with great pride to see how far we have come as a business over the past few years. I am pleased to report that PT&T continued to deliver solid growth momentum in 2019 driven by our investments in network and enhancements in operational capabilities. Revenues were up 59 percent at ₱405 million from ₱255 million in 2018, performing strongly for ten straight quarters since the new management took over in August 2017. Service revenue supported operating expenses as evidenced by the increase in our core EBITDA from ₱27 million to ₱51 million, with a healthy margin of 13 percent, up from 11 percent a year ago.

At a more detailed level, setting up PT&T's growth trajectory at a more accelerated pace is our fixed broadband business segment with 38 percent subscriber count growth year-on-year. Its extended fiber reach resulted in providing broadband connectivity across industries in high growth potential areas in NCR and CALABARZON – where access or distribution is still underdeveloped. Within fixed broadband, our enterprise business accounted for ₱284 million of revenues, up 18 percent primarily due to higher average revenue per user and increase in available bandwidth in the company's network which provided more capacity to new clients. Meanwhile, our wholesale and carrier business contributed ₱65 million in revenues from ₱2 million in 2018.

With the addition of the newly established IT Services business segment in June 2019, we are confident that this will be able to attract new clients to serve the needs of an untapped market. Quite positively, the new business

## PERCENTAGE REVENUE
(per segment)




**₱51M**
Core EBITDA

**₱52M**
Net Loss

already generated ₱42 million revenues in less than a year. This reflects our aggressive client acquisition that resulted in closing several contracts in business application, IT infrastructure, and security. Its business potential provides great opportunities for new revenue streams.

Cleaning up the house brought in a healthier balance sheet and stronger financial position. All in all, we were able to reduce our net loss by 48 percent to ₱52 million due to the strength of our fixed broadband subscriptions as well as a new revenue stream from our IT services, offset in part by higher depreciation from network investments and non-core expenses related to corporate rehabilitation.

**1st Half 2020: Growth amidst the Pandemic**
The COVID-19 pandemic reinforced our view that digitalization is the new currency, transcending any industry. It proved just how critical internet access is and why it has become a necessity. Our government, for example, has encouraged the public and private sectors to implement work from home arrangements as well as educational institutions to facilitate blended learning. This guidance coupled with lockdown measures have heightened the demand and surge in consumption for internet services and wireless connectivity as Filipinos stayed home and veered towards online activities.

In response, we have remained operational to provide existing and prospective customers their much-needed connectivity and IT solutions services. Consequently, we finished the first half of the year with a revenue growth of 23 percent year-on-year to P207 million on the back of a 22 percent increase in broadband connections. Core EBITDA grew at an impressive 209 percent to ₱37 million compared to the same period last year. This further highlights PT&T's continuous upturn in performance for the past three years.

Under difficult conditions, Fixed Broadband segment still increased foothold in its subscriber growth translating to a 15 percent increase in revenues versus last year. Our aggressive social media presence through ads supported the growth of our new IT Services business which contributed ₱17 million, close to eight percent of the company's total revenue during the period. In sum, these developments led to a reduction in our net loss by 45 percent to ₱20 million versus last year.

It is inevitable that we will have to adapt our business and operations due to this pandemic. But PT&T is here and ready to bridge the technology gap to support the digital transformation needs of Filipinos and businesses with our combined connectivity and IT services.

**REVENUES (IN MILLION PHP)**

| | 2019 | 2018 |
|---|---|---|
| **Broadband** | | |
| Enterprise | 284 | 240 |
| Wholesale and Carrier | 65 | 2 |
| Residential | 5 | 4 |
| **IT Services*** | 42 | - |
| **Other Income** | 9 | 9 |
| **TOTAL** | 405 | 255 |

*started operations in June 2019*


*Settling of Employee Claims as part of PT&T early exit from Corporate Rehabilitation*

**Ongoing Commitment to All Our Shareholders**

Looking back in August 2017, PT&T became the Telecom and IT Services arm of Menlo Capital Corporation – our major shareholder owning 37.33 percent of the company. In just over a year in October 2018, we successfully increased our capitalization from ₱3.8 billion to ₱15.6 billion that provided us head room to pursue our growth initiatives. By December 2018, five years ahead of schedule, PT&T was allowed to exit from corporate rehabilitation.

Today, there is so much to look forward to. We are now benefiting from the initiatives we have launched in the past two years and our product offerings are proving to be relevant in this digital age. Our leaders have also taken important actions in several areas that leave us well placed for the future. Specifically, the clean-up of our operations where we recreated Financial and Structured Reports from 2011 in compliance with PSE's reportorial requirements. Further, we settled part of our monetary penalties and statutory obligations which allowed us to operate as a going concern. This enabled PT&T to address all issues arising from previous compliance deficiencies.

As a result, PT&T is now on track for active trading in the PSE after being in voluntary suspension since 2004. I am hopeful that the current health crisis improves and our request for trading suspension will be lifted within the year. These events demonstrate the commitment of the new management to recapitalize the company.

**Our Pathway to Transformation**

Our clear strategy has shaped our priorities and contributed to our overall success. From 9,000 fiber kilometers three years ago, we now have 14,000 poles equivalent to about 13,500 fiber kilometers with speeds reaching up to 1 Gigabit per second. Our data circuits also grew from 812 to 1,760 in the same period. These network assets cover 40 percent of the total Philippine population in high growth developing areas located in Metro Manila and Region IV-A, including the provinces of Cavite, Laguna, Batangas, and Rizal, where access or distribution is still underdeveloped. At the same time, our partnerships with major telecommunications companies likewise expanded our reach beyond our coverage areas. And with additional 46,000 poles via our Joint Pole Agreement, we plan to serve more Filipinos with our 100-percent fiber internet for greater participation in the digital economy.

Beyond this, the next chapter of our transformation includes strategic partnerships.

Being in an industry where technological disruption is a norm, we believe strategic and technology partnerships will positively impact our competitiveness, strengthen our capital structure, and improve our financial flexibility. To this end, we have met with several prospective partners and investors and I am pleased that we have received tremendous interest in the projects that will boost our capabilities throughout the country. These projects are in various phases of development.

1. **Organic Expansion and WiFi Projects** – we are in the process of completing our plan to upgrade and fully utilize our existing network in Metro Manila and CALABARZON with a potential of additional 39,800 fiber kilometers. Our Wi-Fi Projects will complement our subscriber base expansion;
2. **Nationwide Network Backbone** – we plan to have a nationwide backbone through strategic partnerships, and build for both wholesale and retail markets with a potential of additional 51,800 fiber kilometers;
3. **IT Services** – we intend to have additional investments for Data Centers, Cloud Infrastructure, and Managed Services; and
4. **Mobile Initiative** – we are still keen to provide 5G mobile service in the Philippines as the smartphone penetration continuously grows and drives new opportunities through mobile broadband and enhanced 5G services.  We are happy to announce that very recently, we have been given 5G frequency in the 28GHz High Band spectrum which allows us to undertake proof of concept (POC) on 5G Fixed Wireless Access use cases.



*Top photo: Supporting our frontliners through PT&T's partnership with the I Am Hope Organization*

*Bottom photo (from left to right): Vhong Navarro, PT&T President and CEO James Velasquez, Bea Alonzo)*

**Commitment to Service during COVID-19: Trusting the Power of Technology**

Because there is such urgent need for connectivity, we forged some partnerships to get involved and help the country navigate this national emergency. We teamed up with the Engineering Department of the University of Santo Tomas and Lenovo to provide internet and IT services to critical health facilities in Manila and installed internet connections at Delpan Evacuation Center, Belmonte Health Center, and Health Center District Office. These centers monitor and provide support to suspected and confirmed COVID cases in the city.

We also recognize the need to assist our community during this health crisis. PT&T provided logistical support to I Am Hope Organization, a not for profit organization aiding frontliners, hospitals, and other sectors of the community in need of assistance.

While COVID-19 has transformed education dramatically when schools shutdown all over the country, we quickly redirected our efforts and acknowledged the distinctive rise of e-learning and the adoption of distance learning tools to overcome the challenges of this pandemic. Partnering with Go Philippines allowed us to offer critical Broadband Internet solutions for the academe, improving user experience for quality education, as well as to support our nation in providing the telecommunications infrastructure for the education sector.


*Partnering with Go Philippines allowed us to offer critical Broadband Internet solutions for academia, improving user experience for a quality education.*

Internally, we developed and implemented a COVID Workplace Safety and Health Policy that is in accordance with public health standards and policies of the Department of Health, Department of Labor, and Inter-Agency Task Force. The policy covers helping our employees increase their physical and mental resilience, reducing the transmission of the virus through strict adherence to safety protocols, and providing the necessary support to our employees such as flexible work arrangements, transportation, and food assistance for those who are required to work in the office. In addition, we provided paid leaves on top of the regular sick and vacation leaves should an employee be confirmed positive for COVID-19.

We are now benefiting from having spent the past two years transforming both PT&T's operations and product offerings to be relevant in the digital age. This makes us even more resilient during these times as the requirement for high speed internet and digital services becomes a priority. We expect to continue our growth in the coming years as we intend to raise capital to support our long-term strategy. One thing is universally true, that technology offers constant innovation and evolution.

I would like to thank our Board of Directors for their guidance; our management team, PT&T partners, business partners, and creditors for their unrelenting commitment; our faithful shareholders for their continuous support to the company; and finally our customers, who continue to inspire us as we fulfill our mission in making the lives of every Filipino better through technology.

**JAMES V. VELASQUEZ**
President and Chief Executive Officer

# BUSINESS REVIEW

## Philippine Market Overview

The Philippines is a country with enormous potential for sustainable growth. It is among the fastest growing economies in Asia, fueled by its large, young population with a median age of 25.7 years, and a growing middle class with rising per capita income. Since 2010, the country's economy has grown 6.3 percent annually compared to 4.5 percent gross domestic product (GDP) growth in 2000 to 2009. It is home to a robust Business Process Outsourcing (BPO) sector and is propped up by a large Overseas Filipino Workers' population that both contribute directly to the county's GDP at seven percent (approximately ₱1.3 trillion) and eight percent (approximately ₱1.5 trillion) in 2019, respectively.

**BROADBAND**

# Expanding and Connecting

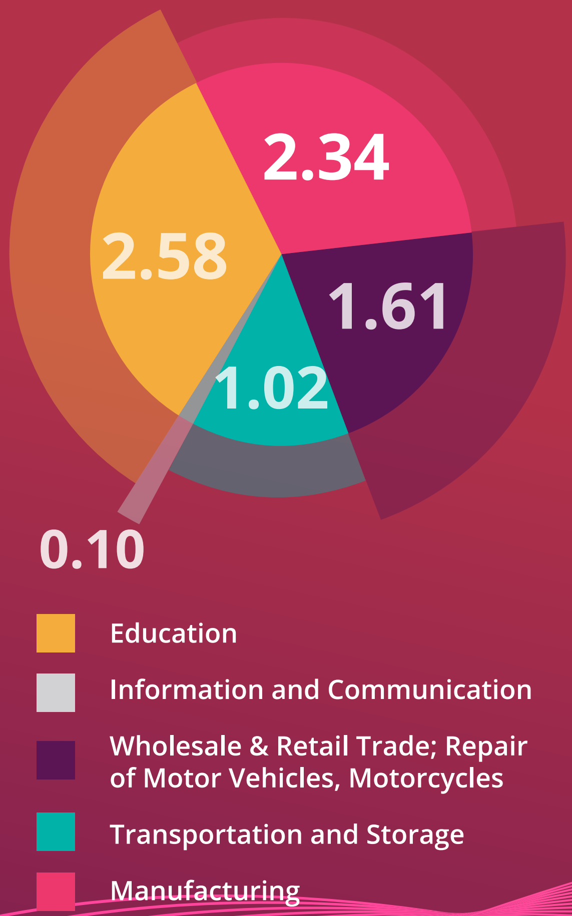
"We are now ready to accelerate targeted, profitable growth and increase levels of investment beyond our existing businesses and coverage areas."

Yet access to reliable internet is still a challenge, where quality of service varies significantly by area. Fixed broadband using "FTTx or Fiber to the X" or more commonly known as fiber anywhere technology remains largely underdeveloped in the country. For years, the promise of true high-speed internet has been relegated in favor of mobile and wireless connectivity solutions, and infrastructure has been concentrated mostly in urban centers.

As of June 2020, Fiber to the Home (FTTH) penetration in the Philippines stands at six percent according to Media Partners Asia. Specifically, the current market for fixed broadband comes to only 3.5 million households, with 1.5 million on FTTx, 1.5 million on xDSL, and 500,000 on Hybrid Fiber Coaxial (HFC). Of these technologies, only FTTx and HFC can be considered as high-speed broadband, as xDSL is predominantly supported by a legacy copper network. At the same time, there are approximately 1.6 million households that are on Fixed Wireless Access (FWA) services, primarily powered by 3G/4G mobile networks.

## MONTHLY RECURRING REVENUES BY INDUSTRY

**₱8.5M**
monthly recurring revenue




**226**
corporate accounts

For these reasons, we anticipate further growth in the FTTx market in the next five years driven by more discriminating demand for high-speed and reliable internet. Of great importance in this respect is affordability. At present, FTTx has reached price parity with xDSL and FWA services at ₱1,500 per month subscription level. Against this backdrop, when customers who spend ₱1,500 for mobile internet are considered, the addressable market who can afford FTTx is estimated at 18.5 million households and is projected to grow substantially to 22.6 million households by 2025.

The commercial landscape for the enterprise wired connectivity market is also set to change as a result of the urgency to strengthen business continuity measures. These include increasing data demand for corporate information and communications technology services, the growing prevalence of setting up greater network resiliency and redundancy, and the distributed working and increasing usage of bandwidth intensive applications such as video-conferencing platforms.

With the radical shift in demand for even faster connectivity, we are convinced that there is a strong case for PT&T to build our stake in the FTTx space. Our strategy is to address future requirements and make the most out of opportunities available to us, to secure our company's future.

**Competitive Strengths**

Since the new management took over in August 2017, PT&T has invested in and upgraded our network infrastructure to accelerate the growth in its broadband business, making 2018 its investment year. To improve mobilization to increase subscriber base, we also invested in our sales and network personnel. From 2017 to 2018, there was a significant increase of 57 percent to 1,277 in our subscribers, and 61 percent to ₱246 million in our revenues. We have expanded our network coverage to

14,000 poles equivalent to about 13,500 fiber kilometers from 9,000 kilometers three years ago. With access to an additional 46,000 poles via our Joint Pole Agreement, our potential reach is over 110,000 fiber kilometers. These extensive network assets are located in Metro Manila and Region IV-A, including the provinces of Cavite, Laguna, Batangas, and Rizal, considered as the country's highest growth areas that account for a combined 55 percent of the country's GDP and 40 percent of the total Philippine population. Hence, we see the need to initiate an immediate and massive expansion to address a still largely underserved demand in these core markets.

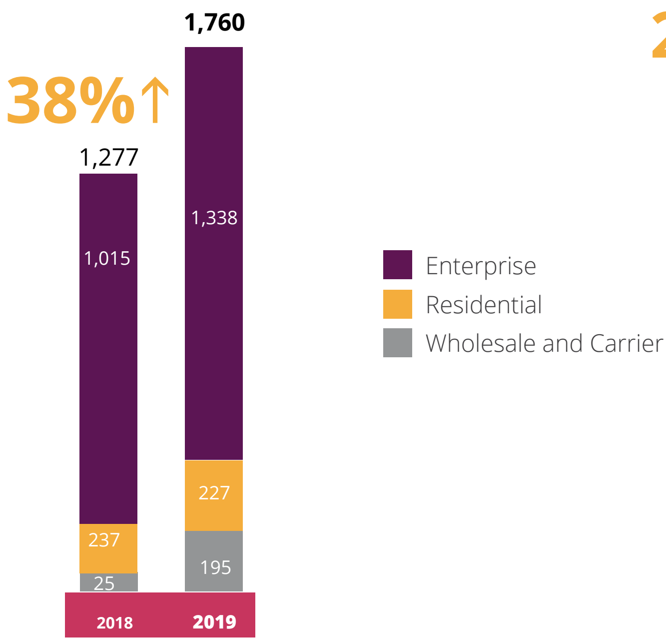
As we look ahead into 2020, we will launch international connectivity services namely the International Private Line (IPL), and the premium Direct Internet Access (DIA) on top of existing domestic data services. Equipped with updated training and guidance, our account managers are ideally positioned to provide our customers with connectivity and IT solutions centered on exceptional customer experience.

**2019 Performance**

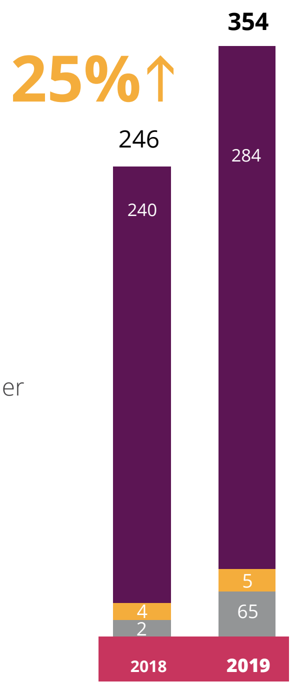
Over the course of 2019, we experienced a dramatic growth in our fixed broadband segment. Increasingly, we have found a niche in positioning ourselves as a second line or redundant link provider, even as the market remains competitive. And we believe there is further to go given our attractive price points, and especially as more enterprise accounts strengthen their network resiliency to ensure maximum uptime in their operations.

Total revenues in this segment rose 44 percent to ₱354 million, with subscriber count growing 38 percent year-on-year. The enterprise business as its main revenue generating stream, contributed 70 percent to ₱284 million in fixed broadband revenues, growing by 18 percent year-on-year.

**NUMBER OF SUBSCRIBERS**




**REVENUES**
**(in million PHP)**



The year also saw strategic wins in the previously untapped large enterprise segment where connectivity was bundled with IT solutions. Working on saturating areas to improve port utilization geographically, we have been successful in closing numerous contracts with customers in the IT, Logistics, and Education industries. We began to offer IT services such as Microsoft 365, PT&T Cloud, eLearning, and other IT solutions to help businesses in their digital transformation journey.

Under the new management, PT&T has always focused on becoming a customer-centric brand in an industry where customer service is a common pain point. In line with this, we started conducting Net Promoter Score (NPS) and Customer Satisfaction (CSAT) surveys for our service teams in December 2019.

**Programmed for the Future**

As we near our "total exit" from corporate rehabilitation, we intend to become a leading Philippine digital services provider. We are now ready to accelerate targeted, profitable growth and increase levels of investment beyond our existing businesses and coverage areas.

With this in mind, our 10-year goal is to sustain the strength of our current businesses and pursue aggressive growth for new businesses.

**Our strategic focal points are:**

Organic Expansion and WiFi projects. We will upgrade and use existing network in CALABARZON with a potential of additional 39,800 fiber kilometers and implement WiFi projects. Capital expenditure to complete the project is ₱1,340 million.

The residential business is an important facet of our future growth as a major telco player and will be a key undertaking in our network expansion plans. To enable our growth aspirations in this segment, we have established pilot areas in a few communities in NCR so we can build a scalable model which we plan to deploy upon rollout particularly in CALABARZON where demand continues to be underserved. In addition to these investments, we are also developing the process and systems that will allow for a simple customer journey for our residential service.

Nationwide Network Backbone. We aim to build a nationwide backbone for both enterprise and wholesale and carrier markets with a potential

## 2019 KEY WINS

**Enterprise**

1. Technical Education and Skills Development Authority (TESDA)
2. UniPeso Financial Technology Inc.
3. Chiyoda Corporation
4. Home Shopping Network, Inc.
5. Sanitary Care Products Asia, Inc.
6. Triple Crown Properties
7. DMCI Homes
8. Shopee Pte Ltd
9. Foodpanda

**Wholesale and Carrier**

1. Now Corporation
2. AirLive Communications, Inc.
3. iOne Resources, Inc.
4. IP Converge Data Services, Inc. (IPC)
5. Telectronic Systems, Inc. (TSI) – Wir Broadband
6. Broadband Everywhere Corp.
7. Telmarc Cable
8. Pakil Cable International Co.

of additional 51,800 fiber kilometers, requiring future capital expenditure of ₱5,790 million.

This development may take time, but we have built the foundations required to scale our business successfully. Included here are plans which will allow us to serve an even larger market with much needed, improved internet services in the country.

In the near-term, we are prioritizing network rollout inside industrial parks in CALABARZON such as Calamba Premiere International Park (CPIP), Cavite Export Processing Zone Authority (CEPZA), First Philippine Industrial Park (FPIP), and in new buildings within the Central Business District areas (Makati, Ortigas, and BGC) targeting SMEs and large enterprises.

Earlier this year, the COVID-19 pandemic has changed the world. As we publish this report, it continues to unfold and its full impact remains currently unknown.

There is no doubt the Philippines has been impacted by the pandemic, as evidenced by the contraction in the country's GDP in the first half of 2020. But with our strong macroeconomic and demographic fundamentals, we are optimistic that the country is well-positioned to bounce back when the COVID-19 threat is finally contained. If there is a silver lining to this pandemic, it has forced people and businesses to accelerate their digital transformation to support telecommuting or work from home arrangements, to weather near-term challenges and ultimately to survive this crisis. In this crucial time, we believe that a robust network and IT infrastructure is key to bounce back better and usher in a new order—something that in our view, reassures us of future success.

## 2019 STRATEGIC AND OPERATIONAL PARTNERS

### Data Center Partners

- PLDT Global
- IP Converge Data Services, Inc. (IPC)
- Total Information Management Corp. (TIM)

### Domestic Telco Partners

- Converge ICT
- Eastern Telecommunications Philippines Inc. (ETPI)
- Globe Telecom, Inc.
- NOW Telecom
- Responsible Internet Sustainability Effort, Inc. (RISE)
- Radius Telecoms, Inc.

### International Telco Partners

- HGC Global Communications Limited (HGC)
- Experio
- China Mobile International (CMI)
- PCCW Global
- Verizon Communications Inc.
- Telstra
- Telekom Malaysia
- Tata Communications
- Cogent Communications
- BRUHAAS
- Global Transit Communications
- China Telecom Corporation Limited

**Competitive Strengths**

Our broadband business has fueled our growth in recent years, but we are equally excited to become a digital service provider and grow as a company beyond connectivity. The starting point for this objective is the acceptance that every enterprise will require digital transformation and continuous change to meet the unique demands of the times. This in turn means an opportunity for us to innovate new businesses.

Armed with a comprehensive knowledge of our customers and their needs, we knew that providing Information Technology (IT) services would be a natural complement to our connectivity business. For this reason, we launched our IT Services segment in June 2019 to deliver the latest software, systems, and managed services requirements to enterprises and public sector customers. These are segments we believe will benefit from our integrated one-stop solutions approach of bundling connectivity and IT Services.

With this in mind, we have designed a menu of IT Services to create an end-to-end portfolio where customers can take advantage of mature and bespoke IT solutions. We have partnered with top technology providers

## IT SERVICES

# Leveraging and Innovating

"...every enterprise would require digital transformation and continuous change to meet the unique demands of the times. This in turn means an opportunity for us to innovate new businesses."

such as Microsoft, IBM, VMWare, Cisco, Fortinet, Nutanix, Lenovo, Maxava, and others in order to offer global technologies with a local footprint. At the same time, we have developed readily available solutions including Cloud Computing and Data Backup, in pipe Distributed Denial-of-Service (DDoS) mitigation, Software-Defined Networking in a Wide Area Network (SD-WAN), Virtual Desktop Infrastructure (VDI), Firewall, Short Message Service (SMS) Gateway, Payment Gateway, and Managed Connectivity, and IT Services.

In this new market, we draw from our strength to put our strategy into action: our leadership. Led by veterans in the IT industry, our team is composed of multi-skilled solution consultants, experienced service delivery and operations managers, and product innovation professionals. By design, our President and CEO James Velasquez has served as Chairman, President, and Country General Manager of IBM Philippines where he led both IBM's domestic and global delivery growth. Our General Manager for IT Services Ella Mae Ortega is also an IBM Philippines alumna for 15 years where she handled Large Enterprise Accounts and client relationships across several industries including banking, manufacturing, insurance, and retail and distribution.

## 2019 Performance

Our IT Services team has had an encouraging start, closing new contracts that generated ₱42 million of revenues in a span of six months and placing the team in the IT map. Here are a few of our notable projects:

1. ICT Upgrade for a Large University - full hardware and software technology refresh; structured cabling; network deployment and management; firewall and security implementation for multiple campuses
2. Accounting and Billing System for an Industrial Park - design and implementation of an accounting and water billing system
3. Internet Connectivity Implementation and Management for a Government Agency - internet connectivity design, project implementation and network management for 25+ branches nationwide
4. Mobile Application Hosting - for a transport services mobile application on PT&T Cloud
5. Firewall Implementation - for a physical security agency and a government bureau
6. 360° IT Audit - full IT audit, consultancy design and implementation for a physical security agency
7. Network Implementation - for a transportation and telco company
8. SMS Gateway - for a government agency and transport services mobile app
9. E-Commerce Application - design, implementation, and management of an e-commerce platform on the PT&T cloud
10. DDoS Services - implementation and management for a government agency

**REVENUES**
**(in million PHP)**
**July to December 2019**


**₱42M**
**total revenues in less than one year of operations**

**10**
**unique clients**


*Virtalus partners with PT&T to provide public and private cloud solutions for the local market*

# PT&T IT Services

**SCALE**

**Connectivity**
**Productivity**
**Infrastructure**

Solutions as your businesses grow. Anything that helps in growth of client (technology for more sites, employees, products/services)

**SECURE**

**Traditional**
**Resiliency**
**Solutions**

Solutions to protect and defend your business. Cyber and physical security

**SPECIALIZE**

**Managed Services**
**Systems and Software**
**Custom Development**

Solutions unique to your business needs. Customized and/or managed service solutions

**Programmed for the Future**

In crisis, there is opportunity. And clearly, there is no shortage of both.

Around the world, both the public and private sectors are coming together to address pressing social needs. In our capacity, we have relied on partnerships to maximize our reach and serve a wider spectrum of digital needs. We teamed up with University of Santo Tomas to provide internet and IT services to select Manila Health Centers and to enable the centers to tap into the university's pool of medical professionals for COVID-19 related assistance. Within 24 hours, we were able to deploy internet connections via fiber and microwave to critical health department facilities in Manila including Belmonte Health Center and Health Center District Office as well as Delpan Evacuation Center which provides shelter for patients under investigation and persons under monitoring while in quarantine. We have also collaborated with hardware leader, Lenovo, to provide Lenovo Ideapad and Thinkpad model laptops for use in this campaign.

On the business end, trends strongly indicate that the scope to grow our business is especially promising. Supporting this is the International Trade Administration's Philippine IT spending forecast which is estimated to reach US$5 billion (₱243 billion) in 2019 and US$8 billion (₱388 billion) by 2023, with an estimated 12 percent annual growth rate within the 4-year period. Therefore, we are beefing up our portfolio particularly in the Software-as-a-Service (SaaS) and Platform-as-a-Service (PaaS ) offerings via cloud, a combined Security and Network Operations Center (NOCSOC) and a telco agnostic Managed Connectivity Services offering.

Principally through PT&T Virtalus, cloud and backup products can help reduce the overhead IT computing expenses of companies who may have significantly reduced operations and/or are on hibernate mode entirely. In the same thought, our office productivity offerings are aimed at alleviating the work from home needs of the clients. Moreover, our Connectivity Plus offerings allow to maximize the linkages of companies to their internal teams and external clients.

# OUTLOOK &STRATEGY

# OUTLOOK AND STRATEGY

In a world where technology is integrated into every aspect of our daily lives, information and communications technology has become the backbone of innovation. In recent years, innovation based on digital technology has changed more than anyone thought likely. It has accelerated social and economic development in both developed and developing countries and transformed almost every sector of the economy from new business models, products, and services to new ways of creating jobs.

But innovation and digital technology without high-speed broadband network is unimaginable.

In the Philippines, the country has committed to create a national broadband plan including a national broadband network to address the need for universal, faster, and affordable internet access, particularly in remote areas. It has three major broad strategies, namely: 1) establishment of policy and regulatory reforms; 2) government investment in broadband infostructure; and 3) support for the stimulation of broadband demand.

Given the potential of ICT to scale up development, we believe the market can accommodate more players which will foster effective competition, innovation, and long-term growth. The evolution has to go on. As such, we consider it a priority to encourage businesses to fully embrace the powers of digital technologies. We are confident that our own transformation from a Communications Service Provider (CSP) to a full Digital Service Provider (DSP) will provide the support required in digitalized operations and digital services to improve business processes, remove operational silos across the organization, and adopt DevOps practices.

Moving forward, our strategy is to step up our infrastructure investments and innovative digital solutions to drive economic growth and social impact for many of our stakeholders. This includes expanding our coverage and upgrading our network infrastructure to ensure network reliability and performance. It also means we are building capabilities in cyber security, Internet of Things (IoT), and smart cities.

To achieve these objectives, we have identified several projects to position ourselves in line with our geographical expansion throughout the country. These projects are currently undergoing evaluation and are based on using our own network, a shared resource, and other partners.

# PT&T's expansion plans are based on using own build, a shared resource, and other partners.

**Organic Expansion**

**Nationwide Network Backbone**

**IT Infrastructure, Services, and Applications**

**Mobile Initiative**

**ORGANIC EXPANSION**
To increase subscriber base, we are in the process of completing our plan to expand our existing telecommunications network. The network expansion will initially focus on key cities in the National Capital Region, CALABARZON, and parts of Northern Luzon. It will include the deployment of massive fiber optic infrastructure to support all network services and capacities. It will also provide a Full IP-based network on the latest Service-Oriented Network Architecture.

**NATIONWIDE NETWORK BACKBONE**
One of the challenges – if not barriers to entry – for any telecom service provider in the country is the requirement to build and interconnect the major islands of the Philippine archipelago through the use of terrestrial and submarine fiber optic network for seamless communications. The need to build a nationwide IP transport backbone is a major endeavor and a must to handle high-speed internet access deployment across the country.

With this in mind, we plan to build a nationwide backbone in order to provide a wholesale and retail service all over the country, including network capacities for mobile services in the future. Our national IP network aims to support traffic growth, increased reliance on internet services, and evolving needs from all customer segments. The objective is to deliver a converged IP and an ethernet network that can keep up with all current and future services including the explosion of consumers demand for video services like YouTube, Netflix, and other similar content.

Residential and small and medium-sized enterprises are moving away from traditional voice products in favor of IP-based solutions to reduce their costs. Cloud or data center hosted business applications are popular with unified communications and collaboration (UCC) solutions supporting the entire IT portfolio. Ethernet services are also growing in terms of footprint and nominal speed. Mobile network initiative will require cost effective and high-speed backhaul solutions to connect PT&T's macro and small cell infrastructure to designated radio access network central units and core locations. To match these requirements, we have designed our network to cope with most customer segments and avoid investing in specific per product infrastructure.

**IT INFRASTRUCTURE, SERVICES, AND APPLICATIONS**
In June 2019, we launched our IT Services business unit to intensify our outreach to clients, enhance, and carry out the company's strategy to transform to a full digital service provider as well as enlarging and complementing the service portfolio.

The business unit will focus on projects, services, and applications such as but not limited to:

- **Offer a "One Stop E-Center".** Another large project in our pipeline is providing a common IT infrastructure to host all kinds of e-services. This includes e-learning, e-government, e-commerce, telemedicine and applications in order to fully support the government's initiatives as well as the increasing requirements and demands of the private sector.

- **Build Data Centers.** Over time, data centers have evolved from traditional vendor-specific hardware and software appliances to common-off-the-shelf server hardware and open-source software hosting individual network functions and services. Accordingly, we are building data centers that will shelter fixed broadband, IT, and mobile telecom infrastructure for contents, applications, and other network services. We will employ the latest data center technology to reduce total cost of ownership across the different network domains and to offer end-to-end services to our customers. Specifically, we plan to deploy software through Network Function Virtualization (NFV), and for virtualization to scale, we will set up a cloud environment that will enable automated network operations and can save significant operational costs. And because the service is implemented entirely in software, we will be able to innovate more rapidly and drive new service revenues.

- **Offer Security and "Cyber Security" Services and Applications.** We aim to dramatically simplify IT security and compliance with best-in-class solutions that leverage next generation SIEM platform combined with crowdsourced global intelligence. The combination of this infrastructure with PT&T security experts provides enterprises unparalleled security protection and threat awareness. We have partnered with the leading security services provider with a complete set of security tools and services offering a variety of flexible delivery options that allow us to serve customers of all sizes and complexity.

  Our various alliances with global IT Security experts aims to develop and maintain an ecosystem of best of breed technology partnerships and alliances that result in a world-class IT Security solution stack and consulting services that offers best-fit technology and support requirements of our customers.

- **Support Government Projects and Initiatives: "Internet for Everyone", "Public Internet", and "National Broadband Plan".** PT&T is in full support of these projects and has entered into a service agreement with entities designated to implement the government's project to provide public WiFi Services in several provinces. Under these agreements, PT&T will provide the required infrastructure allowing it to commercialize the excess capacities out of the said infrastructure.

  This arrangement will enable us to establish a substantial number of points of presence throughout the country and commercial WiFi services will then be offered as an "add-on" to PT&T's product portfolio to serve residential and enterprise clients.

**MOBILE INITIATIVE**

We remain keen to provide mobile broadband services in the country as smartphone penetration continuously grows as do new opportunities through 4G/LTE mobile broadband and enhanced 5G use cases such as enhanced Mobile Broadband (eMBB), Ultra Reliable Low Latency Communications (URLLC), and Massive IoT.

We are happy to announce that very recently, we have been allocated 5G frequency in the 28GHz High Band. Now our next step is to undertake proof of concept (POC) for our 5G Fixed Wireless Access (FWA), giving us headway with our mobile initiative.

Complementing our fixed broadband network, 5G technology will enable us to offer a unified network access for our customers and be able to process an ever-increasing volume of data more cost-effectively at the same time provide various services on a single infrastructure with high reliability at a faster speed. Advanced IT technologies such as NFV and container-based cloud native network function (CNF) virtualization have been introduced into the virtual 5G Core, transport, and virtual radio access network. 5G also allows advanced network features such as network slicing that provides dedicated virtual networks according to service characteristics. It also provides Multi-access Edge Computing (MEC) that processes application services at the edge of a network to enhance service performance which will enable new revenue streams for telecom operators like PT&T.

# SUSTAINABILITY REPORT

# BEYOND THE FINANCIALS

**MATERIALITY PROCESS**

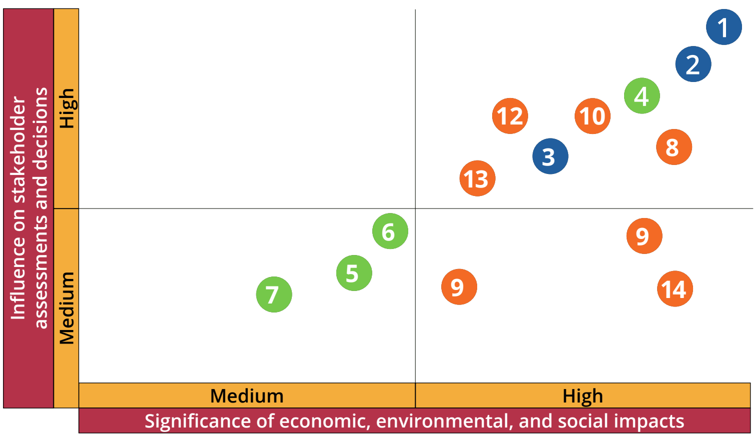
Over the past year at PT&T, we embarked on our first Sustainability Report with a consultative materiality assessment process guided by the Global Reporting Initiative (GRI) standards and aligned with the United Nations Sustainable Development Goals (SDG). This process, fully supported by the Board of Directors and Senior Management, determined key areas relevant to our mission, vision, and core values which impact a wide range of our stakeholders, including investors, workforce, customers, suppliers, business partners, communities, regulators, surrounding environment and the overall economy.

Together with both internal and external stakeholders, we have identified a total of 14 areas of focus and assessed their levels of relevance based on substantive influence on the business and stakeholders vis-à-vis economic, environmental, and social impacts over time.

After a detailed review, the following were then approved as our priority material sustainability themes:

| FINANCIAL PERFORMANCE | LEADERSHIP AND GOVERNANCE[1] | BUSINESS CONTINUITY | PEOPLE AND CULTURE[2] |
|---|---|---|---|
| strengthening financial viability, including risk management towards effective business strategies and efficient decision-making | promoting sound corporate governance and business integrity, upholding transparency and compliance | preparedness to deal and protect assets in the event of business and operational disruptions | a holistic approach to professional development and welfare of its workforce |

**Materiality Matrix for Sustainability Issues**




**ECONOMIC**
1 Economic Impact and Financial Performance
2 Leadership and Governance
3 Procurement Practices

**ENVIRONMENTAL**
4 Business Continuity and Crisis Management
5 Materials and Efficiency
6 GHG Emissions
7 Waste and Effluents Management

**SOCIAL**
8 Employee Training and Development
9 Occupational Health and Safety
10 Supply Chain Management
11 Community Relations
12 Customer Service and Retention
13 Marketing and Labeling
14 Customer Privacy and Data Security

[1] Commitments to ethical business operations can be found in the Code of Business Conduct and Ethics available at the PT&T web page www.ptt.com.ph/code-of-business-conduct-and-ethics/.
[2] Commitment to employees, contractors, local community, and environment can be found in company policies available at the PT&T web page www.ptt.com.ph/policies/.

## SUSTAINABILITY FRAMEWORK

As we outline a way forward that integrates sustainability into the way we work, we have developed a sustainability framework that articulates our commitment to take into account the full set of risks and opportunities faced by the business including environmental, social, and governance (ESG) factors. It shows that central to our mission, vision, core values and overall decision-making is our responsibility to be accountable for managing our exposures to ESG risks.

**ECONOMIC**

- Economic Impact and Financial Performance
- Leadership and Governance
- Procurement Practices


**ENVIRONMENTAL**

- Business Continuity and Crisis Management
- Materials and Efficiency
- GHG Emissions
- Waste and Effluents Management

**SOCIAL**

- Employee Training and Development
- Occupational Health and Safety
- Supply Chain Management
- Community Relations
- Customer Service and Retention
- Marketing and Labeling
- Customer Privacy and Data Security

**STAKEHOLDER ENGAGEMENT**

We acknowledge that key to value creation is building trust in the way we conduct business and that trust is built through quality product and services, strong corporate governance and effective engagement with internal and external stakeholders. We have therefore instituted ways to facilitate and encourage stakeholder engagement and established appropriate venues and platforms for feedback and business discussions. Our management approach is set out in more detail in the Sustainability Performance of this report.

**Employees**

It is only possible to achieve our strategic objectives with highly engaged and talented employees. That is why our People and Culture (P&C) Team implement policies and programs to promote a culture of health and safety, fairness and openness, team spirit and professional development among employees.

Towards this goal, our talent management strategies are designed and delivered within the framework of our policies to ensure that our obligations to our shareholders and other stakeholders are clearly understood and met. These policies include: 1) Whistle-Blowing Policy; 2) Conflict of Interest Policy; 3) Insider Trading Policy; 4) Related Party Transactions Policy; 5) Policy and Data Relating to Health, Safety, and Welfare of Employees Including Company Sponsored Trainings; and 6) Non-Discrimination and Anti-Harassment Policy.

Yet a healthy culture is not only established by policies and procedures, it is also underpinned by a wider employee engagement experience. Our People Agenda is geared towards creating a performance-based and values driven organization whilst providing an amazing employee experience. To this end, we communicate meaningfully with our employees through a range of formal and informal channels such as new employee onboarding, meetings, development programs, performance reviews, focus group discussions, surveys, our internal PT&T CHAINS Facebook group, and our online learning platform PT&T Academy. We also promote a "fun culture" through thematic employee events.

**Customers**

Our scope and reach may be on the national level, but we believe that every interaction with each of our customers is valuable, so we continue to seek opportunities to engage directly with them. Part of that customer-centric philosophy is the formation of our Customer Retention (CRD) team. They serve as the backbone of our approach to frictionless customer experience. They provide convenience and ease of access to our customers through remote issue resolution via our hotline as well as enhanced client servicing that is measured by customer satisfaction surveys.

**Suppliers and Service Providers**

Our suppliers and contractors are our partners, and central to our transformation and success. We engage with them through meetings, consultations, workshops, and trade associations. At the same time, we require them to observe our Code of Business Conduct and Ethics following their selection and accreditation process as they fulfill their contractual obligations toward PT&T, and ensure compliance with its requirements.

**Investors**

Although we have yet to relist our shares on the Philippine Stock Exchange, we remain engaged with investors throughout the years, both proactively and upon request, in order to discuss our performance and developments as well as to gather feedback. Our activities are: one-on-one and group meetings, regulatory reporting including annual and quarterly financial reports and continuing disclosures, our annual stockholders' meeting, site visits, as well as through our corporate website.

**General Public**

We employ various engagement initiatives to keep the general public updated on company news and events, including our website, news releases, and social media platforms such as Facebook, Twitter, and LinkedIn.

# SUSTAINABILITY PERFORMANCE

## Prosperity – Our Economic Performance

### *Our Business and Leadership*

As part of the telecommunications and IT services industry, we play a vital role in making a positive contribution towards economic sustainability for all stakeholders. The very nature of our business—of providing broadband high-speed internet and IT services—is inherently good and fundamental to social and economic development. Take for example the benefits of our solutions to both the public and private sectors. In the government ecosystem, we support improved delivery of services, such as healthcare, safety and security to the broader population as well as collaboration between agencies. In the private sector, we provide a platform for businesses big and small to expand their markets and improve their operations, creating new enterprises in the process and ultimately driving the country's economy forward.

But to really make a difference, it is not enough that we provide reliable and efficient service at reasonable cost. Living up to our mission also means becoming a responsible company that would contribute to nation-building. To that end, our leadership is passionate about the economic dimension of our sustainability agenda so we could continue delivering and distributing economic value to our stakeholders. Since the new management took over in August 2017, our Board of Directors and Senior Management have established and reviewed our business strategy, including risk management for effective decision-making. We have adopted new corporate goals and strategies that are anchored to our mission, vision, and core values. We have employed sound and prudent management of operational investments, strict internal controls in managing our resources, effective risk management program, constant check of efficiency in our day-to-day activities as well as strong quality assurance of our products and services.

As a result, our Broadband and IT Services generated ₱405 million in direct economic value in 2019. Of this amount, about ₱204 million was distributed to our employees through wages and benefits, ₱40 million to our capital providers through dividends and interest payments and ₱66 million to our suppliers and service providers through professional fees and contractual payments. We also directly contributed ₱3 million to the government by paying taxes, which enables it to operate and fund its public services.

### Direct Economic Value Generated and Distributed

| Disclosure (amounts in '000 Philippine Pesos) | |
|---|---|
| *Direct economic value generated* | |
| a. Revenue | ₱396,044 |
| b. Other income | 8,645 |
| *Direct economic value distributed:* | |
| a. Operating costs | 140,701 |
| b. Employee wages and benefits | 203,824 |
| c. Payments to suppliers, other operating costs | 66,405 |
| d. Dividends given to stockholders and interest payments to loan providers | 39,935 |
| e. Taxes given to government | 3,352 |
| f. Non-core income | - |
| g. Income Tax | 2,873 |
| **Economic value retained** | **(52,403)** |

### *Our Governance*

We believe that effective corporate governance is a necessary component of what constitutes strategic business management and we have therefore committed ourselves to continuously undertake every effort necessary to create awareness on good governance practices within our organization.

In promoting a higher standard of quality and business integrity, we emphasize our commitment to ethical business operations through our Code of Business Conduct and Ethics which is openly available and widely disseminated to our stakeholders. It is found on our website and is also extensively discussed in the requisite orientation sessions for new employees. It includes our policies and approaches on:

1. compliance and regulatory issues;
2. relationship and fair dealing;
3. conflict of interest;
4. confidentiality;
5. risk management;
6. shareholder and investor relations; and
7. corporate social responsibility.

These written policies are reinforced with robust processes that are monitored by the Board. For example, our zero-tolerance approach to bribery or corruption is actively communicated through training and information sessions. In 2019, 100% of our employees, business partners, directors and management received anti-corruption training, resulting in zero incidents of corruption within our organization.

### Training on Anti-corruption Policies and Procedures

| Disclosure | |
|---|---|
| Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to | 100% |
| Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to | 100% |
| Percentage of directors and management that have received anti-corruption training | 100% |
| Percentage of employees that have received anti-corruption training | 100% |

### Incidents of Corruption

| Disclosure | |
|---|---|
| Number of incidents in which directors were removed or disciplined for corruption | None |
| Number of incidents in which employees were dismissed or disciplined for corruption | None |
| Number of incidents when contracts with business partners were terminated due to incidents of corruption | None |
| Number of incidents in which directors were removed or disciplined for corruption | None |

### *Our Approach to Procurement*

Procurement practices impact our business operations and quality of service, and offer areas for us to improve our cost-efficiency. With this in mind, we implement procurement policies that uphold our core values of fairness, accountability, integrity, and transparency in our businesses. In particular, we require our suppliers to undergo an accreditation process before they engage in any activity with our company.

Our Accreditation Policy summarizes our approach and standards to supplier engagement. It sets the processes of vendor accreditation and competitive bidding as the general rule, while maintaining equal opportunity and honest treatment of suppliers in all business transactions. The policy establishes practices to ensure that contracts are awarded only to qualified and duly accredited suppliers and vendors with proven track record to deliver requirements and who offer the best value for money. Each offer is assessed based on objective criteria and alignment with our business goals, which take into account market intelligence and insight on how we can make informed decisions in key aspects such as which technologies to procure and vendors to partner with.

In 2019, we had a total of 51 suppliers, 45 of which or 92% are local companies.

***Our Risk Management and Business Continuity***

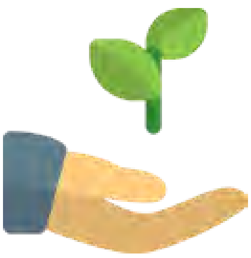
Our sustainability journey helped us refine our risk management program, including enterprise risk management and plans for business continuity. In particular, our risk management framework provides guidelines in dealing with:

1. operational risks;
2. cybersecurity risks;
3. risks from new technologies;
4. risks from competition;
5. regulatory risks;
6. reputational risks; and
7. climate-related risks.

It has been informed by intelligence on new markets, government policies and climate change impacts and is regularly updated to ensure that these risks are constantly examined and addressed to minimize possible financial impacts.

Part of our risk management strategies is our Business Continuity Plan (BCP) which identifies potential risks and impacts of various types of business and operational disruptions on the company's operations, and outlines actions needed to be implemented to mitigate those risks. The plan aims to facilitate immediate recovery and continuity of business operations as well as the protection of personnel and assets so they are able to function in the event of any possible operational and climate-related risks. Implementation of this strategy is headed by our Board Risk Oversight Committee (BROC), and assisted by the Head of the Legal Department, Corporate Secretary, Financial Controller, Audit and Risk Officer, Vice-President for Network Engineering and Operations Management.

Other actions contained in our BCP that we have started implementing are: formation of a Crisis Management Plan in light of climate-related risks, provision of incidental expenses associated with such risks, conduct of regular emergency drills and continuation of providing medical insurance to its employees. For incident management, we have equipped contingency vehicles and business continuity responders.



## Planet – Our Environmental Performance

We only have one planet, so we take it upon ourselves to reduce our negative impacts to the environment. We do this by being mindful of our consumption, enjoining our employees to do the same and investing in new technologies that are environmentally-friendly. Examples of our programs and future improvements include:

### Environmental Compliance

In 2019, as in previous years, we have not incurred penalties or sanctions for non-compliance with environmental law and regulations. This is a testament to our commitment and actions to ensure compliance with all requirements. While the Environmental Management Bureau (EMB) of the DENR issued us a Certificate of Non-Coverage (CNC) to cover all our operational activities, we still consistently analyze how we can maintain public trust, particularly towards our connection activities. For example, we hold regular meetings on Health, Safety, and Security before and after operational activities to ensure that our fieldwork does not disturb local ecosystems, including cutting of trees, and improper disposal of large volumes of fiber-optic cables.

### Non-compliance with Environmental Laws and Regulations

| Disclosure | Quantity | Units |
|---|---|---|
| Total amount of monetary fines for non-compliance with environmental laws and/or regulations | None | ₱ |
| No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations | None | # |
| No. of cases resolved through dispute resolution mechanism | None | # |

### Consumption

As we begin to be more mindful of our carbon footprint, we have started recording and monitoring our energy and water consumption for the year, as well as the volume of materials we have utilized in our operational activities.

These baseline figures make us aware of how our business contribute to the overall depletion of the planet's resources and would thus be our basis for our reduction targets to ensure sustainability of our operations. In 2019, we have recorded our electricity consumption at 477,840 kWh in our head office, diesel consumption at 25,931 liters for our fleet, and water use at 9,662 cubic meters.

In managing our energy consumption, the logistics and administration team implements a regular time-based schedule of switching of lights, aircon, workstations, and other electrical equipment to conserve energy. Carpooling is also encouraged on business trips to save on fuel. We have also started implementing a once-a-week work-from-anywhere (WFA) arrangement for all qualified employees. This has allowed us to significantly lower our carbon footprint and operational costs.

For water consumption, while we have not presented comparative data for 2018, we regard our current performance as an already reduced consumption owing to the measures we have implemented during the year in response to the water supply crisis across Metro Manila. Among these measures are employee awareness initiatives through email announcements and restroom signages as well as lowered water pressure in all restrooms to control water flow and avoid spillage. Our monthly inspections also aimed to avoid water wastage from faucet and toilet leaks.

### Energy consumption within the organization

| Disclosure | Quantity | Units |
|---|---|---|
| Energy consumption (renewable sources) | None | GJ |
| Energy consumption (gasoline) | None | GJ |
| Energy consumption (LPG) | None | GJ |
| Energy consumption (diesel) | 25,931.03* | Liters |
| Energy consumption (electricity) | 477,840.00** | KWh |

*Annual fuel consumption of PT&T's fleet
**Annual electricity consumption at PT&T's head office

### Reduction of energy consumption

| Disclosure | Quantity | Units |
|---|---|---|
| Energy reduction (gasoline) | Minimal | GJ |
| Energy reduction (LPG) | None | GJ |
| Energy reduction (diesel) | Minimal | GJ |
| Energy reduction (electricity) | Minimal | KWh |

### Water consumption within the organization

| Disclosure | Quantity | Units |
|---|---|---|
| Water withdrawal | None | m3 |
| Water consumption | 9,662* | m3 |
| Water recycled and reused | None | m3 |

*Annual water consumption at PT&T's head office

### *Materials Used*

### Materials used by the organization

| Disclosure | Quantity |
|---|---|
| Materials used by weight or volume | |
| • renewable (batteries) | 50 kg/month |
| • non-renewable (fiber-optic cables) | 50 kg/month |
| Percentage of recycled input materials used to manufacture the organization's primary products and services | 10% |

We use fiber-optic cables that are made from extremely abundant silica (quartz sand) which is considered a rapidly renewable material. We however acknowledge that improper maintenance of fiber-optic cables is a risk and may result in injuries or accidents of employees. We address this risk by providing proper training to employees on care and maintenance procedures of fiber-optic cables. Unused damaged fiber-optic cables are also properly collected and disposed of.

### *Environmental Impact Management*

### Air Emissions (GHG)

| Disclosure | Quantity | Units |
|---|---|---|
| Direct (Scope 1) GHG Emissions | Data Not yet Available* | Tonnes CO2e |
| Energy indirect (Scope 2) GHG Emissions | Data Not yet Available* | Tonnes CO2e |
| Emissions of ozone-depleting substances (ODS) | Data Not yet Available* | Tonnes |

*Although these are not yet included in PT&T's environmental performance index, we assure that moving forward, data for GHG will be tracked for Sustainability reporting purposes.

Usage of air conditioning (AC) systems release chlorofluorocarbons (CFCs) and hydrochlorofluorocarbons (HCFCs) which both contribute to global warming and ozone depletion. As of 2019, we had 52 units of AC units (mix of window type, floor, and wall mounted) in our head office building that are regularly in operation during work hours (8:00 AM-5:00 PM). To lessen our impact, our logistics and administration team controls the usage of these AC systems and implements routine check and maintenance to ensure efficiency.

While exact figures of our GHG emissions are not available at the time of reporting, we are committed to lessen our carbon footprint through shifting to AC systems with HCFCs refrigerants for our future purchases instead of CFCs since the former poses lower impacts to the ozone.

### *Solid and Hazardous Waste*

We recognize that improper solid waste disposal can cause health risks to our employees, customers, and communities. That is why we strictly comply with the local government's proper solid waste disposal regulations and implement segregation of biodegradable food wastes from non-biodegradables and recyclables. Collected recyclables are also reused or collected and then sold as scrap materials.

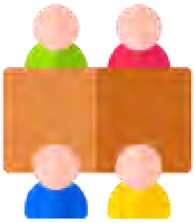
### Solid Waste

| Disclosure | Quantity |
|---|---|
| Total solid waste generated (Food Waste, Cardboards, Papers, Plastic Bottles) | 120 kg/month |
| Reusable (Cardboards, Papers, Plastic Bottles) | 2 kg/month |
| Recyclable (Cardboards, Papers, Plastic Bottles) | 2 kg/month |
| Composted | None |
| Incinerated | None |
| Residuals/Landfilled | None |

Most of the materials we use are supplies in the office and facilities related to our day-to-day operations and marketing/advertising collaterals. In 2019, we have recorded a total of 120kg solid waste per month, of which 4 kgs are reusable and recyclable including papers, carton boxes, plastic bags, and plastic bottles in the head office which are recycled, sold, or properly collected and disposed of. Other solid waste generated are old tires from the company's fleet which we sold to third party contractors through proper bidding.

Going forward, we plan to implement Project Zero (going electronic; paperless environment) in 2020 and we see huge potential from this strategy to decrease our environmental impact and CO2 footprint.

## People – Our Social Performance



Our efforts to positively contribute to the social sector of the country is anchored on our mission to enable Filipinos to enrich their lives and connect communities through digital service. Years 2017 to 2019 have been notably productive years for us in terms of increasing our social impact as we have transitioned during this period to the new PT&T under new ownership, stronger management team and expanded nationwide coverage which covers 40% of the country's population in high growth developing areas.

### *Employee Management*

Our people are our most important resource in bringing PT&T forward and creating lasting value. With this in view, we seek to enhance their development, guarantee full respect for human rights, and uphold the dignity of our human resources. From recruitment to growth, retention and engagement, policies and practices have been put in place to ensure that we maintain fair employment practices that are free from discrimination, harassment and all forms of sexual intimidation and exploitation, and give equal access and opportunities to all employees.

As mindful practitioners of equal opportunity hiring process, prospective employees are selected based on their educational qualifications, professional skills and relevant work experience. Our recruitment framework adheres to the Labor Code, Code of Conduct and RA 10911 or known as the Anti-Age Discrimination in Employment Act.

We employed 234 individuals during 2019, of which 40% are females and 60% are males. While the gender-balance ratio reflects the lower labor participation rate of women in the country's workforce, we continue to encourage female talent and support mentoring opportunities from our senior employees to add richness to our diverse and inclusive culture.

**Employee data**

| Disclosure | Quantity | Units |
|---|---|---|
| Total number of employees | 234 | # |
| a. Number of female employees | 94 | # |
| b. Number of male employees | 140 | # |
| Attrition rate | 7.26 | rate |
| Ratio of lowest paid employee against minimum wage | N/A | ratio |

**Diversity and Equal Opportunity**

| Disclosure | Quantity | Units |
|---|---|---|
| % of female workers in the workforce | 40% | % |
| % of male workers in the workforce | 60% | % |
| Number of employees from indigenous communities and/or vulnerable sector* | N/A | # |

**Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E).*

Our remuneration practices are linked to the company's values and to the successful delivery of our long-term goals for the benefit of our shareholders and our wider stakeholders. Our compensation and benefits include a fair base salary, government-mandated benefits, and a provision for foreseeable needs of our employees, including but not limited to medical coverage for their families, calamity fund and life and accident insurance.

All our regular employees are entitled to:

- Base Salary;
- Medical Coverage for Employees and their spouses/children;
- Employees' Annual Medical Check-Ups;
- Life and Accident Insurance;
- Annual Vacation Leave – 15 days;
- Annual Sick Leave – 15 days;
- Maternity Benefit;
- Salary Loans;
- Calamity Fund; and
- Flexible Working Arrangement

Utilization of these benefits for the year 2019 has been summarized in the table below.

**Employee benefits**

| List of Benefits | Y/N | % of female employees who availed for the year | % of male employees who availed for the year |
|---|---|---|---|
| SSS | Y | 5.3% | 0.7% |
| PhilHealth | Y | 11.7% | 8.6% |
| Pag-ibig (HDMF) | Y | 2.1% | 5.7% |
| Parental leaves | Y | 6.4% | 2.9% |
| Vacation leaves | Y | 83.0% | 71.4% |
| Sick leaves | Y | 56.4% | 44.3% |
| Medical benefits (aside from PhilHealth) | Y | 30.0% | 20.0% |
| Telecommuting | Y | 5.3% | 5.0% |
| Flexible-working Hours | Y | N/A | N/A |

During the year, we also launched a once a week work-from-anywhere (WFA) arrangement for all qualified employees to decrease operational costs and increase employees' productivity by minimizing travel time. A total of 464 hours were logged on WFA in 2019, which resulted in 649 less commute hours and a reduction in carbon emission by about 10.49 MgCO2. We plan to continue with this arrangement on account of sustained productivity and positive feedback we have gathered from our employees. As a testament to our efforts into taking care of our employees, we have recorded a low attrition rate in 2019, which is at 7.26%.

**Employee Training and Development**

| Disclosure | Quantity | Units |
|---|---|---|
| Total training hours provided to employees | | |
| a. Female employees | 113 | 1,469 hours |
| b. Male employees | 171 | 1,946 hours |
| Average training hours provided to employees | | |
| a. Female employees | 113 | 13.15 hours/ employee |
| b. Male employees | 171 | 11.38 hours/ employee |

Across the company, our culture and practices determine our approach to recruitment and people management, ensuring that we have access to the appropriate skill sets required across the business and that our people are fully engaged. In the area of development, we have adopted a holistic approach for professional development so both our staff and management can envision and plan their personal growth and career development knowing that they are supported by the organization. To give a sense on how we integrate learning opportunities, the table above shows our training and development data.

At a more detailed level, a total of 284 employees have undergone training on business, leadership, technical, and behavioral courses throughout the year. The average training hours received by our female and male employees are within the same range of 11 to 13 hours per employee, emphasizing our commitment to providing gender equality in our workforce.

**Labor-Management Relations**

| Disclosure | Quantity | Units |
|---|---|---|
| % of employees covered with Collective Bargaining Agreements | None | % |
| Number of consultations conducted with employees concerning employee-related policies | None | # |

None of our employees are covered by Collective Bargaining Agreements. We ensure that we maintain a working environment that is conducive to open discussion and collaboration, with the goal of enabling everyone to work together towards better working conditions and enhancing the organization's overall productivity. In 2019, we have no reported issues on labor management relations, and we recorded a 91% rating for employee engagement participation--a testament to our efforts in making our employees feel that they can raise any concerns that may affect their stay with us.

***Workplace Conditions, Labor Standards, and Human Rights***

We consistently comply with all applicable governmental regulations designed to protect the overall well-being of our employees. We provide health care services directed at prevention of disease, protection from health hazards, and maintenance of health. We implement programs designed to promote a culture of healthy lifestyle and disease prevention and maintain a workplace that is free from drug abuse. In addition, we regularly provide learning sessions to increase the skills of our employees in managing their personal finances, mental health and even their spiritual well-being. Our Policy and Data Relating to Health, Safety, and Welfare of Employees Including Company Sponsored Trainings can be found here: https://www.ptt.com.ph/policies/#health-safety-welfare

## Occupational Health and Safety

| Disclosure | Quantity and Units |
|---|---|
| Safe Man-Hours | 53,760* Man-hours |
| No. of work-related injuries | None |
| No. of work-related fatalities | None |
| No. of work-related ill-health | None |
| No. of safety drills | 1 |

**Since new management took over in August 2017*

## Labor Laws and Human Rights

| Disclosure | Quantity |
|---|---|
| No. of legal actions or employee grievances involving forced or child labor | None |

We follow both principles of fairness and openness in all our employee-related process. We do not use forced or compulsory labor, and do not use child labor or employ people under minimum employment age limit. We strictly comply to government regulations on basic human rights as provided under the Philippine Constitution and the Universal Declaration of Human Rights. We however recognize the need to explicitly denounce forced labor and child labor in our policies and are committed to enact necessary revisions. We are actively coordinating with several groups, agencies, and organizations that focus on human/labor rights to further shape our current policy and impose the rule of law against forced and child labor.

***Relationship with Community***

While we have not made direct donations to local communities, we believe we have created positive impact to the social sector through the connectivity and IT services that we provide to our subscribers. As of end of 2019, we had over 1,800 customers, with more than 85% retailers.

Our affordable rates and customized services have allowed us to realize our goal of connecting communities and empowering Filipinos to enrich their lives through digital service. Our diverse client base is in itself a testament of how we positively contribute to nation-building through our digital services.

As we embark on a network transformation plan, rollouts may have to be made in areas where indigenous people reside. We plan to consult these communities to promote healthy collaboration, support them economically, and build trust-based relationships. We also see an opportunity to focus on our communication and stakeholder engagement while ensuring minimal to no collision with the surrounding local community where projects/plans are to be rolled-out. Beyond compliance, our commitment to sustainability is realized through continuous interactions with the affected stakeholders, most importantly with local communities.

*Customer Management*

**Customer Satisfaction**

| Disclosure | Score | Did a third-party conduct the customer satisfaction study (Y/N)? |
|---|---|---|
| Customer satisfaction | 68% | N |

Because the value we create for the wider society is through our broadband internet access services, it means that customer satisfaction is both an economic and societal goal for us. We treat our customers as the direct constituents of the nation we are helping build. Along with our employees, management and suppliers, they are the immediate community we need to protect and serve.

It is therefore imperative that we carry out strict quality control to guarantee product safety, information accuracy, customer privacy and data security. These efforts have resulted in zero substantiated complaints and will hopefully pave the way towards increased confidence towards our brand.

And on top of all, we have put in place a dedicated Customer Retention (CRD) team whose primary responsibility is to promptly respond and address operational and technical issues encountered by our customers. In 2019, our customer satisfaction score was 68% and the most common challenges reported by our customers involved billing and payment (for non-technical calls), reports on service reliability (for technical calls), and follow-ups on application and repair. We expect to see an increase in this measure in 2020, owing to the time and resources we have devoted to improve our customers' experience such as resolving more technical issues upon first contact in our hotline (remote issue resolution) that reduces the need for a customer to wait for a technician's visit.

## Our UN Sustainable Development Goals

**Broadband.** We provide connectivity through broadband high-speed internet access via fiber and wireless. We define our value creation by promoting a culture of responsible stewardship so we can empower the public and private sector to advance the Philippine economy's progress and growth.


**IT Services.** We aspire to become a full suite digital services provider. We enable corporate and small and medium businesses to be market relevant through our wide range of offerings under Connectivity, Security and Availability, and Information Technology Solutions segments.

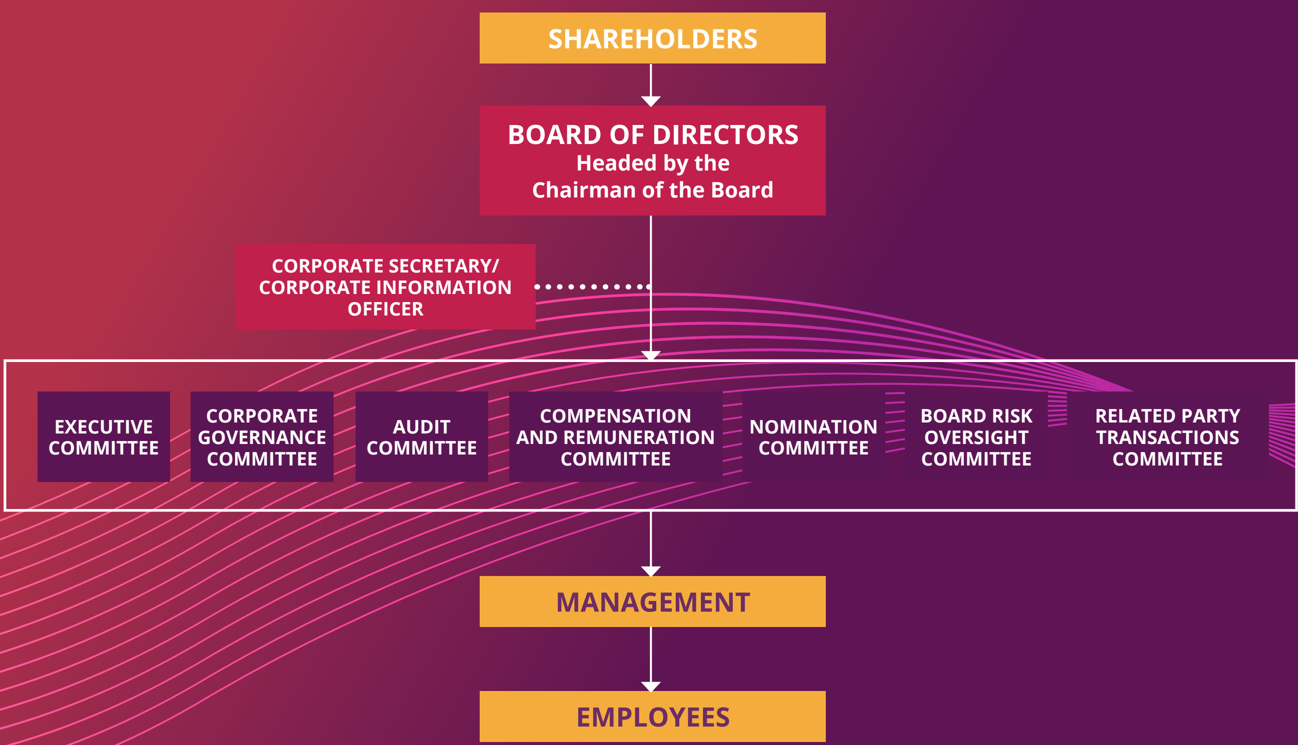
# CORPORATE GOVERNANCE

# CORPORATE GOVERNANCE REPORT

Philippine Telegraph and Telephone Corporation (PT&T or Company) is strongly committed in observing the highest standards of corporate governance to serve the best interests of all stakeholders. The Board of Directors, Management, employees, and shareholders of PT&T believe that effective corporate governance is a necessary component of what constitutes sound strategic business management. PT&T will continuously undertake every effort necessary to create awareness of good corporate governance within the company and to sustain increased value for its shareholders.

Maintaining this strong foundation of good governance becomes more essential as a guide to PT&T's attainment of its corporate goals as it grows both in its existing space and in the new markets it enters. PT&T hereby declares its continuing commitment to its Vision, Mission, and Corporate Values.

PT&T institutionalized the principles of good corporate governance practices and these can be found in our Articles of Incorporation and By-laws. PT&T is in full compliance with the Code of Corporate Governance, the rules of the Philippine Stock Exchange (PSE), and regulations issued and adopted by the Securities and Exchange Commission (SEC).



## BOARD OF DIRECTORS

### Key Roles and Responsibilities

- Compliance with the principles of good governance shall start with the Board of Directors (Board). It shall be the Board's responsibility to foster the long-term success of the Company and secure its sustained competitiveness in the global environment in a manner consistent with its fiduciary responsibility which it shall exercise in the best interest of the Company, its stockholders, and other stakeholders.
- To ensure good governance in the Company, the Board should establish the vision and mission, strategic objectives, and key policies and procedures for the management of the Company. The Board shall likewise establish a mechanism for monitoring and evaluating Management's performance.
- To the extent set forth above, the Board shall orient all its activities towards three (3) general guidelines:
  - All actions taken by the Board are subject to the principle of legal permissibility. The Board must not violate any law, rule or regulation, and the Company's constitutive documents.
  - All actions taken by the Board are subject to the principle of economic usefulness. The Board should contribute to increasing the value of the Company in a sustainable manner.
  - The Board should, when carrying out its duties, be aware of its duty as the governing body of a publicly-listed company.
- The Board shall ensure the presence and adequacy of internal control mechanisms for good governance. The minimum internal control mechanisms for the Board's oversight responsibility include, but shall not be limited to:
  - Ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system;
  - Reviewing conflict-of-interest situations and providing appropriate remedial measures for the same;
  - Appointing a Chief Executive Officer (CEO) with the appropriate ability, integrity, experience, and defining the duties and responsibilities of the CEO;
  - Reviewing proposed senior management appointments;
  - Ensuring the selection, appointment and retention of qualified and competent management;
  - Reviewing the Company's personnel and human resources policies, compensation plan, and the management succession plan;
  - Institutionalizing the internal audit function; and
  - Ensuring the presence of, and regularly reviewing, the performance and quality of external audit.

### Composition

The Board shall be composed of nine (9) members who are elected by the Company's stockholders and shall hold office for one year and until their successors are elected and qualified in accordance with the By-laws of the Company. The Board shall have at least two (2) Independent Directors or such number of Independent Directors that constitutes twenty percent (20%) of the number of the members of the Board. The Independent Directors shall be identified on the annual report.

The membership of the Board may be a combination of executive and nonexecutive directors (which include Independent Directors) in order that no director or small group of directors can dominate the decision-making process. As a board diversity policy, no director or candidate for directorship shall be discriminated upon by reason of gender, age, disability, ethnicity, nationality, or political, religious, or cultural backgrounds.

**QUALIFICATIONS AND DISQUALIFICATIONS OF DIRECTORS**

In addition to the qualifications for membership in the Board provided for in the Revised Corporation Code, Securities Regulation Code, and other relevant laws, the Director of PT&T shall have the following qualifications:

- Ownership of at least one (1) share of the capital stock of the Company;
- College education or equivalent academic degree;
- Practical understanding of the business of the corporation and/or business experience;
- Membership in good standing in relevant industry, business or professional organizations; and
- Possesses integrity, probity, and shall be diligent and assiduous in the performance of his functions.

**Disqualifications of Directors**

- Any person convicted by a competent judicial or administrative body of any crime that (a) involves purchase or sale of securities, e.g., propriety or non-proprietary membership certificate, commodity futures, contract, or interest in common trust fund, preneed plan, pension plan or life plan; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
- Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, :investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or :investment company; (c) engaging in or continuing any conduct or practice :in any of the capacities mentioned :in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.;
- The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership participation or association with a member or participant of the organization;
- Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;
- Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;

Any person judicially declared as insolvent;
Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs above;

- Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.
- Any person engaged in any business which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged -
    - If he is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of any corporation) other than one in which the Corporation owns at least 30% of the capital stock) engaged in a business which the Board, or at least three-fourths (3/4) vote, determines to be competitive or antagonistic to that of the Corporation; or
    - If he is an officer, manager or controlling person of, or the owner of any outstanding class of shares of any other corporation or entity engaged in any line of business of the Corporation, when in the judgment of the Board, by at least three-fourths (3/4) vote, the laws against combinations in restraint of trade shall be violated by such person's membership in the Board of Directors; or
    - If the Board, in exercise of its judgment in good faith, determines by at least three-fourths (3/4) votes that he is the nominee of any person set forth in the foregoing paragraphs.

In determining whether or not a person is a controlling person, beneficial owner, or the nominee of another, the Board may take into account such factors as business and family relations.

**Temporary Disqualifications of Directors**
In addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, the Director of PT&T shall have the following qualifications:

- Ownership of at least one (1) share of the capital stock of the Company.
- College education or equivalent academic degree;
- Practical understanding of the business of the corporation and/or business experience;
- Membership in good standing in relevant industry, business or professional organizations; and
- Possesses integrity, probity, and shall be diligent and assiduous in the performance of his functions.

**GENERAL RESPONSIBILITIES OF THE BOARD FOR GOOD GOVERNANCE**

a. Compliance with the principles of good governance shall start with the Board of Directors. It shall be the Board's responsibility to· foster the long-term success of the Corporation and secure its sustained competitiveness in the global environment in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Company, its stockholders and other shareholders.
b. To ensure good governance of the Corporation, the Board should establish the vision and mission, strategic objectives and key policies and procedures for the management of the Corporation, as well as the mechanism for monitoring and evaluating Management's performance.
c. To the extent set forth above, the Board of Directors shall orient all its activities towards three (3) general guidelines:
    i. All actions taken by the Board are subject to the principle of legal permissibility. They must therefore not infringe on the appropriate provisions of Philippine law and the Corporation's constitutive documents.


*Board of Directors during the 2019 Annual Stockholders' Meeting*

ii. All actions taken by the Board are subject to· the principle of economic usefulness. They should accordingly contribute to increasing the value of the Corporation in a sustainable manner.
iii. The Board should, when carrying out its duties, be aware of its duty as the governing body of a publicly-listed company.

d. The Board shall ensure the presence and adequacy of internal control mechanisms for good governance. The minimum internal control mechanisms for the Board's oversight responsibility include, but shall not be limited to:
i. Ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system;
ii. Reviewing conflict-of-interest situations and providing appropriate remedial measures for the same;
iii. Appointing a CEO with the appropriate ability, integrity, and experience to fill the role; and defining the duties and responsibilities of the CEO;
iv. Reviewing proposed senior management appointments;
v. Ensuring the selection, appointment and retention of qualified and competent management; reviewing the Corporation's personnel and human resources policies, compensation plan and the management succession plan;
vi. Institutionalizing the internal audit function;
vii. Ensuring the presence of, and regularly reviewing, the performance and quality of external audit.

**BOARD COMMITTEES**

The Board of Directors may create such committees as it may deem necessary to support it in the performance of its functions and in accordance with the By-Laws of the company and to aid in good governance. The Board may delegate part of its rights and responsibilities to any of its committees. The committees shall be composed of Board members specifically chosen for their background and areas of expertise that will allow them to adequately perform the functions assigned to their committee. Membership of the committees shall be reviewed annually, subject to the approval of the Board.

The Board of Directors is supported by seven (7) committees, namely: the (i) Executive Committee, (ii) Nomination Committee, (iii) Audit Committee, (iv) Compensation and Remuneration Committee, (v) Board Risk Oversight Committee, (vi) Related Party Transactions Committee, and (vii) Corporate Governance Committee. These committees are required to report to the Board a summary of the actions taken on matters submitted to them for consideration. Each committee shall be guided by its own charter, to be approved by the Board, and shall be supported by the Office of the Corporate Secretary in the performance of its functions.

The Board may establish such other committees as may be deemed necessary for the efficient and effective performance of its functions.

**Executive Committee**

The Executive Committee shall be composed of three (3) members consisting of the Chairman of the Board of Directors, the President and a Director to be jointly appointed by the Chairman and the President. In the exercise of its functions the Committee shall be assisted by the Chief Financial Officer, Financial Controller, General Manager for Fixed Broadband, General Manager for IT Services and other officer as may be deemed necessary by the Committee. The Committee has the power to pass and act upon all matters as the Board of Directors may entrust to it for action in between meetings of the Board of Directors except those actions which, under the law, require the approval of the Board of Directors as a whole and/or shareholders.

**Corporate Governance Committee**

The Committee shall be composed of at least three (3) members, majority of whom shall be Independent Directors including the Chairman. In the exercise of its functions the Committee shall be assisted by the Corporate Secretary, Investor Relations Manager and Corporate Information Officer. One of its tasks is to ensure compliance to corporate governance principles and practices including legal and regulatory compliance.

**Audit Committee**

The Audit Committee shall be composed of such number of members as the Board of Directors shall determine but shall in no case be less than three (3) incumbent members of the Board of Directors the majority of which shall be Independent Directors. An Independent Director shall chair the Audit Committee. Each member of the Committee shall, as far as practicable, have an understanding of accounting and auditing principles in general and of the Company's financial management systems. In the exercise of its functions the Committee shall be assisted by the Chief Financial Officer, Financial Controller, Audit and Risk Officer, and appropriate personnel from the Finance Department. One of its tasks is to review the financial statements and related disclosures and reports certified by the Chief Financial Officer and released to the public or submitted to the Securities and Exchange Commission for compliance with regulatory requirements.

**Related Party Transactions Committee**
The Related Party Transactions Committee shall be composed of such number of members as the Board may designate but in no case less than three (3) members, majority of whom shall be Independent Directors. An Independent Director shall chair the Committee. The members of the Committee shall, as far as practicable, have an adequate working knowledge, experience or expertise that is relevant to the Company's operations and financial management systems and controls, and, in particular, an understanding of the Company's regulatory environment. In the exercise of its functions the Committee shall be assisted by the Chief Finance Officer, Financial Controller, Head of the Legal Department and representative from the Treasury. One of its tasks is to support the Board of Directors in the optimal performance of its responsibilities in ensuring checks and balances in material related party transactions.

**Nomination Committee**
The Nomination Committee shall be composed of three (3) incumbent members of the Board of Directors and one (1) of whom shall be an Independent Director who shall chair the Committee. The members of the Committee shall designate a Vice-Chairman who shall preside over the meetings of the Committee in the absence of the Chairman. In the exercise of its functions the Committee shall be assisted by the Chief People and Culture Officer, Investor Relations Manager, Corporate Information Officer and other officer as may be deemed necessary by the Committee. One of its tasks is to screen and shortlist individuals nominated for Directors to ensure that all of them has the qualifications and none of the disqualifications specified under the relevant and applicable law, rule or regulation issued by appropriate government agencies including those provided in the Company's By-Laws and Manual on Corporate Governance.

**Compensation and Remuneration Committee**
The Compensation and Remuneration Committee shall be composed of such number of members as the Board of Directors shall designate but shall in no case be less than three (3) incumbent members of the Board of Directors. In the exercise of its functions the Committee shall be assisted by the Chief People and Culture Officer and Financial Controller. One of its tasks is to establish a formal and transparent procedure for developing a policy on executive remuneration and for the fixing of remuneration packages of Directors and officers and provide oversight over remuneration of officers and other key personnel ensuring that compensation is consistent with the Company's culture, strategy and control environment.

**Board Risk Oversight Committee**
The Board Risk Oversight Committee shall be composed of three (3) members, majority of whom shall be Independent Directors. An Independent Director shall chair the Committee. In the exercise of its functions the Committee shall be assisted by the Head of the Legal Department, Corporate Secretary, Financial Controller, Audit and Risk Officer, Vice-President for Network Engineering and Operations Management and other officer as may be deemed necessary by the Committee. One of its tasks is to develop a formal enterprise risk management plan which contains the following information: (i) registry of risks, (ii) well-defined risk management goals, objectives and oversight, (iii) uniform processes of assessing risks and developing strategies to manage prioritized risks, (iv) designing and implementing risk management strategies, and (v) continuing assessments to improve risk management strategies, processes and measures.

## MEMBERS OF THE BOARD OF DIRECTORS, ATTENDANCE, AND COMMITTEE MEMBERSHIP

During the year, the Board of Directors held six (6) Regular Board Meetings, one (1) Special Board Meeting, and one (1) organizational meeting.  The table below summarizes the record of attendance of the directors at the meetings held in 2019.

| Name of Director | Board Membership | Jan 11 (R) | Feb 8 (S) | Mar 27 (R) | May 6 (R) | Jun 28 (A/O) | Aug 16 (R) | Nov 15 (R) | Dec 20 (R) |
|---|---|---|---|---|---|---|---|---|---|
| Salvador B. Zamora II | Chairman | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| James G. Velasquez | Director | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Miguel Marco A. Bitanga | Director | -- | -- | -- | -- | ✓ | ✓ | ✓ | ✓ |
| Salvador T. Zamora III | Director | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Renato B. Garcia* | Director | ✓ | ✓ | ✓ | ✓ | -- | -- | -- | -- |
| Serafin C. Ledesma, Jr. | Independent Director | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | -- |
| Roberto B. Ortiz | Independent Director | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Bienvenido S. Santos | Independent Director | -- | -- | -- | -- | -- | | ✓ | -- |

**Renato B. Garcia served as Director until June 27, 2019*

*Legend:  (✓ – present; (--) – absent; (R) – Regular Board Meeting; (S) – Special Board Meeting; (A/O) – Annual Stockholders'/Organizational Meeting*

The table below summarizes the attendance of the Board of Directors during the June 28, 2019 Annual Stockholders' Meeting and their memberships in the different Committees:

| Name of Director | Attended | Committee Membership |
|---|---|---|
| Salvador B. Zamora II | Yes | Executive (Chairman) |
| James G. Velasquez | Yes | Executive<br>Nomination<br>Audit<br>Compensation and Remuneration<br>Risk Oversight<br>Corporate Governance |
| Miguel Marco A. Bitanga | Yes | Executive<br>Nomination |
| Salvador T. Zamora III | Yes | Compensation and Remuneration<br>Related Party Transactions |
| Serafin C. Ledesma, Jr. | Yes | Nomination<br>Audit<br>Related Party Transactions<br>Corporate Governance |
| Roberto B. Ortiz | Yes | Audit<br>Risk Oversight<br>Related Party Transactions |
| Bienvenido S. Santos | Yes | Compensation and Remuneration<br>Risk Oversight<br>Corporate Governance |

2019 Annual Stockholders' Meeting, Makati City


## BOARD MEETINGS AND QUORUM REQUIREMENT

The Directors of the Board should attend and actively participate in the regular and special meetings in person or through teleconferencing or videoconferencing or by any other technological means allowed by the SEC.

Independent Directors should always attend Board meetings. Unless otherwise provided in the by-laws, their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one Independent Director in all its meetings.

The Board shall designate the days when it shall meet, but it shall meet at least six (6) times each calendar year.

## MANAGEMENT

Management stands as the locus of decision-making for the day-to-day affairs of the Company. It determines the Company's activities by putting the Company's targets in concrete terms and by formulating the basic strategies for achieving these targets. It also puts in place the infrastructure for the Company's success by establishing the following mechanisms in the organization:

a. Purposeful legal and organizational structures that work effectively and efficiently in attaining the goals of the Company;
b. Useful planning, control, and risk management systems that assess risks on an integrated cross-functional approach;
c. Information systems that are defined and aligned with Information Technology strategy and the business goals of the Company;
d. A plan of succession that formalizes the process of identifying, training and selection of successors in key positions in the Company.

Management is primarily accountable to the Board for the operations of the Company. As part of its accountability, it is also obligated to provide the Board with complete, adequate information on the operations and affairs of the Company in a timely manner.

**THE CORPORATE SECRETARY**

The Board is assisted in its duties by a Corporate Secretary who is a separate individual from the Compliance Officer of the Company. The Corporate Secretary ensures that the Board and the Management will follow internal and external rules and regulations. He facilitates clear communications and work fairly and objectively with the Board, Management, stockholders, and other stakeholders. He also serves as an adviser to the Directors on their responsibilities and obligations.

Considering his varied functions and responsibilities, the Corporate Secretary must possess organizational and interpersonal skills, and the legal skills of a Chief Legal Officer. He must also have some financial and accounting knowledge. The Corporate Secretary shall have the following functions:

a. Serve as an adviser to the Directors on their responsibilities and obligations;
b. Keep the minutes of meetings of the stockholders, the Board of Directors, the Executive Committee, and all other committees in a book or books kept for that purpose, and shall furnish copies thereof to the Chairman, the President and other members of the Board as appropriate;
c. Work fairly and objectively with the Board, Management, stockholders and other stakeholders;
d. Have charge of the stock certificate book and such other books and papers as the Board may direct;
e. Attend to the giving and serving of notices of Board and shareholder meetings;
f. Be fully informed and be part of the scheduling process of other activities of the Board;
g. Prepare an annual schedule of Board meetings and the regular agendas of meetings, and put the Board on notice of such agenda at every meeting;
h. Oversee the adequate flow of information to the Board prior to meetings;
i. Ensure fulfillment of disclosure requirements to the SEC and the PSE.

The Corporate Secretary shall have such other responsibilities as the Board of Directors may impose upon him. The Board shall have separate and independent access to the Corporate Secretary.

**THE COMPLIANCE OFFICER**

To ensure adherence to corporate principles and best practices, the Board shall appoint a Compliance Officer. The Compliance Officer monitors compliance by the Company with the Corporate Governance Manual (Manual) and the rules and regulation of various regulatory agencies.

**THE CORPORATE GOVERNANCE OFFICE**

The Corporate Governance Office is the unit tasked to formulate and implement the initiatives and policies on good corporate governance. It shall continuously conduct orientation to all the Company's employees and business partners on the Company's governance policies, particularly on matters contained in the Manual and the Code of Business Conduct and Ethics.

Among the mandates of the unit is the continuous identification of gaps and challenges on corporate governance practices across the Company. This allows the unit to propose improvements on the Company's policies based on international corporate governance standards. The unit also provides timely updates to the Board and the Management on the current and best practices on corporate governance in the industry and globally.

**THE INTERNAL AUDIT**

The Internal Audit conducts an independent, objective assurance, and consulting activity designed to add value and improve the Company's operations. The Internal Audit shall perform its functions faithfully and independently from the Management and controlling shareholders. The Internal Audit shall perform the following duties:

- The Internal Audit shall provide independent and objective assurance and advisory services to the Company designed to add value and improve on the Company's operations. It shall perform its auditing functions faithfully by maintaining independence from the Management and controlling shareholders;
- Provide the Board, Management, the stockholders, and other stakeholders an effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Company for the benefit of all stockholders and other stakeholders. It shall also provide reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate, and complied with;
- The Internal Audit shall review, audit and report on, among others, the effectiveness of the system of organizational controls, taking into account the nature and complexity of the business and the business culture, the volume, size and complexity of transactions, the degree of risk, the degree of centralization and delegation of authority, the extent and effectiveness of information technology, and the extent of regulatory compliance;
- The Internal Audit shall be headed by a qualified Internal Audit Group Head appointed by the Board of Directors and shall preferably be a Certified Public Accountant and/ or a Certified Internal Auditor. The Internal Audit Head shall report to the Audit Committee of the Board of Directors.
- The Internal Audit shall monitor and evaluate the Company's governance processes.

**THE INDEPENDENT EXTERNAL AUDITOR AND ITS REMUNERATION**

The Board, through the Audit Committee, shall recommend to the stockholders a duly accredited external auditor who shall undertake an independent audit and shall provide an objective assurance on the way in which the financial statements shall have been prepared and presented. The External Auditor shall:

- Perform fair audits independently from the Company, its management and controlling shareholders, so that shareholders and other users may maintain confidence in the Company's accounting information;
- Check whether any fact conflicts with the audit results in the information disclosed regularly with the audited financial statements, and demand correction, if necessary;
- Attend the annual stockholders meeting and answer any questions on audit reports and on themselves, their work and their remuneration;
- Perform such other functions as may be approved by the Board in its engagement of the auditor provided, however, that non-audit work shall not conflict with the functions of the auditor as external auditor.

The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the Company's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which if not resolved to the satisfaction of the former auditor, would have caused making reference to the subject matter of the disagreement in connection with its report.

If an external auditor believes that the statements made in an annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall also present his views in said reports.

| **External Audit Fees** | Audit and Audit-Related Fees of the Company | |
|---|---|---|
| | CY2019 | CY2018 |
| Expenses | ₱990,000 | ₱1,842,250 |
| VAT | ₱118,800 | ₱221,070 |
| **TOTAL** | **₱1,108,800** | **₱2,063,320** |

## CODE OF BUSINESS CONDUCT AND ETHICS

The Company's Code of Business Conduct and Ethics aims to promote a higher standard of quality and business integrity to support the company's business principles and nine core values which are Commitment to Excellence, Customer-Centricity, Collaboration, Honor, Agility, Accountability, Innovation, Nation, and Stakeholder Value. It embodies this unwavering commitment, and sets forth policies and guidelines on the following:

1. Compliance and Regulatory Issues

   The Company shall strictly adhere and comply with all laws, rules and regulations especially those which are enacted for the purpose of regulating the Company's business and operations. The Company recognizes the importance of this policy being a publicly listed company whose operations and services are imbued with public interest.

   Internally, the Company shall impose rules and regulations that would ensure that the Directors, officers and employees shall adhere to all applicable laws, rules and regulation and to faithfully comply the policies of the Company which are intended to achieve such goal.

2. Relationship and Fair Dealing

   The Company shall provide adequate, reliable and efficient service at reasonable cost to all customers. The Company shall always be mindful that it is a grantee of a legislative franchise that is tasked, first and foremost, to provide a basic service to the public.

   The Company shall treat its employees fairly and will not tolerate acts of discrimination on account of gender, religion, age, nationality, family status or other reasons prohibited by law. The hiring, compensation, promotion and other personnel development within the Company shall be strictly based on qualification and performance.

   The Company shall promote a culture that would develop harmonious relationship between different departments and among its employees based on mutual understanding, trust and respect.

   The Company shall treat everyone with respect. In all its transactions and dealings with its customers, business partners, suppliers and employees, the Company shall always be guided by the principle of good faith and professionalism.

3. Conflict of Interest

   As a policy, the Company shall ensure that its Directors, officers and employees shall always act in the best interest of the Company and avoid activities or dealings which could impair their ability to uphold the best interest of the Company.

   There is a conflict of interest when: (i) the private interest of a Director, officer or employee interferes or appears to interfere with the interests of the Company; of (ii) a Director, officer or employee takes actions or has interests that would make it difficult to perform his or her work with the Company objectively and effectively.

The possible cause of conflict of interest shall include, but are not limited to, the following:

- Corporate Opportunity – this pertains to the use of Company's properties, information, influence or position for personal gain;
- Relationships – this refers to situations where the judgment or act of a Director, officer or employee is motivated by personal relationships and considerations to the detriment of the interests of the Company;
- Gifts – Directors, officers and employees of the Company are absolutely prohibited from receiving any gift, directly or indirectly, that was given by reason of their position in the Company or in consideration of any act or favor to benefit a specific person, firm or entity. The term "gift" shall be understood as a right or anything of value like cash, reward, commission, offers to travel and other form of benefits;
- Outside Investments – the Directors, officers and employees are advised to refrain, if possible, from making any investments in another company or organization whose businesses are in direct competition with the Company. Should the said investment not be avoided, the Director, officer or employee concerned shall not participate in any activity or decision-making process involving another person, company, firm or organization in which he or she has personal relationship or substantial financial interest;
- Outside Employment – the Executive Directors, officers and employees owe the Company their utmost loyalty and they are absolutely prohibited from accepting any other form of employment from another company. The Non-Executive Directors may be elected a s director of another company or may accept employment form other companies provided that the said companies are not engaged in activities or businesses that directly or indirectly competes with the business of the Company.

4. Confidentiality

The Company shall enact policies that are intended to protect its proprietary and confidential information and to ensure that the said policies are strictly adhered to by the Directors, officers and employees of the Company.

The employees recognize the importance of maintaining the confidentiality of all the Company's proprietary information and the employees categorically agree to prevent loss, misuse, theft, fraud and improper access of such confidential and proprietary information. The employees undertake not to tolerate acts of the Directors, officers and employees which violates this policy.

The employees further undertake to report to the concerned or appropriate officers any unauthorized use, disclosure or loss of any of the Company's confidential and proprietary information.

5. Risk Management

The Company recognizes that risks are inherent in every business or commercial undertaking. Given the interest of the public on the services that the Company provides and its duties and responsibilities to its shareholders and investors, there is an imperative need for the Company to prevent and minimize the risks in every transaction or business venture that it will be engaging in to.

The Company shall recognize, track, monitor, assess and manage every form of risk in its operations and business dealings. The employees shall strictly adhere in every policy that the Company shall enforce which are intended to recognize, anticipate, monitor and address the risks in its operations.

6. Shareholder and Investor Relations
   The Company shall, at all times, respect and protect the rights and interests of its shareholders and investors. In all its business dealings and transactions, the Company shall be mindful of the shareholders and investors right of a fair return of their investment. The Company or any of its Directors, officers or employees shall not act or omit to perform any act that would tend to put at risk and jeopardize the value of investments made in the Company.

   The Company shall recognize the right of every shareholder to inspect the Company's books and records in accordance with the law. The Company shall refrain from doing acts which tends directly or indirectly deny such right of the shareholder except in cases allowed by law.

   To ensure transparency in the Company's true financial condition, the Company shall engage the services of a reputable independent auditor who will audit and prepare the Company's financial statements.

7. Corporate Social Responsibility
   The Company shall initiate or support socio-economic programs and activities that will help promote and improve the lives of the Filipinos.

   The Company shall ensure that it will be conducting its operations in a safe manner not only to protect the lives and welfare of its employees but more importantly, to ensure that the public will not be harmed and affected in any of the Company's activities.

   Copies of the Company's Code of Business Conduct and Ethics have been distributed to all directors, officers, and employees to inform them of the mandates and policies of the company as they are required to adhere to it. Any director, officer, or employee who do not comply with the provisions of the Company's Code of Business Conduct and Ethics shall be subject to a range of disciplinary actions, up to and including dismissal, without prejudice to any civil or criminal proceedings that the company or appropriate regulators may file for violation of existing laws. In addition, violations of these guidelines could result in criminal penalties and/or civil liabilities.

**SUSTAINABILITY**

The Company should recognize and place an importance on the interdependence between business and society, and promote a mutually beneficial relationship that allows the Company to grow its business, while contributing to the advancement of the society where it operates.

**COMPANY WEBSITE**

In the pursuit of the PT&T's drive to continuously improve awareness of best practices in the conduct of its business and operations especially in corporate governance across the organization, including dealings with its business partners and customers, the company constantly updates its website, www.ptt.com.ph, with a section dedicated to corporate governance and investor relations.

The Corporate Governance section of the website contains all disclosures made by PT&T to the PSE and SEC, as well as its Manual, the Code, the Charters of the Board and its Committees, the Policies and other matters and information of relevance to all stakeholders. PT&T discloses its corporate governance practices, corporate events calendar, and other material information on its website in a timely manner.

The Investor Relations section houses all information that may be required by the investors, shareholders, and stakeholders.

The site has been enhanced to be user-friendly and is accessible to the public at all times.

# BOARD OF DIRECTORS

**Salvador B. Zamora II**
**Chairman of the Board**

Mr. Salvador "Buddy" Zamora II has been the Chairman of PT&T since August of 2017. He is a renowned industry player throughout the country. He is also the Chairman and Chief Executive Officer of Tranzen Group Inc., a wholly owned Filipino holding company engaged in renewable energy generation, agro industries, and resort development.

He carved a name for himself in the Philippine mining industry in the 1970's by establishing Nickel Asia Corporation, the largest lateritic nickel ore producer in the Philippines and one of the largest in the world. He was the former President of Nickel Asia Corporation's operational sites: Hinatuan Mining Corporation, Taganito Mining Corporation and Cagdianao Mining Corporation. He served as the President and Chief Executive Officer of Nickel Asia Corporation from 2006 to 2009.

Buddy formed Tranzen Group Inc. in 2008 with a vision to become a leading diversified conglomerate in the country. Tranzen Group along with Carbon Assets Fund of Cayman Island built the Philippines' first methane production plant in Rizal. Also in Tranzen Group's pipeline are significant projects in hydro power generation and mining interest in Dinagat Island.

He is also the Chairman of Philippine Phosphate Fertilizer Corporation, Bacavalley Energy, Inc., One Pacstar Realty Corporation, Two Pactstar Realty Corporation, Agusan Power Corporation, Philphos Trading Inc., Lear Aero Ltd., Inc., Libjo Mining Corporation, and Lake Mainit Hydro Holdings Corporation.

Buddy graduated from Ateneo de Manila University in the Philippines and received his Master's Degree in Business Administration from New York University in the USA.

**James G. Velasquez**
**Director**

Mr. Velasquez has been a Director of PT&T since March of 2018 and has served as its President since June of the same year. Mr. Velasquez was a Senior Executive for IBM Global Technology Services - Asia Pacific, with 30 years experience in running several business units in the Philippines, ASEAN and in Asia Pacific, focusing on P&L, IT Business Management, Operations, IT Infrastructure Management, and Regional Sales. He was previously the President and Country General Manager of IBM Philippines where he was responsible for the overall IBM business operations and led the company to both domestic and global delivery growth.

He previously served as Chairman of IBM Philippines and associated IBM subsidiaries, Board of Trustees of the PBSP, Board Member of the Management Association of the Philippines, Director of Asia Pacific College, and Board Trustees of UST Engineering Alumni Association. He is currently a board member of the Disaster Recovery Institute of the Philippines.

He was a recipient of the following recognitions: UST Engineering Centennial Award for Industry Leadership, UST's The Outstanding Alumni Award for Business Management, and Letran Alumni Award for Industry. He also received the CEO EXCel Awards in 2011 in addition to garnering various recognitions for IBM in the Philippines in the areas of Corporate Social Responsibility, Marketing Excellence, HR, and ICT.

**Miguel Marco A. Bitanga**
**Director**

Mr. Bitanga was a Director of PT&T from August of 2017 to September of 2018 and from June of 2019 to the present. He previously held the following positions: Managing Director of Benisons Shopping Center, Corporate Information Officer of MRC Allied, Inc. and Business Director of Flux Design Labs. He also sat on the Junior Advisory Board of Mano Amiga Academy, a non-profit organization that provides free education to children in need and employment to their mothers.

Mr. Bitanga graduated Cum Laude from Ateneo de Manila University with a Bachelor of Arts Degree in Interdisciplinary Studies. He received a Master's Degree in Business Administration from IESE Business School in Barcelona, Spain.

**Salvador T. Zamora III**
**Director**

Mr. Zamora III has been a Director of PT&T since August of 2017. He is also currently connected with the following Corporations either as Director, Treasurer, or Corporate Secretary: Libjo Mining Corporation, Isarog Renewable Energy Corporation, SkytacticAero Philippines, Inc., Bacavalley Energy, Inc., La Costa Development Corporation, Inc., Lear Aero Ltd., Inc., Philippine Phosphate Fertilizer Corporation, Tranzen Group, Inc., and 5G Security Inc. He received his Bachelor of Arts Degree in Music Business from University of New Haven (Connecticut) and MM Music Technology from New York University.

**Serafin C. Ledesma, Jr.**
**Independent Director**

Mr. Ledesma has served as an Independent Director of PT&T since July of 2018. He is from Davao City. He was a former Station Manager, News Director, and Program Director of various radio stations and news agencies in Mindanao. He was also a Branch Manager of Telefast Communications from 1976-1978. He served as Area Manager of Philippine Telegraph and Telephone Corporation from 1978-1982 and later on, the company's Vice-President for Mindanao from 1982-2001. From 1986-2001, he was a Co-Chairman of the Technical Working Group for the Interconnection of Telecommunications Network in Mindanao. He also served as a Director of Davao City Water District from 2014-2016 and is currently a columnist and opinion writer of Sun Star Davao and Philippine News Agency, respectively.

Mr. Ledesma is likewise active with various civic organizations. He is the former President of the following organizations: Davao Integrated Press Club (1974-1977), Media Dabaw (1978-1980), and Rotary Club of Davao (1997-1998).

Mr. Ledesma received his Bachelor of Science Degree in Natural Science from the Mindanao Colleges (now University of Mindanao).

**Roberto B. Ortiz**
**Independent Director**

Mr. Ortiz has served as an Independent Director of PT&T since July of 2018. Prior to this, he worked for Price Waterhouse (now Price Waterhouse Coopers) from 1987-1994. He was the former Vice-President for Finance of Consolidated Industrial Gases Inc. from 1994-2003. Mr. Ortiz was also the Chief Finance Officer of All Asian Countertrade Inc. and its subsidiaries: Sweet Crystals Integrated Sugar Mill Corporation and Basecom Inc. from 2003-2009. He has also been serving as Director and Chief Financial Officer of Total Nutrition Corporation since 2010.

Mr. Ortiz received his Bachelor of Science Degree in Management Engineering from Ateneo de Manila University.

**Bienvenido S. Santos**
**Independent Director**

Mr. Santos has been an Independent Director of PT&T since June of 2019. He is the Chairman of several corporations including, BC Net, Asian Carmakers Corporation, GND Holdings, and Beebeelee. He is also the Vice-Chairman of Sta. Rosa Motor Works, Inc., Eurobrands Distributor Inc., Columbian Motors Corporation, Columbian Manufacturing Corporation, and Subic Air, Inc. He is also a Director and President of several other Corporations operating different businesses in the Philippines.

Mr. Santos received his Bachelor of Science Degree in Management Engineering from Ateneo de Manila University.

# MANAGEMENT

MIGUEL MARCO A. BITANGA

JAMES G. VELASQUEZ

ANGELO MIGUEL R. ISIP

CONCEPCION D.S. ROXAS

PATRICK VINCENT G. PEÑA

ELLA MAE D. ORTEGA

JEFFREY E. JULIAN

JUANITA C. RIMANDO

KENNETH JOEY H. MACEREN

# MANAGEMENT

**James G. Velasquez**
**President and Chief Executive Officer**

Mr. Velasquez has been a Director of PT&T since March of 2018 and has served as its President since June of the same year. Mr. Velasquez was a Senior Executive for IBM Global Technology Services - Asia Pacific, with 30 years experience in running several business units in the Philippines, ASEAN and in Asia Pacific, focusing on P&L, IT Business Management, Operations, IT Infrastructure Management, and Regional Sales. He was previously the President and Country General Manager of IBM Philippines where he was responsible for the overall IBM business operations and led the company to both domestic and global delivery growth.

He previously served as Chairman of IBM Philippines and associated IBM subsidiaries, Board of Trustees of the PBSP, Board Member of the Management Association of the Philippines, Director of Asia Pacific College, and Board Trustees of UST Engineering Alumni Association. He is currently a board member of the Disaster Recovery Institute of the Philippines.

He was a recipient of the following recognitions: UST Engineering Centennial Award for Industry Leadership, UST's The Outstanding Alumni Award for Business Management, and Letran Alumni Award for Industry. He also received the CEO EXCel Awards in 2011 in addition to garnering various recognitions for IBM in the Philippines in the areas of Corporate Social Responsibility, Marketing Excellence, HR, and ICT.

**Miguel Marco A. Bitanga**
**Chief Operating Officer and Treasurer**

Mr. Bitanga was a Director of PT&T from August of 2017 to September of 2018 and from June of 2019 to the present. He previously held the following positions: Managing Director of Benisons Shopping Center, Corporate Information Officer of MRC Allied, Inc. and Business Director of Flux Design Labs. He also sat on the Junior Advisory Board of Mano Amiga Academy, a non-profit organization that provides free education to children in need and employment to their mothers.

Mr. Bitanga graduated Cum Laude from Ateneo de Manila University with a Bachelor of Arts Degree in Interdisciplinary Studies. He received a Master's Degree in Business Administration from IESE Business School in Barcelona, Spain.

**Angelo Miguel R. Isip**
**Chief Finance Officer**

Mr. Isip joined PT&T in 2018 as the Financial Controller. He has extensive experience in financial planning and analysis, financial reporting and analytics, strategic planning, corporate governance, and financial risk management.

Prior to joining PT&T, Mr. Isip served as a Finance Business Partner for the Lending Business of Globe Fintech Innovations, Inc. (Mynt); he was promoted shortly after to the position of Financial Controller. He also served as a Senior Financial Services Risk Advisory Associate in SGV & Co./EY Philippines.

He graduated Cum Laude from University of the Philippines with a Bachelor of Science Degree in Business Administration and Accountancy. He is a licensed Certified Public Accountant.

**Concepcion D.S. Roxas**
**Chief People and Culture Officer**

Ms. Roxas is an experienced human resource practitioner. She was employed by companies in various capacities in the field of human resources: Supervisor, Manager, Recruitment Manager, Senior Manager, Consultant, Senior Consultant, and HR Director.

In the field of telecommunications, she worked for Smart Communications, Inc. from 1994-2005 where she held the following positions: Recruitment Consultant, Recruitment Manager, and Senior Manager. After leaving in 2005, she returned to Smart Communications, Inc. in 2015 as its Senior HR Consultant for Organizational Development. Before joining PT&T, Ms. Roxas was the HR Director of Conduit Global.

She is a graduate of University of Santo Tomas where she received her Bachelor of Science Degree in Psychology.

**Patrick Vincent G. Peña**
**General Manager, Fixed Broadband**

Mr. Peña's experience in the telecommunications industry started in 1996 when he worked for Smart Communications, Inc. His work focused primarily on sales and marketing.

From 2000-2006, he was the Vice President for Sales and Marketing for Meridian Telekoms Inc., spending the last two years from 2004-2006 establishing Meridian's Broadband Wireless Product for the PLDT Group.

In 2007 he was named as the Vice President and later, the Senior Vice President for Postpaid, Broadband, New Business, and Marketing Services of Digitel Mobile Phils., Inc. (Sun Cellular).

Mr. Peña received his Bachelor of Science Degree in Industrial Engineering from University of the Philippines - Diliman.

**Ella Mae D. Ortega**
**General Manager, IT Services**

Ms. Ortega is a Senior Executive with over 22 years of leadership experience in multinational businesses in the Information Technology and Services Industry. She started her career in IBM Philippines and developed her career as a Sales Professional and eventually a Sales Manager for 14 years. She gained her experience, knowledge, and skills in sales management, route to market management, customer relationship management, marketing, business, and sales operations by running several business units in the Philippines and in the ASEAN. Her last position in IBM Philippines was Territory Manager for Large Enterprise Accounts managing client relationships across the banking, manufacturing, insurance, and retail and distribution industry.

After her 14-year career in IBM Philippines,she served as the Vice President of Sales and Marketing for Fritz & Macziol Asia, Inc. which is an IT Systems Integrator based in Germany. She led a team of client executives, solution architects, sales operations, and marketing associates. Prior to joining PT&T, she also served as the Country Manager for Teradata Philippines from 2014-2018.

Ms. Ortega graduated Cum Laude with a Bachelor 's Degree in Business Administration at University of the Philippines - Diliman.

**Jeffrey E. Julian**
**Vice President, Network Engineering and Operations**

Mr. Julian has 21 years of experience in telecommunications industry having worked in various capacities in different telecommunications companies in the Philippines and abroad.
His prior experience includes stints as Senior Project Manager, Senior Consultant, Project Director, and National Project Head in various telecommunications projects with Nextel, Sun Cellular, Huawei, Ericsson, and Fiber Home.

Mr. Julian received his Bachelor of Science Degree in Electronics and Communications Engineering from University of Santo Tomas.

**Juanita C. Rimando**
**Vice President, Carrier and Wholesale Business**

Ms. Rimando has 29 years of sales and executive work experience in the field of information and communications technology. Before joining PT&T, she was the Vice President for Business and Operations in Source Telecoms. She also worked at Wificity as Vice President for Business Development; Comclark Network & Technology Corporation as Division Head for Sales; Bayan Telecommunications, Inc. where she held various sales positions, where last of which was Head for Corporate Key Accounts and in Eastern Telecommunications, Inc.

She was formerly a Board of Director of Philippine Electronics and Telecommunications Federation (PETEF) and is currently a member of the Board of Director of Philippine Information and Communications Technology Organization (PICTO).

She is a graduate of Polytechnic University of the Philippines where she completed a Bachelor in Office Administration degree. She also completed a Six Sigma Greenbelt Course in Motorola University in Malaysia and Master's Degree in Development Management in Asian Institute of Management in Makati.

**Kenneth Joey H. Maceren**
**Corporate Secretary**

Mr. Maceren is a lawyer with litigation and corporate practice. For his litigation practice, he handles criminal, civil, and labor cases. His corporate practice includes incorporation, business organization restructuring, and corporate housekeeping. Before joining PT&T, he previously worked for two publicly-listed companies as Legal Counsel of Megawide Construction Corporation and Legal Counsel and Corporate Secretary of MRC Allied, Inc. He also worked in a Makati-based law firm immediately after passing the Bar Examinations.

He graduated from San Beda University with a College of Law Degree and was admitted to the Philippine Bar in 2007.

# GRI CONTENT INDEX GRI 102-55

In Accordance – Core Option

| GENERAL DISCLOSURES | | |
|---|---|---|
| Indicator and Disclosure | Disclosure | Page Numbers and/or direct answers |
| **Organization Profile** | | |
| GRI 102-1 | Name of Organization | Philippine Telegraph and Telephone Corp. |
| GRI 102-2 | Activities, brands, products, and services | 22-31 |
| GRI 102-3 | Location of headquarters | Back cover |
| GRI 102-4 | Location of operations | 4-5 |
| GRI 102-5 | Ownership and Legal form | 99 |
| GRI 102-6 | Markets served | 22-31 |
| GRI 102-7 | Scale of the organization | 2-3, 22-31, 43-44, 48 |
| GRI 102-8 | Information on employees and other workers | 48-50 |
| GRI 102-9 | Supply chain | 44 |
| GRI 102-10 | Significant changes to the organization and its supply chain | This is the company's first published Annual and Sustainability Report. |
| GRI 102-11 | Precautionary Principle or approach | 45 |
| GRI 102-12 | External initiatives | PT&T adheres to all Philippine laws, rules and regulations as well as the laws in all other countries where the company operates. |
| GRI 102-13 | Membership of associations | The Company is not a member of any associations. |
| **Strategy** | | |
| GRI 102-14 | Statement from senior decision maker | 8-19 |
| GRI 102-15 | Key impacts, risks, and opportunities | 22-31, 45 |
| **Ethics and Integrity** | | |
| GRI 102-16 | Values, principles, standards, and norms of behavior | Inside front cover |
| **Governance** | | |
| GRI 102-18 | Governance structure | 54 |
| GRI 102-19 | Delegating authority | 55-57 |
| GRI 102-25 | Conflicts of interest | 65-66 |
| **Stakeholder Engagement** | | |
| GRI 102-41 | Collective bargaining agreements | 49 |
| GRI 102-42 | Identifying and selecting stakeholders | 40, 42 |
| **Reporting practice** | | |
| GRI 102-46 | Defining report content and topic Boundaries | 40 |
| GRI 102-47 | List of material topics | 40 |
| GRI 102-48 | Restatements of information | This is the company's first published Annual and Sustainability Report. |
| GRI 102-49 | Changes in reporting | This is the company's first published Annual and Sustainability Report. |
| GRI 102-50 | Reporting period | This report covers the period of January 2019 to December 2019. |
| GRI 102-51 | Publication date of most recent report | This is the company's first published Annual and Sustainability Report. |
| GRI 102-52 | Reporting cycle | Annual |
| GRI 102-53 | Contact point for questions regarding the report | Jhonna Cañeja<br>Investor Relations Manager<br>investors@ptt.com.ph |
| GRI 102-54 | Claims of reporting in accordance with the GRI Standards | This report has been prepared in accordance with the GRI standards: core option |
| GRI 102-55 | GRI content index | 76-77 |
| GRI 102-56 | External assurance | The Company did not subscribe to external assurance except for its financial statements. |

| ECONOMIC | | |
|---|---|---|
| **Indicator and Disclosure** | **Disclosure** | **Page Numbers and/or direct answers** |
| GRI 201: ECONOMIC PERFORMANCE | Management Approach | 12-19 |
| GRI 201-1 | Direct Economic Value Generated & Distributed | 3 |
| GRI 201-4 | Financial assistance received from the government | PT&T has not received any financial assistance or subsidy from the government for the current year. |
| GRI 203: INDIRECT ECONOMIC IMPACTS | Management Approach | 12-19 |
| GRI 203-1 | Infrastructure investments and services supported | 51<br><br>All engagements are commercial and neither pro bono nor in kind. |
| GRI 204: PROCUREMENT PRACTICES | Management Approach | 44 |
| GRI 204-1 | Proportion of spending on local suppliers | 44 |
| GRI 205: ANTI-CORRUPTION | Management Approach | 43-44 |
| GRI 205-2 | Communication & training about anti-corruption policies & procedures | 43-44 |

| ENVIRONMENT | | |
|---|---|---|
| **Indicator and Disclosure** | **Disclosure** | **Page Numbers and/or direct answers** |
| GRI 301: MATERIALS | Management Approach | 47 |
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| GRI 302: ENERGY | Management Approach | 46 |
| GRI 302-1 | Energy consumption within the organization | 46 |
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| GRI 306: EFFLUENTS AND WAIST | Management Approach | 47 |
| GRI 307: ENVIRONMENTAL COMPLIANCE | Management Approach | 47 |

| SOCIAL | | |
|---|---|---|
| **Indicator and Disclosure** | **Disclosure** | **Page Numbers and/or direct answers** |
| GRI 401: EMPLOYMENT | Management Approach | 48-50 |
| GRI 401-1 | New employee hires and employee turnover | 2, 48 |
| GRI 403: OCCUPATIONAL HEALTH AND SAFETY | Management Approach | 50 |
| GRI 403-2 | Types of Injury and rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities | 50 |
| GRI 404: TRAINING AND EDUCATION | Management Approach | 48-49 |
| GRI 404-1 | Average hours of training per year per employee | 2, 49 |
| GRI 405: DIVERSITY AND EQUAL OPPORTUNITY | Management Approach | 2, 48 |
| GRI 405-1 | Diversity of governance bodies and employees | 2, 48 |
| GRI 406: NON DISCRIMINATION | Management Approach | 42, 48, 65 |

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|---|---|---|
| **Indicator and Disclosure** | **Disclosure** | **Page Numbers and/or direct answers** |
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| GRI 103-2 | The management approach and its components | 44 |
| GRI 205-2 | Communication and training about anti-corruption policies and procedures | 44 |

# FINANCIAL REPORT

**Scan the QR code to know more about PT&T's Financial Performance in 2019.**


Marcas Poseídas
Líder
Segunda
Seguidora
Nacional
Ninguna
Pequeña
Próxima Compra

106 Carlos Palanca St., Legazpi Village
Makati City, Metro Manila Philippines, 1229
(+632) 8-726-8888 • inquiries@ptt.com.ph • www.ptt.com.ph

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the six-month period ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company'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 financial statements including the schedules attached therein and submits the same to the stockholders.

**Alas, Oplas & Co., CPAs**, the independent auditors, appointed by the Management have audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their reports to the Management, have expressed their opinion on the fairness of presentation upon completion of such audit.

**SALVADOR B. ZAMORA II**
Chairman of the Board

JUN 08 2020

**JAMES G. VELASQUEZ**
President and Chief Executive Officer

**ANGELO MIGUEL R. ISIP**
Chief Financial Officer

Signed this ___ day of May 2020

SUBSCRIBED AND SWORN to before me this JUN 0 5 2020 day of _____ 2020 affiants exhibiting to me their government issued IDs, as follows:

| NAMES | PASSPORT NO. | DATE OF ISSUE | PLACE OF ISSUE |
|---|---|---|---|
| Salvador B. Zamora II | P9664400A | November 22, 2018 | Manila |
| James G. Velasquez | P3536307A | June 30, 2017 | Manila |
| Angelo Miguel R. Isip | EC6024370 | December 1, 2015 | Manila |

**NOTARY PUBLIC**

**RENATO M. LEE**
Appt. No.M-75 Until 31 Dec. 2020
IBP No. 104801; 01-09-2020; Makati
PTR No. 8440885; 01/08/2020, Pasig
Roll No. 32579
MCLE No. VI-0018238; 02/06/2019
6F, SCC Bldg., 106 C. Palanca St.,
Legaspi Village, Makati City

Doc No : 425
Page No : 86
Book No : 639
Series of : 2020

# Alas Oplas & Co., CPAs

**Alas Oplas & Co., CPAs**
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www.alasoplascpas.com

Independent Member of
**BKR** International

**INDEPENDENT AUDITORS' REPORT**
**TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE**
**SECURITIES AND EXCHANGE COMMISSION**

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The Board of Directors and Stockholders
**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
Spirit of Communications Center,
106 C. Palanca Street, Legaspi Village
Makati City

We have examined the financial statements of **PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION** as at December 31, 2019 and 2018 and for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018, on which we have rendered the attached report dated April 14, 2020.

In compliance with Revised SRC Rule 68, we are stating that the said Company has a total number of three thousand six hundred seventy-nine (3,679) stockholders owning more than one hundred (100) shares.

JUN 08 2020

RECEIVED

**ALAS, OPLAS & CO., CPAs**
BOA Registration No. 0190, valid from September 4, 2019 to October 30, 2022
SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 002-013-406-000
BIR A.N. 08-001026-000-2018, issued on January 25, 2018; effective until January 24, 2021

By:

Gadiosa R. Martinez

**GADIOSA R. MARTINEZ**
Partner
CPA License No. 0107497
SEC A.N. (Individual) No. 1766-A, issued on August 27, 2019; effective until August 26, 2022
TIN 223-383-235
BIR A.N. 08-006636-001-2020, issued on February 24, 2020; effective until February 23, 2023
PTR No. 8117106, issued on January 2, 2020, Makati City

April 14, 2020
Makati City, Philippines

# Alas Oplas & Co., CPAs

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**INDEPENDENT AUDITORS' REPORT**

JUN 08 2020

The Board of Directors and Stockholders
**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
Spirit of Communications Center,
106 C. Palanca Street, Legaspi Village
Makati City

**Report on the Audit of Financial Statements**

**Opinion**

We have audited the financial statements of **PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION** (the "Company"), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income (loss), statements of comprehensive income (loss), statements of changes in capital deficiency and statements of cash flows for the year ended December 31, 2019, six-month period ended December 31, 2018, and year ended June 30, 2018 and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

**Basis for Opinion**

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 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.

**Material Uncertainty Related to Going Concern**

We draw attention to Note 1 to the financial statements, which indicates that the Company has incurred net losses amounting to ₱52,402,835 and ₱88,152,538 for the year ended December 31, 2019, six-month period ended December 31, 2018, respectively, resulting to accumulated deficit and capital deficiency amounting to ₱11,819,294,517 and ₱776,735,639, respectively, as at December 31, 2019.

We further draw attention to Note 1 to the financial statements, which indicates that on August 6, 2018, the Regional Trial Court Branch 66 of Makati City (the "Rehab Court") has granted the Company's request to exit from rehabilitation subject to certain requirements in line with the court-approved Rehab plan. Corporate rehabilitation was approved by the Rehab Court on April 1, 2011 and on December 21, 2018, the Company received an order from the Rehab Court denying the opposition and motions for reconsideration filed by the creditors of the Company on the Rehab Court's August 6, 2018 order which allowed the Company to exit from rehabilitation subject to the fulfillment of certain conditions.

In the same order, the Rehab Court confirmed that the Company substantially complied with the conditions provided for under the August 6, 2018 order. In view of the said substantial compliance, the Rehab Court declared that the Company is now out of rehabilitation and its exit is no longer conditional.

These events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter. We performed audit procedures to evaluate management's plans for such future actions as to likelihood to improve the situation and as to feasibility under the circumstances.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the 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 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 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 financial statements.

*Accounting for Court-Approved Rehabilitation Plan*



On April 1, 2011, the Rehab Court approved the corporate rehabilitation plan submitted by the Company on August 20, 2009. There is a risk that the Company's financial position and result are influenced through management bias in interpreting of and accounting for the Rehab Court's order. Specifically, these risks which are highly subjective and involves significant judgments and estimates such as: (1) settlement through conversion of obligation to 12-year serial redeemable preferred shares; and (2) applicability and accrual of 6% legal interest on each obligation. The Company's assessment of these significant accounting judgment and estimates are disclosed in Note 6 to the financial statements.

*Audit Response*

Our audit procedures included, among others: evaluating the legal opinion of the rehab receiver and rehab counsel as to interpretation of and accounting for: (1) settlement through conversion of obligation to 12-year serial redeemable preferred shares; and (2) application and accrual of 6% legal interest on each obligation; involving our lawyers to assist and perform independent assessment of the legal opinion; considering the financial reporting bulletin issued by the Philippine Securities and Exchange Commission; and recalculating the interest following the provisions of the Rehab Court-approved Rehab Plan. We assessed the potential risk of management bias and the adequacy of the disclosure in the financial statements.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company'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.

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

JUN 08 2020

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

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern; and
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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 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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No.15-2010 in Note 37 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the Management of **PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditors' report is Gadiosa R. Martinez.

JUN 08 2020

**ALAS, OPLAS & CO., CPAs**
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TIN 002-013-406-000
BIR A.N. 08-001026-000-2018, issued on January 25, 2018; effective until January 24, 2021

By:

**GADIOSA R. MARTINEZ**
Partner
CPA License No. 0107497
SEC A.N. (Individual) No. 1766-A, issued on August 27, 2019; effective until August 26, 2022
TIN 223-383-235
BIR A.N. 08-006636-001-2020, issued on February 24, 2020; effective until February 23, 2023
PTR No. 8117106, issued on January 2, 2020, Makati City

April 14, 2020
Makati City, Philippines

# Philippine Telegraph & Telephone Corporation
# Financial Statements
**MAKATI CITY – PHILIPPINES**

**FINANCIAL STATEMENTS**
**DECEMBER 31, 2019 AND 2018**

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
**STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2019 AND 2018**
**In Philippine Pesos**

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | 7 | **23,916,220** | 11,847,930 |
| Receivables – net | 8 | **73,685,408** | 43,892,294 |
| Due from related parties | 23 | **2,206,395** | 6,777,680 |
| Other current assets | 9 | **8,452,626** | 16,208,129 |
| Non-current assets held for sale | 10 | **378,680,744** | – |
| Total Current Assets | | **486,941,393** | 78,726,033 |
| **Non-current Assets** | | | |
| Land at revalued amounts | 11 | – | 360,360,000 |
| Property and equipment at cost – net | 12 | **156,422,917** | 168,176,468 |
| Right-of-use assets – net | 30 | **30,116,102** | – |
| Investment properties at cost | 13 | **225,708,208** | 235,794,708 |
| Other non-current assets – net | 14 | **42,718,611** | 41,436,782 |
| Total Non-current Assets | | **454,965,838** | 805,767,958 |
| **TOTAL ASSETS** | | **941,907,231** | 884,493,991 |

JUN 08 2020

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
**STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2019 AND 2018**
**In Philippine Pesos**

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **LIABILITIES AND CAPITAL DEFICIENCY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 15 | **339,811,158** | 238,197,788 |
| Statutory obligations | 16 | **480,640,252** | 499,789,411 |
| Accrued interests, expenses and other liabilities | 17 | **278,142,193** | 247,870,906 |
| Lease liabilities – current portion | 30 | **11,223,922** | – |
| Loans payable – current portion | 18 | **667,583** | 1,106,680 |
| Due to related parties | 23 | **269,006,260** | 303,683,544 |
| Income tax payable | | **9,257,523** | 12,317,465 |
| Total Current Liabilities | | **1,388,748,891** | 1,302,965,794 |
| **Non-current Liabilities** | | | |
| Lease liabilities – net of current portion | 30 | **19,922,556** | – |
| Loans payable – net of current portion | 18 | **844,668** | 1,494,964 |
| Deposit for subscription in accordance with the court-approved rehabilitation plan | 19 | **130,000,000** | 130,000,000 |
| Retirement benefits liability | 20 | **133,313,602** | 114,096,777 |
| Deferred tax liabilities | 29 | **45,813,153** | 50,142,957 |
| Total Non-current Liabilities | | **329,893,979** | 295,734,698 |
| **TOTAL LIABILITIES** | | **1,718,642,870** | 1,598,700,492 |
| **Capital Deficiency** | | | |
| Share capital | 21 | **10,935,991,894** | 10,935,991,894 |
| Revaluation surplus | 11 | **102,102,000** | 102,102,000 |
| Accumulated actuarial gain on retirement benefits | 20 | **4,795,356** | 14,898,232 |
| Unrealized valuation loss on equity investments | 14 | **(330,372)** | (306,945) |
| Deficit | | **(11,819,294,517)** | (11,766,891,682) |
| Total Capital Deficiency | | **(776,735,639)** | (714,206,501) |
| **TOTAL LIABILITIES AND CAPITAL DEFICIENCY** | | **941,907,231** | 884,493,991 |

*See accompanying Notes to the Financial Statements.*

JUN 08 2020

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
**STATEMENTS OF INCOME (LOSS)**
**FOR THE YEAR ENDED DECEMBER 31, 2019, SIX-MONTH PERIOD ENDED DECEMBER 31, 2018 AND YEAR ENDED JUNE 30, 2018**
**In Philippine Pesos**

| | Notes | Year ended December 31, 2019 | Six-month period ended December 31, 2018 | Year ended June 30, 2018 |
|---|---|---|---|---|
| **REVENUES** | 24 | **396,043,723** | 129,571,642 | 200,813,899 |
| **OTHER INCOME** | | | | |
| Rent | 13 | **1,578,240** | 1,624,023 | 6,994,454 |
| Other income | 25 | **7,066,274** | 2,276,160 | 58,456,527 |
| | | **8,644,514** | 3,900,183 | 65,450,981 |
| **COST AND EXPENSES** | | | | |
| Selling, general and administrative expenses | 26 | **301,072,936** | 168,428,499 | 152,894,266 |
| Upstream internet connectivity | | **34,636,552** | 14,301,585 | 4,757,426 |
| Cost of sales | | **31,768,838** | – | – |
| Depreciation | 12,30 | **43,731,398** | 14,716,397 | 19,947,611 |
| Penalty and surcharge | | **77,318** | 4,066,080 | 7,400,855 |
| Interest expenses | 28 | **42,930,558** | 20,111,802 | 27,735,966 |
| | | **454,217,600** | 221,624,363 | 212,736,124 |
| **INCOME (LOSS) BEFORE INCOME TAX** | | **(49,529,363)** | (88,152,538) | 53,528,756 |
| **INCOME TAX** | 29 | **(2,873,472)** | – | (28,799,624) |
| **NET INCOME (LOSS)** | | **(52,402,835)** | (88,152,538) | 24,729,132 |
| **BASIC AND DILUTED EARNINGS (LOSS) PER SHARE** | 22 | **(0.03)** | (0.06) | 0.02 |

*See accompanying Notes to the Financial Statements.*

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**FOR THE YEAR ENDED DECEMBER 31, 2019, SIX-MONTH PERIOD ENDED DECEMBER 31, 2018 AND YEAR ENDED JUNE 30, 2018**
**In Philippine Pesos**

| | Notes | **Year ended December 31, 2019** | Six-month period ended December 31, 2018 | Year ended June 30, 2018 |
|---|---|---|---|---|
| **NET INCOME (LOSS)** | | **(52,402,835)** | (88,152,538) | 24,729,132 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| *Items that will not be reclassified to profit or loss in subsequent periods* | | | | |
| Unrealized valuation loss on equity investments | 14 | **(23,427)** | (28,044) | (86,697) |
| Actuarial income (loss) on retirement benefits liability | 20 | **(10,102,876)** | 16,431,445 | (4,696,895) |
| | | **(10,126,303)** | 16,403,401 | (4,783,592) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | | **(62,529,138)** | (71,749,137) | 19,945,540 |

*See accompanying Notes to the Financial Statements.*

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PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION
STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY
FOR THE YEAR ENDED DECEMBER 31, 2019, SIX-MONTH PERIOD ENDED DECEMBER 31, 2018 AND YEAR ENDED JUNE 30, 2018
In Philippine Pesos

| | Paid-up capital (Note 21) | | Deposit for subscription in accordance with the court-approved rehabilitation plan (Note 21) | Revaluation surplus (Note 11) | Accumulated actuarial gain (Loss) on retirement benefits (Note 20) | Unrealized valuation loss on equity investments (Note 14) | Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| | Common | Preferred | | | | | | |
| Balances at July 1, 2017 | 2,224,255,313 | – | – | 102,102,000 | 3,163,682 | (192,204) | (11,703,468,276) | (9,374,139,485) |
| Net income for the year | – | – | – | – | – | – | 24,729,132 | 24,729,132 |
| Other comprehensive loss | – | – | – | – | (4,696,895) | (86,697) | – | (4,783,592) |
| Total comprehensive income (loss) | – | – | – | – | (4,696,895) | (86,697) | 24,729,132 | 19,945,540 |
| Balances at June 30, 2018 | 2,224,255,313 | – | – | 102,102,000 | (1,533,213) | (278,901) | (11,678,739,144) | (9,354,193,945) |
| Deposit for future stock subscription | – | – | 8,711,736,581 | – | – | – | – | 8,711,736,581 |
| Net loss for the six-month period | – | – | – | – | – | – | (88,152,538) | (88,152,538) |
| Other comprehensive income (loss) | – | – | – | – | 16,431,445 | (28,044) | – | 16,403,401 |
| Total comprehensive income (loss) | – | – | – | – | 16,431,445 | (28,044) | (88,152,538) | (71,749,137) |
| Balances at December 31, 2018 | 2,224,255,313 | – | 8,711,736,581 | 102,102,000 | 14,898,232 | (306,945) | (11,766,891,682) | (714,206,501) |
| Net loss for the year | | – | – | – | – | – | (52,402,835) | (52,402,835) |
| Other comprehensive loss | – | – | – | – | (10,102,876) | (23,427) | – | (10,126,303) |
| Total comprehensive loss | – | – | – | – | (10,102,876) | (23,427) | (52,402,835) | (62,529,138) |
| **Balances at December 31, 2019** | **2,224,255,313** | **–** | **8,711,736,581** | **102,102,000** | **4,795,356** | **(330,372)** | **(11,819,294,517)** | **(776,735,639)** |

*See accompanying Notes to the Financial Statements.*

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2019, SIX-MONTH PERIOD ENDED DECEMBER 31, 2018 AND YEAR ENDED JUNE 30, 2018**
**In Philippine Pesos**

| | Notes | December 31, 2019 | December 31, 2018 | June 30, 2018 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income (loss) before income tax | | **(49,529,363)** | (88,152,538) | 53,528,756 |
| Adjustments for: | | | | |
| Depreciation | 12,30 | **43,731,398** | 14,716,397 | 19,947,611 |
| Interest expenses | 28 | **42,930,558** | 20,111,802 | 27,735,966 |
| Movement in retirement benefits liability | 20 | **8,219,990** | 6,360,139 | 6,988,992 |
| Unrealized forex gain | 25 | **(1,461,009)** | (379,561) | – |
| Provision for ECL | 26 | **780,496** | 669,809 | 899,350 |
| Unrealized forex loss | 26 | **152,028** | 6,476 | 832,481 |
| Interest income | 25 | **(71,532)** | (24,407) | (112,188) |
| Dividend income | 25 | **(12,312)** | (6,156) | (12,996) |
| Operating income (loss) before working capital changes | | **44,740,254** | (46,698,039) | 109,807,972 |
| Decrease (increase) in operating assets: | | | | |
| Trade and other receivables | | **(30,573,610)** | (35,565,535) | 70,502,876 |
| Due from related parties | | **4,571,285** | 865,161 | (36,782,835) |
| Other current assets | | **7,578,749** | (10,598,984) | (6,420,924) |
| Other non-current assets | | **(1,453,912)** | (24,786,845) | (12,780,034) |
| Increase (decrease) in operating liabilities: | | | | |
| Trade and other payables | | **101,613,370** | 57,353,670 | 31,878,836 |
| Statutory obligations | | **(19,149,159)** | (18,080,885) | 6,244,220 |
| Accrued expenses and other liabilities | | **7,667,059** | 15,363,422 | (52,740,566) |
| Net cash generated from (used in) operations | | **114,994,036** | (62,148,035) | 109,709,545 |
| Benefits paid | | **(3,435,845)** | – | (16,098,697) |
| Interest paid | | **(11,147,339)** | (6,616,103) | (190,836) |
| Income tax paid | | **(5,933,414)** | – | – |
| Interest received | | **71,532** | 24,407 | 112,188 |
| Net cash generated from (used in) operating activities | | **94,548,970** | (68,739,731) | 93,532,200 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisition of property and equipment | 12 | **(27,901,336)** | (14,816,168) | (100,519,650) |
| Dividend received | | **12,312** | 6,156 | 12,996 |
| Net cash used in investing activities | | **(27,889,024)** | (14,810,012) | (100,506,654) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payments to (advances from) related parties | | **(40,182,533)** | 86,720,040 | 8,201,135 |
| Payments of lease liabilities | 30 | **(13,330,841)** | – | – |
| Payments of loan principal | 18 | **(1,074,910)** | (508,526) | – |
| Proceeds from loans | 18 | **–** | 3,078,400 | – |
| Net cash generated from (used in) financing activities | | **(54,588,284)** | 89,289,914 | 8,201,135 |
| **EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE IN CASH** | | **(3,372)** | (6,476) | – |
| **NET INCREASE IN CASH** | | **12,068,290** | 5,733,695 | 1,226,681 |
| **CASH AT BEGINNING OF YEAR/PERIOD** | 7 | **11,847,930** | 6,114,235 | 4,887,554 |
| **CASH AT END OF YEAR/PERIOD** | 7 | **23,916,220** | 11,847,930 | 6,114,235 |

*See accompanying Notes to the Financial Statements.*

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## 1. CORPORATE INFORMATION

### 1.01 Company Profile

Philippine Telegraph & Telephone Corporation (the "Company") was incorporated on October 16, 1962 and subsequently registered with the Philippine Securities and Exchange Commission ("SEC") on November 14, 1962 under the laws of the Philippines as a diversified telecommunications entity catering to the corporate, small and medium business and residential segments. On October 19, 2012, at the Special Stockholders' Meeting, the stockholders representing at least 2/3 of the outstanding capital stock approved the amended articles of incorporation extending the corporate term for another 50 years until November 14, 2062. On November 26, 2012, SEC approved the Company's extension of corporate term for another 50 years.

On August 25, 2017, Republic Telecommunications Holdings, Inc. ("RETELCOM") and Menlo Capital Corporation ("MENLO") entered into a Sale and Transfer Agreement wherein RETELCOM agreed to sell and transfer 560,000,000 common shares, representing 37.33% ownership interest, of the Company in favor of MENLO.

The registered office address of the Company is 106 Carlos Palanca, Jr. St., Legaspi Village, Makati City and is domiciled in the Philippines.

*Legislative Franchise*

On June 20, 1964, the Company was granted a 25-year national legislative franchise under Republic Act ("RA") No. 4161, as amended by RA Nos. 5048 and 6970, allowing the Company to establish, install, maintain and operate wire and/or wireless telecommunications systems, lines, circuits and stations throughout the Philippines for public domestic and international communications, and to provide domestic record communications services which consisted of telex, telegraph, and private leased circuits. On July 21, 2016, the Company was granted an extension of its franchise for another 25 years under RA No. 10894, An Act Extending to Another Twenty-Five (25) Years the Franchise Granted to the Philippine Telegraph & Telephone Corporation (PT&T) to Establish, Install, Maintain and Operate Wire and/or Wireless Telecommunications Systems, Lines, Circuits and Stations Throughout the Philippines for Public Domestic and International Communications under Republic Act No. 4161, as Amended.

The Company has various Certificates of Public Convenience and Necessities ("CPCNs") and Provisional Authorities ("PAs") granted by the National Telecommunications Commission ("NTC") for the conduct of its telecommunications activities. These CPCNs and PAs include, among others, enabling the Company to provide data communications services, to implement its expansion and improvement programs covering among others the installation, operation, and maintenance of an integrated digital network in the National Capital Region ("NCR"), and to install, operate and maintain a national packet data network with the accompanying authority to charge rates for said services.

Aside from NTC-authorized Datacom services, the Company was granted a CPCN that enable the Company to participate in the government's liberalization of telecommunications industry as mandated under Executive Order ("EO") No. 109. While beforehand the Company was already operating as inter-exchange carrier pursuant to the NTC Case No. 90-129 which enabled the Company to provide inter-exchange trunk facilities to connect with local exchange carriers ("LEC") and public calling offices for long distance toll service, the said EO 109 thereafter enabled the Company to become a LEC operator authorized under NTC Case No. 94-022. As a LEC operator, the Company was granted Region IV-A comprising of the provinces of Aurora, Laguna, Marinduque, Quezon, Rizal, and Romblon for LEC services. The Company, along with its related party, Capitol Wireless, Inc. ("CWI"), has been granted the CPCN to establish, operate and maintain international gateway facilities to/from foreign countries as authorized under NTC Case Nos. 93-144 and 94-022.

The Company was also granted with certificate of registration as a value-added service ("VAS") provider by the NTC. As part of the VAS, the Company offers internet access service; virtual private network, electronic mail ("e-mail"), messaging services, web hosting, electronic commerce, firewall service and e-learning. The VAS is valid from September 6, 2013 up to September 5, 2022.

*Public Hearing on Franchise*
The Company is a grantee of the franchise to establish, install, maintain and operate wire and/or wireless telecommunications systems, lines, circuits and stations throughout the Philippines for public and international communications. On February 20, 2018, the Subcommittee on Oversight (Legislative Franchise) ("Subcommittee") of the House of Representatives conducted a public hearing on the alleged sale of the Company's ownership interest to MENLO without Congressional approval. As stated in Republic Act (RA) No. 10894, Section 14, the grantee shall not sell, lease, transfer, grant the usufruct of, nor assign this franchise or the rights and privileges acquired thereunder to any person, firm, company, corporation, or other commercial or legal entity, nor merge with any other corporation or entity, nor shall transfer the controlling interest of the grantee, whether as a whole or in parts, and whether simultaneously or contemporaneously, to any person, firm, company, corporation or entity without the prior approval of Congress of the Philippines. Further, the Congress shall be informed of any sale, lease, transfer, grant of usufruct, or assignment of franchise or the rights and privileges acquired thereunder, or of the merger, or transfer of the controlling interest within sixty (60) days after the completion of said transaction. Furthermore, failure to report to Congress such change of ownership shall render the franchise ipso facto revoked.

The Subcommittee have opened an inquiry into the non-compliance with the terms and conditions of the franchise. The Company made clear its position that based on the applicable law on the matter and the factual circumstances surrounding the sale of the Company's shares, the approval by Congress is not required before the new investors can enter the Company. Considering there are other items that the Subcommittee on Oversight wants to be clarified, the Company was required to submit a Position Paper to clarify all concerns on the compliance by the Company of the provisions of its franchise.

The Company complied with the requirement and submitted a Position Paper on March 7, 2018 followed by a Supplemental Position Paper on March 21, 2018. As at April 14, 2020, the Company is yet to receive response from the Subcommittee regarding the Position Paper and the Supplemental Position Paper submitted.

*Status of Shares Listing in the Philippine Stock Exchange ("PSE")*
The Company listed its shares in the PSE. On December 10, 2004, the Company requested the voluntary suspension of trading of its shares citing the non-completion of audit of financial statements which was approved by the PSE on December 13, 2004.

The Company, however, continues to file with the SEC for the prescribed quarterly and periodic information reports, PSE for the required disclosure statements and Bureau of Internal Revenue (BIR) for the quarterly and annual income tax return based on interim unaudited financial statements.

On August 29, 2017, the Company requested for the lifting of the voluntary suspension of the trading of its shares with the PSE appealing that the Makati City Regional Trial Court - Branch 66 (the "Rehab Court") acknowledged the importance of the lifting of the suspension of trading of the Company's shares with the PSE in going forward with its business.

On September 7, 2017, the PSE responded to the Company's request dated August 29, 2017 mentioning that without the SEC approval of the temporary exemptive relief, the Company may be found non-compliant with the structured reportorial requirements of the PSE given the Company's non-submission of the annual and quarterly reports. Furthermore, the PSE requested additional information from the Company which include, among others, updates on the implementation of the court-approved rehabilitation plan to proceed with the evaluation of the request.

On April 20, 2018, the Company received show cause letters from the Markets and Securities Regulation Department (MSRD) all dated April 19, 2018 requiring the Company to submit a written explanation on alleged violations and/or deficiencies.

On April 26, 2018, the Company replied to show cause letters explaining support of the Company's argument that it should not be held administratively liable by the SEC.

On June 5, 2018, MSRD issued letter to the Company and cited liable for violating the pertinent provisions of Rules 17, 20 and 68 of the implementing rules and regulations of the Securities Regulation Code (SRC), as amended, for the Company's failure to (i) conduct its annual stockholders' meeting and (ii) file its audited financial statements and (iii) annual information statements.

The Company's registration statement was suspended and shall be lifted only upon full compliance with necessary requirements.

On June 14, 2018, the Company paid the monetary penalties assessed by the MSRD amounting to ₱7,000,000 for the non-compliance with the SEC's reportorial requirements. In addition, the Company conducted its Stockholders' Meeting on September 20, 2018.

On October 3, 2018, the Company submitted the required documents and reports in full compliance of the Order dated June 5, 2018.

On February 5, 2020, the Company Registration and Monitoring Department (CRMD) issued a certification relating to PT&T's good standing with the SEC.

On March 16, 2020, the Company filed its Revised Amended Registration Statements to update the SEC on the events that occurred from October 3, 2018 filing up to the filing of the report.

*Increase in Authorized Capital Stock*
In a meeting dated July 30, 2018, the Board of Directors of the Company approved to increase the authorized capital stock of the Company from ₱3,800,000,000 to ₱15,600,000,000. The increase was approved by the stockholders in the Company's Annual Stockholders' Meeting held on September 20, 2018.

On October 9, 2018, the Company has filed the amendment of Article 7 of the Amended Articles of Incorporation with the SEC to increase the authorized capital stock from ₱3,800,000,000 to ₱15,600,000,000 broken down as follows:

a) 4,500,000,000 common shares at ₱1 par value per share;
b) 230,000,000 Serial Cumulative Convertible Redeemable Preferred Shares at ₱10 par value per share;
c) 6,750,000,000 Series A Serial Redeemable Preferred Shares at ₱1 par value per share;
d) 1,800,000,000 Series B Serial Redeemable Preferred Shares at ₱1 par value per share; and
e) 250,000,000 Series C Serial Redeemable Preferred Shares at ₱1 par value per share.

The amendment was approved by the SEC on October 31, 2018. As at April 14, 2020, the Company has issued share certificates to creditors amounting to ₱326,085.

*Third Telco Bidding*
On November 7, 2018, the Company joined the selection for the new major player in the Philippine Telecommunication Market ("Third Telco Bidding") wherein the Selection Committee disqualified the Company. The disqualification is not warranted for the lacking document in question is the subject of the Petition for Declaratory Relief filed by the Company last November 6, 2018 with the Regional Trial Court of Makati City, Branch 134.

On November 9, 2018, the Company filed a Motion for Reconsideration before the Selection Committee of the NTC. In a letter dated November 12, 2018, the Selection Committee denied the Company's Motion for Reconsideration.

As approved by the Board of Directors (BOD), the Company filed a Petition for Certiorari with the SC on November 16, 2018 to assail the decision of the Selection Committee in disqualifying the Company. On December 12, 2018, the BOD of the Company approved the filing of an Amended Petition for Certiorari with the SC. The amendments intend to supplement and further strengthen the arguments previously raised in the Petition for Certiorari. The Amended Petition for Certiorari was filed with the SC on December 12, 2018, pending resolution from SC as at April 14, 2020.

*Status of Operations*
In 2008, the Company adopted to the changes in technology and shifted its products and services to offer broadband data services, fixed wireless services, Point to Point and Point to Multipoint Wireless Communications Services and Network Operations Center using the same LEC Network (see Note 32).

The Company is currently focused on broadband internet access services as a result on growth of wireless/mobile systems and the rise of broadband internet demand. As such, the Company's main source of revenue is broadband internet access services (see Note 24). The Company offers dedicated or shared internet access service, via fiber or wireless, and operates a broadband network across the NCR, and Regions III and IV catering corporate, business and residential customers.

In 1998, the decline of the Philippine peso vis-à-vis the U.S. dollar, intra-corporate litigations in RETELCOM which resulted in non-realization of RETELCOM's planned additional capital infusion into the Company, increasing competitive pressure among industry players, market and technology changes, in particular short messaging services (i.e., SMS, more popularly known as text messaging), and deregulation have all contributed to decreased margins in the telecommunications industry and market shift to mobile phones. This, in turn, severely affected the Company's ability to settle its maturing obligations.

In response to these economic events and financial pressures, the Company has reviewed its businesses with the objective of optimizing revenues, reducing expenses and improving service quality. The Company's medium-term strategy now focuses on the emerging internet era with its offering of broadband internet access and other VAS to e-business providers. In addition, as discussed below, the Company finalized the restructuring of a substantial portion of its outstanding obligations to its various creditor banks and certain suppliers.

On November 26, 2002, the Company's creditors, representing 75% of the outstanding liabilities being restructured, approved the Company's debt restructuring proposal and accordingly signed the Master Restructuring Agreement, Dollar Facility Agreement, Peso Facility Agreement and other documents, collectively called the "Definitive Agreements", covering the said debt restructuring. On October 27, 2003, the Company's lenders who have signed the Definitive Agreements represent 93% of the outstanding liabilities restructured.

On August 20, 2009, after the Definitive Agreements did not materialize, RETELCOM, the Company, Philippine Wireless, Inc. (PWI), CWI, and Wavenet Philippines, Inc. (WPI) (collectively referred to as the "RETELCOM Group") jointly filed a petition for Corporate Rehabilitation and Suspension of Payments pursuant to the Rules of Procedure on Corporate Rehabilitation, A.M. No. 00-8-10-SC. The said petition was accompanied by the RETELCOM Group's proposed rehabilitation plan (the "Rehab Plan") and was docketed as SP. Proc. No. M-6853 and raffled to the Rehab Court. On August 24, 2009, the Rehab Court issued an order staying enforcement of all claims, whether for money or otherwise against the RETELCOM Group ("Stay Order") and appointing a rehabilitation receiver (the "Rehab Receiver").

On April 1, 2011, the Rehab Court approved the proposed Rehab Plan subject to certain modifications, which was immediately executory (see Note 2).

In 2011, certain creditors, representing 8.5% and 12.8% of the secured and unsecured creditors, respectively, filed before the Court of Appeals ("CA") a petition for review with prayer for Temporary Restraining Order and/or Writ of Preliminary Injunction.

On May 19, 2017, the CA granted the review of the consolidated petitions, and reversed, set aside and dismissed the Rehab Court's decision dated April 1, 2011 in SP Proc. No. M-6853 ("CA Decision").

On June 13, 2017, the RETELCOM Group filed a Motion for Reconsideration in relation to the CA Decision dated May 19, 2017 citing, among others, that rehabilitation is still the better option to take for the Company to settle its obligations and to reinstate to its former position of successful operation and solvency. The RETELCOM Group further indicated in the Motion for Reconsideration that the said creditors who filed the petition before the CA represent only 8.5% and 12.8% of the secured and unsecured creditors, respectively, and that it will be a grave injustice to the remaining 91.5% and 87.2% of the other secured and unsecured creditors, respectively. Consequently, the creditors filed their comments and opposition to the RETELCOM Group's Motion for Reconsideration.

On October 10, 2017, the RETELCOM Group filed a consolidated reply respectfully reiterating that the judgment be rendered anew reconsidering the CA Decision and a resolution be issued granting instant Motion for Reconsideration, thereby dismissing the appeals in these cases based on the following, among others:

- Entry of MENLO as the new owner of the Company and its impact.
- Capabilities and credentials of MENLO which will enable the Company to fulfill its obligations under the court-approved Rehab Plan.
- The Company is envisaged as the third player in telecommunications industry.
- The Philippine telecommunications market is in need of more competition in order that the Filipino people can avail of efficient, greater capacity internet broadband connectivity with low latency at very affordable rates.
- The Company has the competitive edge to compete in the broadband marketplace. The Company is not saddled with the legacy investments in 2G/3G networks, thereby enabling it to leapfrog to the next 5G generation network.

On October 11, 2017, the CA denied the Motion for Reconsideration as it finds no cogent reason to warrant a reconsideration of the assailed decision.

On December 4, 2017, the RETELCOM Group filed petition for certiorari before the Supreme Court (SC) requesting the SC to review the CA Decision citing that the CA erred in dismissing the petition for corporate rehabilitation indicating the following arguments:

- Rehabilitation proceeding is a relief that is accorded to financially distressed corporations, partnerships, and associations. As opposed to liquidation, rehabilitation is preferred relief. The rationale of a rehabilitation proceeding is to effect feasible and viable rehabilitation by preserving a foundering business as going concern, because the assets of a business are often more valuable when so maintained than they would be when liquidated.
- The Company is on the road to financial vigor. The Company is talking to potential investors to form strategic partnerships with the aim of becoming a major player in the Philippine market which is a sign of its way to financial recovery. To scuttle these plans by outright rejecting them through the dismissal of its Rehab Plan would mean injustice not only to its investors but to its employees, creditors, stockholders, and the general public.
- The said creditors who filed the petition before the CA represent only 8.5% and 12.8% of the secured and unsecured creditors, respectively, and that it will be a grave injustice to the remaining 91.5% and 87.2% of the other secured and unsecured creditors, respectively, to resort to the Company's liquidation, especially in the light of recent developments in the takeover of the Company's management. These creditors have shown continuous support for the ongoing rehabilitation and have not actually opposed the order dated April 1, 2011.

- The Company's improved, and still improving, fortunes provide the needed breathing room for their rehabilitation and have created an attractive business environment, thereby opening the Company to interested third parties that are very keen on participating in the development of broadband internet service to serve underdeveloped and underserved needs of our country.

In a resolution dated March 7, 2018, the SC dismissed the appeal of RETELCOM Group for allegedly being filed beyond the required period of on or before December 4, 2017. On June 4, 2018, the Company filed a Motion for Reconsideration arguing that the SC erred in dismissing for the same was filed on December 4, 2017. In a Resolution dated July 11, 2018, the SC granted the Company's Motion for Reconsideration and reinstated the Company's appeal assailing the decision of the CA.

On June 20, 2018, one of the creditors who filed the petition before the CA served a Manifestation with Motion to Suspend, pending before SC, that the new ownership and management that recently took over the reins of the Company may be able to reverse the financial condition of the latter. In line with this, the creditor moved for the suspension of pending SC proceedings while the parties' study and review the business plans of the new owner and management.

On July 27, 2018, the Company requested the Rehab Court that it be allowed to exit from rehabilitation subject to certain requirements with which was granted by the Rehab Court on August 6, 2018. Part of the compliance is for the Company to conduct a shareholders' meeting to increase its authorized capital stock. This will enable the Company to pay its debt through debt-to-equity conversion as mandated by the approved Rehabilitation Plan. Given the circumstances, the Company can strategically proceed with its operations and at the same time settling the claims of its various creditors.

In the Company's Annual Stockholders' Meeting held on September 20, 2018, the stockholders approved and ratified the following items:

- Amendment of the Amended Articles of Incorporation to increase the authorized capital stock of the company to ₱15,600,000,000;
- Conducting debt-to-equity conversion or other equity conversion of up to ₱8,800,000,000;
- Listing the common and serial cumulative convertible redeemable preferred shares in the PSE;
- Amending further the Amended By-Laws to change the accounting period to calendar year commencing on January 1 and ending on December 31 of the same year;
- Amending further the Amended Articles of Incorporation to include "information and communications technology" in the Company's purpose;
- Participating in the bidding for the New Major Player in Telecommunications Market;
- Authorizing and confirming the acts of the Company in negotiating and execution of relevant documents with National Transmission Corporation or National Grid Corporation of the Philippines;
- Authorizing the Company to establish long term incentive plan; and
- Authorizing the Company to secure the necessary funding for the Company's operations and expansion programs through financing, loans and equity offering.

As discussed above, the increase in authorized capital stock was filed by the Company with the SEC on October 9, 2018. The SEC approved the increase in authorized capital stock filed by the Company allowing the issuance of Series "A", Series "B" and Series "C" Preferred Shares and the implementation of the Company's debt-to-equity conversion as ordered by the Rehab Court amounting to ₱8,711,736,581 on October 31, 2018. As at April 14, 2020, the Company has issued share certificates to creditors amounting to ₱326,085.

On December 21, 2018, the Company received an order from the Rehab Court denying the opposition and motions for reconsideration filed by the creditors of the Company on the Rehab Court's August 6, 2018 order which allowed the Company to exit from rehabilitation subject to the fulfillment of certain conditions.

In the same order, the Rehab Court confirmed that the Company substantially complied with the conditions provided for under the August 6, 2018 order. In view of the said substantial compliance, the Rehab Court declared that the Company is now out of rehabilitation and its exit is no longer conditional.

On March 11, 2019 and March 15, 2019, petitioners filed Petitions for Certiorari assailing the Orders dated December 20, 2018 which upheld the August 6, 2018 Order. One of the petitioners prayed for issuance of a Temporary Restraining Order (TRO).

On April 3, 2019, the CA issued a resolution which denied the application of one of the petitioners for issuance of TRO with the petitioners filing a Motion for Reconsideration (MR) on May 15, 2019.

On April 25, 2019, the Company filed a Motion to Consolidate the Petitions for Certiorari. On May 2, the Company filed its comments to the CA.

On May 24, 2019, the CA accepted and approved the Motion to Consolidate.

On June 10, 2019, the Company filed a Memorandum manifesting NTC to recompute the SRF assessment on the March 31, 2017 Resolution of the NTC.

On November 27, 2019, the CA issued a Decision requiring NTC to recompute the SRF it is collecting from the Company.

On February 17, 2020, the CA issued a resolution denying the MR of the TRO and dismissing the Petitions of Certiorari.

Going Concern

The Company has incurred net losses amounting to ₱52,402,835 and ₱88,152,538 for the year ended December 31, 2019 and six-month period ended December 31, 2018, respectively, resulting to accumulated deficit and capital deficiency amounting to ₱11,819,294,516 and ₱776,735,639, respectively, as at December 31, 2019. These events or conditions indicate the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern.

The Company's management, to achieve effective implementation of the court-approved Rehab Plan and exit in the corporate rehabilitation status, is undertaking the following action plans, to attain sustainable financial stability, improve its financial position, and to restore and reinstate to its former position of successful operation and solvency through, among others:

- As at April 14, 2020, the Company has issued share certificates to creditors amounting to ₱326,085 (see Notes 2 and 21);
- In August 30, 2019, the Company availed of SSS condonation program to settle ₱12,908,618 of obligations including interest of ₱1,012,344 (see Notes 2 and 16);
- Immediate settlement of statutory obligations to minimize associated risk;
- Infusing significant capital expenditures, through its new owners, MENLO, to improve, modernize and increase the capacity of its existing broadband assets;
- Use of organic capital expenditures rolled-out from earnings, in addition to above, which will be used to expand the Company's fiber footprint into Greater Metropolitan Area and surrounding areas; and
- Foreign partnership to recapitalize the Company and scale up its broadband business model on a nationwide coverage using the latest state-of-the-art fixed and mobile broadband infrastructure and enter into agreements with the Philippine government, through NTC, to use its nationwide fiber optic assets (see Note 17).

On December 21, 2018, the Rehab Court confirmed that the Company substantially complied with the conditions and declared that the Company is out of rehabilitation and its exit is no longer conditional.

The Company's financial statements have been prepared as a going concern. As such, the Company's accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Authorization for Issue of the Financial Statements
The financial statements of the Company as at December 31, 2019 and 2018 and for the year ended December 31, 2019, six-month period ended December 31, 2018, and year ended June 30, 2018, were authorized for issue by the Board of Directors (BOD) on April 14, 2020.

## 2. CORPORATE REHABILITATION

As discussed in Note 1, on April 1, 2011, the Rehab Court approved the Rehab Plan which was immediately executory and petitioners as well as all claimants and creditors are enjoined and strictly comply include, among others, the following:

1. Modification of the rehabilitation period from 15 years to a 2-year moratorium and 12-year debt payment period;
2. Waiver of any and all interest, penalties and surcharges on all obligations of the Company to all claimants listed in the Rehab Plan except the legal interest of 6% from the approval of the plan until the full payment of the obligation (see Note 16);
3. Each of the petitioners to: (i) immediately settle, out of the proceeds of the liberated escrow account pursuant to the Rehab Court's orders dated September 3, 2010 and October 20, 2010, the petitioners' obligations to the SSS in accordance with the SSS Condonation Law of 2009 and SSS Circular No. 2010-2004 for delinquent premium contributions and SSS Circular No. 2010-2005 for delinquent loan amortizations, including, but not limited to, delinquent employees compensation contributions through the SSS (see Notes 1 and 15); (ii) immediately settle out of the proceeds from the recovery of any advances and deposits or garnished/levied assets and the proceeds of the sale of the petitioners' other assets pursuant to the pertinent orders issued by the courts, all unpaid wages, salaries and benefits inclusive of whatever amount have been deducted from said wages and salaries which the petitioners have not remitted to the appropriate contractual entity such as, but not limited to, the SSS and the Pag-Ibig Fund, of all existing and resigned/retired or separated employees, pursuant to law and to respective petitioners' employment policies including, but not limited to, collective bargaining agreements; and (iii) to immediately settle out of the proceeds from the recovery of any advances and deposits or garnished/levied assets and the proceeds of the sale of the sale of the petitioners' other assets pursuant to the pertinent orders issued by the Rehab Court, all unpaid retirement/separation pay for the retired or separated employees, pursuant to law and to the respective petitioners' employment policies including, but not limited to, collective bargaining agreement;
4. The petitioners to avail, whenever necessary, financing and advances from owners to finance their working capital requirements prior to the entry of the new investor, which financing and advances from owners shall be payable/repaid out of the new money to be infused by the new investor (see Note 23);
5. The full conversion of all outstanding liabilities into 12-year serial redeemable preferred shares except for statutory obligations, financing and advances from owners and certain liabilities in the nature of suppliers' credits, and that the corresponding amount will be lodged in the petitioner's books as "Deposit for Subscription" pending approval by the SEC of the increase in authorized capital stock (see Note 19);
6. The Company, from receipt thereof, to amend its articles of incorporation increasing its authorized capital stock from ₱3,800,000,000 (consisting of 1,500,000,000 common shares at ₱1 par value and 230,000,000 serial cumulative convertible redeemable preferred shares at ₱10 par value) to ₱10,187,150,000 (consisting of 1,387,150,000 common shares at ₱1 par value and 7,500,000 serial cumulative convertible preferred shares at ₱10 par value and 8,800,000,000 serial redeemable preferred shares at ₱1 par value), and to immediately issue the corresponding stock certificates to the claimants concerned (see Note 21);

7. The Company to enroll and list all of its authorized Series "A", Series "B" and Series "C" redeemable preferred shares as freely "tradable" stocks with the PSE;
8. The SEC shall approve the Company's request for temporary exemptive relief under the SRC Rule 72.2, without sanctions or penalties whatsoever, monetary or otherwise, and the PSE to lift the suspension of the trading of the Company's common shares without any sanctions or penalties whatsoever, monetary or otherwise, and the Company shall faithfully comply with all the applicable rules and regulations of the SEC and PSE so that the trading of all the authorized shares of the Company shall not in any way be suspended or restricted except as provided by law;
9. Immediately settle obligations to petitioners such as salaries, wages and benefits out of escrow account; and
10. Any sale or disposition of the petitioner's properties, whether real or personal shall also be subject to the Rehab Court's evaluation and approval.

On July 27, 2018, the Company requested the Rehab Court that it be allowed to exit from rehabilitation subject to certain requirements with which was granted by the Rehab Court on August 6, 2018.

On July 30, 2018, in its Regular Meeting, the Board of Directors of the Company approved to increase the authorized capital stock of the company from ₱3,800,000,000 to ₱15,600,000,000 and debt-to-equity conversion or other equity conversion as mandated by the Rehab Court. The Company will conduct debt-to-equity conversion under the Company's Rehab Plan, in order to pay the claims of its creditors amounting to ₱8,800,000,000, more or less. Said debts will be converted to equity through the issuance of Series "A", "B", and "C" Redeemable Serial Preferred Shares. The increase and debt-to-equity conversion or other equity conversion were approved by the stockholders in the Company's Annual Stockholders' Meeting held on September 20, 2018.

The Company has filed with the SEC the increase in authorized capital stock on October 9, 2018 which was approved on October 31, 2018 (see Note 1).

On December 21, 2018, the Rehab Court confirmed that the Company substantially complied with the conditions and declared that the Company is out of rehabilitation and its exit is no longer conditional (see Note 1).

In August 30, 2019, the Company availed of SSS condonation program to settle ₱12,908,618 of obligations including interest of ₱1,012,344 (see Note 1).

As at April 14, 2020, the Company has issued share certificates to creditors amounting to ₱326,085.

## 3. FINANCIAL REPORTING FRAMEWORK

### 3.01 Statement of Compliance

The Company's financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRSs).

### 3.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except where PFRSs requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements.

In September 2018, the Company changed its accounting period from fiscal year ending June 30 to a calendar year ending December 31, as disclosed in Note 1.

### 3.03 Presentation and Functional Currency

Items included in the financial statements of the Company are measured using Philippine Peso, the currency of the primary economic environment in which the Company operates (the "functional currency"). The Company chose to present its financial statements using its functional currency. All presented financial information has been rounded to the nearest peso, except when otherwise indicated.

## 4. ADOPTION OF NEW AND REVISED STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The Philippine Financial Reporting Standards Council (FRSC) approved the issuance of new and revised Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PAS), and Interpretations issued by the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the FRSC and adopted by SEC.

The new and revised PRSs prescribe new accounting recognition, measurement, and disclosure requirement applicable to the Company. When applicable, the adoption of the new standards was made in accordance with their transitional provisions, otherwise the adoption is accounted for as change in accounting policy under PAS 8: "Accounting Policies, Changes in Accounting Estimates and Errors".

### 4.01 New and Revised Accounting Standards Effective on January 1, 2019

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following standards, amendments to previously issued PFRSs, PAS and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC), which were effective on January 1, 2019.

Adoption of these new standard and amendments to PFRS, PAS and Philippine Interpretations did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- PFRS 16, *Leases*

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

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

  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17, *Leases*. Lessors will continue to classify all leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact for leases where the Company is a lessor.

In Philippine Peso

The Company adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application on January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at January 1, 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application.

The effect of PFRS 16 adoption as at January 1, 2019 is increase (decrease) in the following:

| | |
|---|---|
| **Assets:** | |
| Right-of-use assets | **42,426,857** |
| Other current assets | **(176,754)** |
| **Total Assets** | **42,250,103** |
| **Liabilities:** | |
| Lease liabilities | **42,250,103** |
| **Total Liabilities** | **42,250,103** |

The Company has lease contracts for various items of network equipment for cell sites telecommunications equipment locations and leased poles and other work equipment for car rentals used in its operations. Before the adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

For leases previously accounted for as operating leases, the Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics
- relied on its assessment of whether leases are onerous immediately before the date of initial application
- applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:

- Right-of-use assets of ₱42,426,857 were recognized (see Note 30).
- Prepaid rent of ₱176,754 was derecognized.
- Lease liabilities of ₱42,250,103 recognized (see Note 30).

In Philippine Peso

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as at December 31, 2018, as follows:

| | |
|---|---|
| **Liabilities:** | |
| Operating lease commitments as at December 31, 2018 | **49,002,627** |
| Weighted average incremental borrowing rate as at January 1, 2019 | **13.79%** |
| **Lease liabilities as at January 1, 2019** | **42,250,103** |

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

  The amendments clarify that an entity applies PFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The Management of the Company does not anticipate that the application of the amendments in the future will have any impact on the Company's financial statements.

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

  The amendments should be applied retrospectively and are effective from January 1, 2019. Since the Company does not have associate and joint venture, the amendments will not have an impact on its financial statements.

- IFRIC 23, *Uncertainty over Income Tax Treatments*

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

  The interpretation specifically addresses the following:

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

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

  This interpretation is not relevant to the Company because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as at December 31, 2019 and 2018.

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

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehe`nsive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the "SPPI criterion") and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

  These amendments had no impact on the financial statements of the Company.

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

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment, or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to re-measure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period aster the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to re-measure that net defined benefit liability (asset).

  The amendments had no impact on the Company's financial statements as it did not have any plan amendments, curtailments, or settlements during the period.

- *Annual Improvements to 2015-2017 Cycle*

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

  These amendments had no impact on the financial statements of the Company as there is no transaction where joint control is obtained.

  - PFRS 3, *Business Combination*

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

    These amendments had no impact on the financial statements of the Company as there is no transaction where a joint control is obtained.

  - PFRS 11, *Joint Arrangements*

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

These amendments had no impact on the financial statements of the Company as there is no transaction where a joint control is obtained.

- PAS 12, *Income Taxes*

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

  When the entity first applied those amendments, it applied them to the income tax consequences of dividend recognized on or after the beginning of the earliest comparative period.

  Since the Company's current practice is in line with these amendments, they had no impact on the financial statements of the Company.

- PAS 23, *Borrowing Costs*

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

  The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual period in which the entity first applies those amendments.

  Since the Company's current practice is in line with these amendments, they had no impact on the financial statements of the Company.

**4.02 New Accounting Standards and Interpretations Issued But Not Yet Effective**

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

*Effective Beginning on or after January 1, 2020*

- *Amendments to* PFRS 3, *Definition of a Business*

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

  These amendments will apply on future business combinations of the Company.

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

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

- PFRS 17 *Insurance Contracts*

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

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

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short duration contracts

  The Company does not expect any effect on its financial statements upon adoption.

*Deferred Effective Date*

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

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

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Company does not expect any effect on its financial statements upon adoption.

## 5. SIGNIFICANT ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Company in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

### 5.01 Financial Instruments

*5.01.01 Initial Recognition and Subsequent Measurement*
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial Assets**

*Initial Recognition and Measurement*
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under PFRS 15 (see Note 5.17).

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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 trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

*Subsequent Measurement*
For purposes of subsequent measurement, financial assets are classified in four categories:

a) Financial assets at amortized cost (debt instruments)
b) Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
c) Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
d) Financial assets at FVPL

The Company does not have any financial assets at FVOCI with recycling of cumulative gains and losses and financial assets at FVPL as at December 31, 2019 and 2018.

*Financial assets at amortized cost (debt instruments)*
The Company measures financial assets at amortized cost if both of the following conditions are met:

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

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include cash, receivables and long-outstanding trade receivables, due from related parties, and refundable security deposits included under "other non-current assets".

- Cash

  In the statements of cash flows, cash includes cash on hand and cash in banks.

  Cash on hand includes petty cash fund and other cash items not yet deposited with the banks. Cash in banks include demand deposits which are unrestricted as to withdrawal.

  Cash is valued at face value. Cash in foreign currency is valued at the current exchange rate. If a bank holding the funds of the Company is in bankruptcy or financial difficulty, cash is written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount.

- Receivables (*excluding contract asset and advances to suppliers*) and long-outstanding receivables

  Receivables are amounts due from customers for sale of goods and services performed in the ordinary course of business.

  Long-outstanding trade receivables represent due from customers related to the LEC business (landline-based telephone and long-distance service) of the Company.

  Receivables and long outstanding receivables are recognized initially at the fair value and subsequently measured at amortized cost using effective interest rate (EIR) method, less provision for impairment.

- Due from related parties

  Due from related parties represent non-interest-bearing advances handed by the Company to its related parties for working capital requirements.

- Refundable security deposits

  Refundable security deposits represent deposits on various space rental for central office equipment and telecommunication nodes.

*Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (Equity instruments)*

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the Statements of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Company's equity instrument measures at FVOCI with no recycling of cumulative gains and losses upon derecognition includes financial asset at FVOCI under "other non-current assets".

As at December 31, 2019 and 2018, the Company has no debt instruments measured at FVOCI.

*Impairment*
The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, allowance for ECL is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes ECLs based on lifetime loss allowances at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

*Derecognition*
A financial asset is primarily derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has 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) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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 the Company could be required to repay.

**Financial Liabilities**

*Initial recognition and Measurement*
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Company does not designate any financial liabilities at FVPL as at December 31, 2019 and 2018.

*Subsequent Measurement*
The measurement of financial liabilities depends on their classification, as described below:

*Financial liabilities at amortized cost (loans and borrowings)*
This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in profit or loss 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 as finance costs in the Statements of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

The Company's financial liabilities include trade and other payables, due to related parties, accrued interest, expenses, and other liabilities, lease liabilities, and loans payable.

*Derecognition*
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statements of profit or loss.

*5.01.02 Offsetting of Financial Instruments*
Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

**5.02 Fair Value Measurement**

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 32.

Fair value is the 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:

- in the principal market for the asset or liability; or
- 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 the Company. 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. The Company uses 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:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- 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, the Company determines 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.

**5.03 Other Current Assets**

Other current assets include prepayments and creditable withholding taxes (CWTs).

*Prepayments*
Prepayments are expenses paid in advance and recorded as asset, before these are used or consumed, as the service or benefit will be received in the future. Prepayments expire and are recognized as expenses either with the passage of time or through use or consumption.

*CWTs*
CWTs are tax withheld from income subject to expanded withholding taxes (EWT). CWTs can be utilized as payment for income taxes provided that they are properly supported by certificates of creditable withholding tax withheld at source subject to the rules in Philippine income taxation. CWTs are expected to be utilized as payment for income taxes within twelve (12) months and are classified as current assets.

**5.04 Non-current Assets Held for Sale**

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment are not depreciated or amortized once classified as held for sale. Assets classified as held for sale are presented separately as current items in the statements of financial position.

### 5.05 Property and Equipment

*Cost Model*
Property and equipment, except land, are stated at cost less accumulated depreciation and accumulated impairment in value, if any.

The initial cost of property and equipment comprises the purchase price or construction cost, including import duties, 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 parts of such property and equipment, if the recognition criteria are met. All other repairs and maintenance are charged to current operations during the financial period in which these are incurred.

Construction in progress is stated at cost. This includes cost of construction of property and equipment and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and becomes available for use.

Deferred income tax is provided on the temporary difference between the carrying amount of the revalued property and equipment and its tax base. Any taxable temporary difference reflects the tax consequences that would follow from the recovery of the carrying amount of the asset through sale (non-depreciable assets) and through use (depreciable assets), using the applicable tax rate.

Gain and loss on disposal of an asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statements of income (loss). On disposal of the revalued asset, the relevant revaluation surplus, included in the reserve account, is transferred directly to retained earnings.

The Company's future retained earnings is restricted to the extent of the revaluation surplus recognized in equity.

*Depreciation*
Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| Type of Asset | Estimated Useful Life in Years |
|---|---|
| Buildings and improvements | 25 |
| Telecommunications equipment: | |
| Cable and wire facilities | 14 |
| Network equipment | 5 |
| Other work equipment | 5 |

The assets' residual values estimated recoverable reserves and useful lives are reviewed and adjusted, if appropriate, at each end of the reporting period.

Property and equipment is depreciated from the moment the assets are available for use and after the risks and rewards are transferred to the Company. Depreciation cease when the assets are fully depreciated, or at the earlier of the period that the item is classified as held for sale (or included in the disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the period the item is derecognized.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each end of the reporting period.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use.

*Revaluation Model*
Following initial recognition, land is carried at revalued amounts, which represent fair value at date of revaluation less any accumulated impairment in value.

Valuations are performed frequently enough to ensure that the fair value of a revalued property and equipment does not significantly differ from its carrying amount. The increase of the carrying amount of the land as a result of a revaluation is credited directly to other comprehensive income under "revaluation surplus" account, unless it reverses a revaluation decrease previously recognized as an expense, in which case it is credited in profit or loss. A revaluation decrease is charged directly against any related revaluation surplus, with any excess being recognized as an expense in profit or loss.

*Derecognition*
An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statements of revenues and expenses.

**5.06 Leases**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*The Company as a Lessee*
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payment and right-of-use assets representing the right to use the underlying assets.

- *Right-of-Use-Assets*
  The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

| Type of Asset | Estimated Useful Life in Years |
|---|---|
| Network equipment | 1-10 |
| Other work equipment | 1-10 |

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment following the accounting policy on Impairment of non-financial assets (see Note 5.11).

- *Lease Liabilities*
  At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

  In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

*The Company as a Lessor*
Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statements of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

**5.07 Investment Properties**

Investment properties of the Company pertain to various land held for lease or held for capital appreciation. Investment properties are measured initially at cost, including transaction costs.

The carrying amount includes the cost of replacing part of an existing investment properties at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at cost less any impairment in value.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the statements of income (loss) in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupation, commencement of operating lease to another party or ending of construction or development, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the owner occupied becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

### 5.08 Other Non-current Assets

Other non-current assets include long-outstanding trade receivables, plant supplies and refundable security deposits. These are carried at historical cost and classified as non-current since the Company expects to utilize the assets beyond twelve (12) months from the end of the reporting period.

Plant supplies are carried at lower of cost and net realizable value (NRV). NRV is the estimated future sales price of the product that the entity expects to realize when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices, and costs to complete are discounted.

Cost of plant supplies comprise all costs of purchase and other costs incurred in bringing the plant supplies to their present location and condition. A regular review is undertaken to determine the extent of any provision for obsolescence.

### 5.09 Impairment of Non-financial Assets

*Other Current Assets*
At each end of the reporting period, these assets are reviewed to determine whether there is any indication that those assets have suffered impairment loss. If there is an indication of possible impairment, the recoverable amount of assets are estimated and compared with their carrying amounts. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the statements of income (loss).

*Property and Equipment, Investment Properties and Right-of-Use Assets*
The Company assesses at each reporting period whether there is an indication that property and equipment, investment properties and right-of-use assets may be impaired when events or changes in circumstances indicate that the carrying values of the said assets may not be recoverable. If any such indication exists and if the carrying value exceeds the estimated recoverable amount, the assets or Cash Generating Units (CGUs) are written down to their recoverable amounts. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statements of income (loss) in those expense categories consistent with the function of the impaired asset.

An assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of Depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of comprehensive income (loss) unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

*Plant Supplies*
At each end of the reporting period, plant supplies are assessed for impairment by comparing the carrying amount of each item of plant supplies (or group of similar items) with its NRV. If an item of plan supplies (or group of similar items) is impaired, its carrying amount is reduced to NRV, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of plant supplies is increased to the revised NRV, but not in excess of the amount that would have been determined had no impairment loss has been recognized. A reversal of impairment loss is recognized immediately in profit or loss.

### 5.10 Provisions and Contingencies

*Provisions*
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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. Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognized as finance cost in the statements of income (loss). Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented on the statements of income (loss), net of any reimbursement.

*Contingencies*
Contingent liabilities are not recognized in the financial statements. These are, however, disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

### 5.11 Retirement Benefits Liability

Retirement benefits liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a retirement benefits asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Retirement benefits costs comprise the following:

- service cost
- net interest on the retirement benefits liability or asset
- remeasurements of retirement benefits liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statements of income (loss). Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the retirement benefits liability or asset is the change during the period in the retirement benefits liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the retirement benefits liability or asset. Net interest on the retirement benefits liability or asset is recognized as expense or income in the statements of income (loss).

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 liability) are recognized immediately in other comprehensive income in the period in which these arise.

Remeasurements are not reclassified to profit or loss in subsequent periods.

Remeasurements recognized in other comprehensive income after the initial adoption of Revised PAS 19 are not closed to any other equity account.

**5.12 Capital Deficiency**

Share capital is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital (APIC). Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When the retained earnings account has a debit balance, it is called "deficit". A deficit is not an asset but a deduction from equity.

**5.13 Other Comprehensive Income (Loss)**

Other comprehensive income (loss) represents income and expenses, including reclassification adjustments that are not recognized in the statements of income (loss) as required or permitted by PFRSs.

**5.14 Deposit for Subscription**

Deposit for subscription pertains to debts to be converted into equity as serial redeemable preferred shares based on the court-approved Rehab Plan (see Notes 2 and 19).

**5.15 Earnings (Loss) Per Share**

*Basic*
Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to ordinary stockholders of the Company by the weighted average number of common shares outstanding during the year, excluding common shares purchased by the Company and held as treasury shares.

*Diluted*
Diluted earnings (loss) per share is calculated by dividing the net income (loss) attributable to ordinary stockholders of the company by the weighted average number of common shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all potentially dilutive common shares during the period.

**5.16 Revenue from Contracts with Customers**

The Company is in the business of providing communications and technology solutions. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

*Broadband Internet Access Services Contracts*
The Company provides broadband internet access services ranging from shared access to fully redundant (first to last mile) high availability service. These include fiber optic dedicated internet, e-line or shared broadband internet, wireless dedicated or shared broadband access and customized and value-added services.

Services may be rendered separately or bundled with other services. The specific recognition criteria are as follows:

Service arrangements may include fixed monthly charges (including excess of consumable fixed monthly service fees) generated from fixed line and other network services primarily through broadband and leased line services, which the Company recognize on a straight-line basis over the customer's subscription period. Services provided to customers are billed throughout the month according to the billing cycles. Services availed by customers in addition to these fixed fee arrangements are charged separately at their stand-alone selling prices and recognized as the additional service is provided or as availed by the customers.

Installation fees for services are not capable of being distinct from the sale of modem since the customer obtains benefit from the combined output of the installation services and the device and is recognized upon delivery of the modem and performance of modem installation. The related incremental costs are recognized in the same manner in the statements of comprehensive income (loss), if such costs are expected to be recovered.

Revenues from shared lines or shared access are recognized net of content provider's share in revenue. Revenue is recognized upon service availment. Revenue from server hosting, co-location services and customer support services are recognized at point in time as the services are performed.

Upon signing of subscription agreement, customers are required to make payments equivalent to 2 months advance and 1-month deposit of internet broadband monthly subscription fee. These customers' deposits are refundable and/or to be applied to unpaid receivables of the customers. The Company recognized these advance payments as "Customers' deposits" as part of liabilities (see Note 15).

*Information Technology (IT) Services Contracts*
The Company also provides information technology services and products from IT infrastructure, applications, network security, and others.

Revenue from sale of IT infrastructure is recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery of the equipment or software at the customer's location. Revenue from services is recognized when the service to the customer is performed, generally via milestone achievement.

*Contract Balances*

- Contract Asset

  A contract asset is initially recognized for revenue earned from installation services because the receipt of consideration is conditional on successful completion of the installation. Upon completion of the installation and acceptance by the customer, the amount recognized as contract assets is reclassified to trade receivables.

  Contract assets are subject to impairment assessment.

- Trade Receivables

  A receivable is recognized if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

*Rental Income*
Rent income is recognized on a straight-line basis over the term of the lease. The Company does not provide any ancillary services to the tenants of the investment property. The lease payments therefore relate entirely to rental and are recognized as rent income. It was not necessary to separate the considerations between lease and non-lease components on the adoption of PFRS 15.

*Dividend Income*
Dividend income is recognized when the Company's right to receive payment is established.

*Interest Income*
Interest Income from bank deposit is recognized on a time proportion basis using the effective interest rate that takes into account the effective yield on the asset. The Company does not consider this to be 'revenue' as the earning of interest is not part of the Company's ordinary activities but rather an incidental benefit.

### 5.17 Costs and Expense Recognition

Cost and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized in profit or loss in the following manner:

- On the basis of a direct association between costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and association with income can only be broadly or indirectly determined;
- Immediately when an expenditure procedures no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset; or
- Expense encompasses losses as well as those expenses that arise in the course of the ordinary activities of the Company.

### 5.18 Foreign Currency Transactions and Translation

Transactions in currencies other than Philippine Peso are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date the fair value was determined. Gains and losses arising on retranslation are included in profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities when the gains and losses of such non-monetary items are recognized directly in equity. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

### 5.19 Related Parties and Related Party Transactions

*Related Party Relationship*
Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting entity, or between and/ or among the reporting entity and its key management personnel, directors, and shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

*Related Party Transactions*
Related party transactions are transfer of resources, services or obligations between related parties, regardless of whether a price is charged. Transactions between related parties are accounted for at arm's length prices or on terms similarly offered to non-related entities in an economically comparable market.

### 5.20 Income Taxes

Current tax is determined in accordance with is the amount reported on the Company's income tax return for the period in conformity with tax laws or regulations. Deferred tax is income tax payable (recoverable) in respect of the taxable profit (tax loss) for future reporting periods as a result of past transactions or events. The past transactions or events are those that have not yet been included in the Company's income tax return although they have been included when measuring profit or loss in conformity with PFRSs or have been included in the Company's income tax return although they have been not yet been included when measuring profit or loss in conformity with PFRSs.

The Company recognizes a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the difference between the amounts recognized for the Company's assets and liabilities in the statements of financial position and the recognition of those assets and liabilities by the tax authorities, and the carry-forward of currently unused tax losses and tax credits. In most cases, those differences between the amounts in the statements of financial position and the amounts recognized by the tax authorities are accompanied by corresponding differences between profit or loss as measured by PFRSs and taxable profit or loss. If the Company expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability.

The Company measures its deferred tax liabilities (assets) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. When different tax rates apply to different levels of taxable profit, the Company measures deferred tax expense (income) and related deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realized or the deferred tax liability to be settled.

The Company does not discount deferred tax assets and liabilities. The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that recognized deferred tax asset to be utilized. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Carry-forward benefit of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) arising in the current period which can be applied against the entity's future taxable income and future tax liability, respectively, should be recognized as an asset to the extent that it is probable that sufficient taxable profit will allow the unused tax losses or unused tax credits be utilized.

### 5.21 Value-Added Tax

Revenues, expenses and assets are recognized, net of the amount of value-added tax (VAT) except:

- where VAT incurred on a purchase of assets or services is not recoverable the taxation 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
- receivables and payables that are stated with the amount of VAT included.
- deferred input VAT to be amortized in subsequent periods.

### 5.22 Events after the Reporting Period

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material (see Note 36).

## 6. INFORMATION ABOUT KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGMENTS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements and related disclosures. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis to ensure they incorporate all relevant information available at the reporting date. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### 6.01 Critical Judgments in Applying Accounting Policies

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

*Determination of the Functional Currency*
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. In making this judgment, the Company considered the following:

a) The currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales price for its financial instruments and services are denominated and settled);
b) The currency in which funds from financing activities are generated; and
c) The currency in which receipts from operating activities are usually retained.

The Philippine peso is the currency of the primary economic environment in which the Company operates.

*Distinction between Property and Equipment and Investment Properties*
The Company determines whether a property qualifies as property and equipment or an investment property. In making this judgment, for investment properties, the Company considers whether the property generates cash flows largely independent of the other assets and is held primarily to earn rentals or for capital appreciation. Property and equipment are held for use in the supply of services or for administrative purposes. The Company considers each property separately in making its judgment.

*Classification of Financial Instruments*
The Company exercises judgments in classifying a financial instrument on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

In addition, the Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

*Settlement of Obligations Through Conversion to Equity*
The Company determines whether an obligation is settled if the obligation is replaced by another from the same lender on substantially different terms, or terms of an existing liability are substantially modified, such an exchange or modification is considered as settlement of the original liability. As such, conversion of obligations to equity, in accordance with the court-approved Rehab Plan, is considered as full settlement of the obligation as the terms with the same creditor are substantially modified. Thus, creditors are now considered as owners of the Company pending actual issuance of the serial redeemable preferred shares. As at December 31, 2019 and 2018, deposit for subscription in accordance with the court-approved Rehab Plan amounted to ₱8,711,736,581 (see Note 19).

*Revenue Recognition*

*Identifying Performance Obligations*
The Company identifies performance obligations by considering whether the promised services in the contract are distinct services. A service is distinct when the customer can benefit from the service on its own or together with other resources that are readily available to the customer and the Company's promise to transfer the service to the customer is separately identifiable from the other promises in the contract.

Revenues earned from multiple element arrangements offered by the Company's fixed line and wireless businesses are split into separately identifiable performance obligations based on their relative stand-alone selling price in order to reflect the substance of the transaction. The transaction price represents the best evidence of standalone selling price for the services the Company offers since this is the observable price being charge if the services are sold separately.

*Timing of Revenue Recognition*
The Company recognizes revenue from contracts with customers over time or at a point in time depending on the evaluation of when the customer obtains control of the promised services and based on the extent of progress towards completion of the performance obligation. For the telecommunication service which is generally provided over the contract period of two years, because control is transferred over time, revenue is recognized monthly as we provide the service.

*Identifying Methods for Measuring Progress of Revenue Recognized Over Time*
The Company determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

Revenue from telecommunication services is recognized through the use of input method wherein recognition is over time based on the customer subscription period since the customer simultaneously receives and consumes the benefits as the seller renders the services.

*Determining the Lease Term of Contracts with Renewal and Terminal Options – The Company as a Lessee – Beginning January 1, 2019*
The Company determined the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Company included the renewal period as part of the lease term for leases of office premises, network equipment, and service vehicles with shorter non-cancellable period (i.e., three to five years). The Company typically exercises its option to renew for these leases because there will be significant negative effect on production if a replacement asset is not readily available. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

*Classification of Leases – The Company as a Lessor*
The Company classifies leases as finance or operating lease in accordance with the substance of the contractual agreement and the transfer of the risks and rewards incidental to the ownership of the leased item. Leases where management has determined that the risks and rewards related to the leased items are transferred to the lessees are classified as finance lease. Otherwise, these are accounted for as operating lease.

The Company has entered into leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

*Determining Taxable Profit, Tax Bases, Unused Tax Losses, Unused Tax Credits and Tax Rates*
Upon adoption of the Philippine Interpretation IFRIC 23, the Management assesses whether the Company has any uncertain tax position and applies significant judgment in identifying uncertainties over its income tax treatments.

The Company determined based on management's assessment that it is probable that the income tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have a significant impact on the financial statements.

### 6.02 Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below.

*Estimation of Allowance for ECL on Receivables and Long-outstanding Trade Receivables included under "Other Non-current Assets"*
The Company uses a provision matrix to calculate ECLs for trade and other receivables including contract asset. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns by service type and customer type and rating. The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Note 33.02.

Provision for ECL on receivables amounted to ₱780,496, ₱669,809 and ₱899,350 for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018, respectively (see Note 26). Long-outstanding trade receivables are fully provided with allowance for ECL as at December 31, 2019 and 2018 (see Note 14).

As at December 31, 2019 and 2018, the carrying values of receivables amounted to ₱73,685,408 and ₱43,892,294, respectively, net of allowance for ECL amounting to ₱3,546,195 and ₱2,765,699 as at December 31, 2019 and 2018, respectively (see Note 8).

The Company recognized contract asset amounting to ₱13,578,633 and nil as at December 31, 2019 and 2018, respectively, no allowance for ECL have been recognized (see Note 8).

As at December 31, 2019 and 2018, the carrying values of long-outstanding trade receivables amounted to nil, net of allowance for ECL amounting to ₱1,381,525,501 as at December 31, 2019 and 2018 (see Note 14).

*Estimation of Allowance for Impairment Losses on Plant Supplies included under "Other Non-current Assets"*

The Company maintains an allowance for impairment losses at a level considered adequate to reflect the excess of cost of plant supplies over its NRV. NRV of plant supplies are assessed regularly based on prevailing estimated selling prices of plant supplies and the corresponding cost of disposal. Increase in the NRV of inventories will increase cost of inventories but only to the extent of original acquisition costs. As at December 31, 2019 and 2018, the carrying amounts of plant supplies amounted to ₱29,805,455 and ₱33,895,729, respectively, net of allowance for impairment losses of ₱65,987,835 as at December 31, 2019 and 2018. For the year ended December 31, 2019 and six-month period ended December 31, 2018. Reversal of allowance for impairment on plant supplies amounted to nil and ₱40,000, respectively (see Note 14).

*Estimation of Impairment of Property and Equipment and Investment Properties*

The Company evaluates whether property and equipment and investment properties have suffered any impairment either annually or when circumstances indicate that related carrying amounts are no longer recoverable. The recoverable amounts of these assets have been determined based on either VIU or fair value, whichever is higher.

Estimation of VIU requires the use estimate and assumptions in determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Fair value is based on the results of assessment done by independent appraisers engaged by the Company. The approach utilizes prices recently paid for similar assets with adjustments made to the indicated market price to reflect condition and utility of the appraised assets relative to the market comparable. Any resulting impairment loss could have a material adverse impact on the financial position and financial performance. No impairment loss was recognized by the Company for the year ended December 31, 2019 and six-month period ended December 31, 2018.

The carrying values of property and equipment amounted to ₱156,422,917 and ₱168,176,468 as at December 31, 2019 and 2018, respectively (see Note 12).

The carrying values of investment properties amounted to ₱225,708,208 and ₱235,794,708 as at December 31, 2019 and 2018 (see Note 13).

*Estimation of Useful Lives of Property and Equipment, except Land and Right-of-use assets*
The Company estimates the useful lives and residual values of property and equipment, except land, and right-of-use assets based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful lives of the property and equipment, except land, and right-of-use assets are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded depreciation expense and decrease the carrying value of the assets. There were no changes in the estimated useful lives of the property and equipment and right-of-use assets for the year ended December 31, 2019 and six-month period ended December 31, 2018.

As at December 31, 2019 and 2018, the carrying values of property and equipment, except land, and right-of-use assets amounted to ₱156,422,917 and ₱168,176,468, respectively. Depreciation expense recognized for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018 amounted to ₱43,731,398, ₱14,716,397 and ₱19,947,611, respectively (see Notes 12 and 30).

*Estimation of Fair Value of Land under Property and Equipment*
The Company estimates the fair value of land under property and equipment based on the results of assessment of independent appraisers. Fair value of land under property and equipment is reviewed periodically and are updated if expectations differ from previous estimates due to technical and commercial obsolescence and other limits on the use of the assets. The Company engaged the services of an independent appraiser to determine the fair value of the land under property and equipment for which a valuation report was issued on October 15, 2017 covering valuation date as at December 31, 2019 and 2018. As at December 31, 2019 and 2018 the fair value of land amounted to ₱360,360,000 (see Note 11).

On December 31, 2019, the Company's management informed its shareholders its plan to sell the Company's land and building under property and equipment and some idle lots under investment properties in order to procure funds for the execution of the Company's exit of the Corporate Rehabilitation. The Company reclassified its revalued land to "non-current assets held for sale" as part of the current assets. (see Note 10).

*Estimation of Retirement Benefits*
The costs of defined retirement benefits as well as the present value of the provision for retirement benefits are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, retirement benefit liability is highly sensitive to changes in these assumptions. All assumptions are reviewed at each end of the reporting period.

Retirement benefits costs amounted to ₱8,219,990, ₱6,360,139 and ₱6,988,992 for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018, respectively. Retirement benefits liability amounted to ₱133,313,602 and ₱114,096,777 as at December 31, 2019 and 2018, respectively (see Note 20).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit retirement liability. Further details about the assumptions used are provided in Note 20.

*Assessment of Realizability of Deferred Income Tax Assets*
The Company reviews the carrying amounts of deferred income taxes assets at each end of the reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Accordingly, the Company did not recognize deferred tax assets in respect of deductible temporary differences and unused tax losses. As at December 31, 2019 and 2018, unrecognized deferred income tax assets amounted to ₱575,374,962 and ₱558,779,175, respectively, as the Company believes that the carry forward benefit would not be realized in the future prior to their expiration (see Note 29).

*Estimation of Provisions and Contingencies on Legal Proceedings*
The Company is currently involved in various legal proceedings which are pending resolution in view of the Company's ongoing corporate rehabilitation. The estimate of the probable costs for the resolution of these claims has been developed in consultation with in-house and outside counsels handling the Company's defense in these matters and is based upon an analysis of potential results. The Company's management and legal counsels have made judgment that, while the proceedings are legally defensible, they cannot anticipate with certainty the progress and the outcome of the legal proceedings, the appreciation of the available evidences by the relevant courts or tribunal involved and the evolution of jurisprudence or similar cases that will be decided by the highest court, which will be relevant to these pending cases. The Company currently assessed that these proceedings will not have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings. No provisions were made in relation to these ongoing legal proceedings (see Note 31).

*Estimation of Accrued Interest Based on Court-Approved Rehab Plan*
The Company determines the accrued interest based on the outstanding balances of its unpaid obligations to all claimants listed in the Rehab Plan. These obligations are subject to 6% legal interest in accordance with the court-approved Rehab Plan (see Note 2). The management believes that the accrued interest recognized by the Company is reasonable and appropriate following the interpretation of the court-approved Rehab Plan.

As at December 31, 2019 and 2018, accrued interest on these obligations amounted to ₱242,578,122 and ₱219,203,130, respectively (see Note 17). Interest expense recognized for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018 amounted to ₱27,500,155, ₱13,463,929 and ₱27,545,130, respectively (see Note 28).

In 2019, the Company settled labor-related statutory obligations covered by corporate rehabilitation amounting to ₱17,324,413, with waiver on interest amounting to ₱3,112,818 recognized as other income the year ended December 31, 2019 (see Note 16 and 25).

*Leases – Estimating the incremental borrowing rate*
When the Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

In Philippine Peso

## 7. CASH

| | 2019 | 2018 |
|---|---|---|
| Cash on hand | **155,000** | 130,000 |
| Cash in banks | **23,761,220** | 11,717,930 |
| | **23,916,220** | 11,847,930 |

Cash in banks earn interest at the respective bank deposit rates. Interest income earned amounted to ₱71,532, ₱24,407, and ₱112,188 for the year ended December 31, 2019, six-month period ended December 31, 2018, and year ended June 30, 2018, respectively (see Note 25).

The Company's foreign currency denominated cash and their Philippine peso equivalents restated at reference rate of prevailing market rate are as follows:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Foreign currency denominated | $ | **28,041** | $ | 26,189 |
| Philippine peso equivalents | ₱ | **1,422,898** | ₱ | 1,380,803 |

The Company recognized unrealized foreign exchange loss from translating foreign currency denominated cash amounting to ₱3,372, ₱6,476, and nil for the year ended December 31, 2019, six-month period ended December 31, 2018, and year ended June 30, 2018, respectively.

## 8. RECEIVABLES – net

| | 2019 | 2018 |
|---|---|---|
| Trade | | |
| Third parties | **57,462,042** | 37,636,110 |
| Related party (Note 23) | **332,686** | 472,984 |
| Contract asset | **13,578,633** | – |
| Advances to suppliers | **4,211,579** | 7,199,127 |
| Others | **1,646,663** | 1,349,772 |
| | **77,231,603** | 46,657,993 |
| Allowance for ECL | **(3,546,195)** | (2,765,699) |
| | **73,685,408** | 43,892,294 |

Trade receivables arise from broadband internet access services. Trade receivables are noninterest-bearing and are generally collectible on 30-60 days' terms.

Contract asset pertains to the revenue earned from the IT-related services of the Company with which the receipt of consideration is conditional on successful completion of the service.

Advances to suppliers include prepayments made to suppliers for services related to promotions, information technology solutions, networks and telecommunication.

Others consist of receivables from space rental and revenue-share from resell of DSL.

In Philippine Peso

Movements in allowance for ECL of receivables are as follow:

| | Trade receivables | Other receivables | Total |
|---|---|---|---|
| Balance as at June 30, 2018 | 1,559,241 | 670,258 | 2,229,499 |
| Provision for (recovery from) ECL for the period (Notes 25 and 26) | 669,809 | (133,609) | 536,200 |
| Balance as at December 31, 2018 | 2,229,050 | 536,649 | 2,765,699 |
| Provision ECL for the year (Note 26) | 754,956 | 25,540 | 780,496 |
| **Balance as at December 31, 2019** | **2,984,006** | **562,189** | **3,546,195** |

## 9. OTHER CURRENT ASSETS

| | 2019 | 2018 |
|---|---|---|
| Deferred input VAT | **5,293,017** | 5,742,574 |
| Prepaid insurance | **171,592** | 936,605 |
| Prepaid taxes and licenses | **500** | 6,852,514 |
| CWTs | – | 1,596,388 |
| Others | **2,987,517** | 1,080,048 |
| | **8,452,626** | 16,208,129 |

Deferred input VAT pertains to input VAT on capital goods of which the acquisition cost exceeds ₱1,000,000 to be amortized in subsequent periods.

Prepaid taxes and licenses as at December 31, 2019 and 2018 pertain to registration fee paid in advance and unamortized portion of annual Supervision and Regulation Fees (SRF) paid to NTC, respectively.

CWTs represent taxes withheld that can be claimed as credit against the Company's future tax liabilities.

Others pertain to unamortized portion of various prepayments such as software licenses, job postings and others, including rentals which will be expensed once consumed.

## 10. NON-CURRENT ASSETS HELD FOR SALE

| | 2019 | 2018 |
|---|---|---|
| Land at revalued amounts (Note 11) | **360,360,000** | – |
| Property and equipment at cost – net (Note 12) | **8,234,244** | – |
| Investment properties at cost (Note 13) | **10,086,500** | – |
| | **378,680,744** | – |

*Land at revalued amounts*
The Company decided to sell its parcel of land which is held as an owner-occupied property awaiting disposal.

*Property and equipment at cost – net*
The Company decided to sell its building and building improvements which is held as on owner-occupied property awaiting disposal.

*Investment properties at cost*
The investment property which has been decided to be sold by the Company pertains to an idle vacant and residential lots held for capital appreciation.

The assets classified as held for sale during the year was measured at the lower of its carrying amount and fair value less estimated cost to sell at the time of reclassification (see Notes 11, 12 and 13).

On February 20, 2020, the Company sold its idle land with carrying amount of ₱2,061,500 as at December 31, 2019. The proceeds from sale of the land amounted to ₱2,700,000.

As at April 14, 2020, sale of other non-current assets held for sale are not yet perfected due to delays caused by COVID-19. However, the Management is positive that the sale of these assets are expected to be completed within twelve months from classification as held for sale.

## 11. LAND AT REVALUED AMOUNTS

In 2017, the Company revalued its land based on estimated fair values as indicated in the independent appraiser's report dated October 15, 2017. The fair value was estimated using the sales comparison approach method, which is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.

The market value of the land amounted to ₱360,360,000 and the existing utility represents the highest and best use of the land. The cost of the land amounted to ₱214,500,000.

Accordingly, as at date of revaluation, the Company recognized an increase of ₱72,072,000 which was directly credited to revaluation surplus, net of deferred income tax amounting to ₱30,888,000.

Management assesses and reviews the fair value of land every 3 years. Management believes that the fair value in 2017 approximates the fair value of land as at December 31, 2019 and 2018.

As at December 31, 2019 and 2018, revaluation surplus of the revalued land amounted to ₱102,102,000, net of ₱43,758,000 tax effect. The revaluation surplus is not available for distribution to stockholders until this is realized through sale.

As at December 31, 2019 and 2018, the land reclassified as "non-current asset held for sale" and revalued land, respectively is revalued at ₱360,360,000. The fair value less estimated cost to sell of the land amounted to ₱417,949,826 (see Note 10).

In Philippine Peso

## 12. PROPERTY AND EQUIPMENT AT COST – net

| 2019 | Buildings and Improvements | Telecommunications Equipment: Network equipment | Telecommunications Equipment: Cable and wire Facilities | Other work equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| Balance at beginning of year | 44,388,215 | 237,951,237 | 186,193,620 | 23,632,126 | 14,958,721 | 507,123,919 |
| Additions | – | 1,618,924 | 22,408,281 | 3,874,131 | – | 27,901,336 |
| Reclassification of construction in progress | 4,839,598 | 10,119,123 | – | – | (14,958,721) | – |
| Reclassification to non-current assets held for sale | (49,227,813) | – | – | – | – | (49,227,813) |
| Balance at end of year | – | 249,689,284 | 208,601,901 | 27,506,257 | – | 485,797,442 |
| Accumulated depreciation: | | | | | | |
| Balance at beginning of year | 40,845,299 | 185,995,469 | 101,907,593 | 10,199,090 | – | 338,947,451 |
| Depreciation | 148,270 | 13,314,150 | 13,888,548 | 4,069,675 | – | 31,420,643 |
| Reclassification to non-current assets held for sale | (40,993,569) | – | – | – | – | (40,993,569) |
| Balance at end of year | – | 199,309,619 | 115,796,141 | 14,268,765 | – | 329,374,525 |
| **Net book value** | – | 50,379,665 | 92,805,760 | 13,237,492 | – | 156,422,917 |

| 2018 | Buildings and Improvements | Telecommunications Equipment: Central office equipment | Telecommunications Equipment: Cable and wire Facilities | Other work equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| Balance at beginning of period | 44,370,224 | 236,206,359 | 177,460,911 | 19,311,536 | 14,958,721 | 492,307,751 |
| Additions | 17,991 | 1,744,878 | 8,732,709 | 4,320,590 | – | 14,816,168 |
| Balance at end of period | 44,388,215 | 237,951,237 | 186,193,620 | 23,632,126 | 14,958,721 | 507,123,919 |
| Accumulated depreciation: | | | | | | |
| Balance at beginning of period | 40,771,169 | 179,380,592 | 95,561,758 | 8,517,535 | – | 324,231,054 |
| Depreciation | 74,130 | 6,614,877 | 6,345,835 | 1,681,555 | – | 14,716,397 |
| Balance at end of period | 40,845,299 | 185,995,469 | 101,907,593 | 10,199,090 | – | 338,947,451 |
| Net book value | 3,542,916 | 51,955,768 | 84,286,027 | 13,433,036 | 14,958,721 | 168,176,468 |

Construction in progress (CIP) pertains to structural engineering investigation and architectural designs of the Company's registered office address, one unit of elevator, and server and system update.

The Company has outstanding contractual commitments to complete the construction in progress to property and equipment amounting to ₱104,779,697. The CIP has 12.49% percentage of completion as at December 31, 2019.

On December 31, 2019, the Management decided not to push through with the construction contract in line with their intention to sell the land and buildings and improvements, thus, CIP amounting to ₱14,958,721 was reclassed to buildings and improvements and network equipment. No gains or losses were recognized from the termination of contract.

Service vehicles under "Other work equipment" with carrying value amounting to ₱2,386,443 and ₱3,117,090 as at December 31, 2019 and 2018, respectively serve as collaterals for the chattel mortgage for the loan acquired from a local bank and a financial institution (see Note 18). Aside from the other work equipment, no amount of property and equipment has been pledged to secure borrowings as at December 31, 2019 and 2018.

Fully depreciated properties still in use amounted to ₱186,101,470 and ₱221,790,863 as at December 31, 2019 and 2018. There are no idle property and equipment as at December 31, 2019 and 2018.

On December 31, 2019, the buildings and improvements with related cost and accumulated depreciation of ₱49,227,813 and ₱40,993,569, respectively, was reclassified as "non-current assets held for sale" as part of the current assets in the statements of financial position. The fair value less estimated cost to sell of the said assets amounted to ₱9,550,174 (see Note 10).

## 13. INVESTMENT PROPERTIES AT COST

The Company's investment properties consist of lands in various locations in NCR, and Regions 3 and 4. Some of these lands are rented out for a fee to third parties for one (1) to five (5) years lease term and are renewable subject to mutual consent of both parties, while others are held for capital appreciation.

The Company assessed that the highest and best use of the parcels of land are for commercial use. Based on the appraisals made in July 7, 2017, July 18, 2017 and October 15, 2017 covering valuation date as at June 30, 2017, the fair value of the investment properties is determined using the sales comparison approach amounted to ₱351,319,500. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.

Management assesses and reviews the fair value of investment property every 3 years. Management believes that the fair value in 2017 approximates the fair value of these properties as at December 31, 2019 and 2018.

On December 31, 2019, investment properties with related cost of ₱10,086,500 was reclassified as "non-current assets held for sale" as part of the current assets in the statements of financial position. The related fair value less estimated cost to sell of the reclassified investment properties amounted to ₱19,786,351 as at December 31, 2019 (see Note 10).

As at December 31, 2019 and 2018, investment properties of the Company amounted to ₱225,708,208 and ₱235,794,708, respectively.

For the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018, the Company recognized rental income from these investment properties amounting to ₱1,578,240, ₱1,624,023 and ₱6,994,454, respectively (see Note 30).

In Philippine Peso

## 14. OTHER NON-CURRENT ASSETS – net

| | 2019 | 2018 |
|---|---|---|
| Long-outstanding trade receivables | **1,381,525,501** | 1,381,525,501 |
| Plant supplies | **95,793,290** | 99,883,564 |
| Refundable security deposits | **12,744,208** | 7,348,678 |
| Financial asset at FVOCI | **168,948** | 192,375 |
| | **1,490,231,947** | 1,488,950,118 |
| Less: Allowance for ECL and impairment | **(1,447,513,336)** | (1,447,513,336) |
| | **42,718,611** | 41,436,782 |

Long-outstanding trade receivables represent due from customers related to the LEC business (landline-based telephone and long-distance service) of the Company. These long-outstanding receivables are fully provided with allowance for ECL as at December 31, 2019 and 2018.

Plant supplies pertain to telephone assets which are provided with allowance for impairment losses.

As at December 31, 2019 and 2018, the carrying amounts of plant supplies amounted to ₱29,805,455 and ₱33,895,729, respectively, net of allowance for impairment losses of ₱65,987,835 as at December 31, 2019 and 2018.

Refundable security deposits represent deposits on various space rental for central office equipment and telecommunication nodes.

The Company's foreign currency denominated refundable security deposits and their Philippine peso equivalents restated at reference rate of prevailing market rate are as follows:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Foreign currency denominated | $ | **76,000** | $ | – |
| Philippine peso equivalents | ₱ | **3,856,544** | ₱ | – |

The Company recognized unrealized foreign exchange loss from translating foreign currency denominated security refundable deposit amounting to ₱148,656 for the year ended December 31, 2019 and both nil for the six-month period ended December 31, 2018 and year ended June 30, 2018.

Financial assets at FVOCI as at December 31, 2019 pertain to investment in shares of a listed telecommunications entity. The Company's business model for managing these financial assets refers to how it manages its financial assets in order to generate cash flows.

Movements of financial assets at FVOCI for the year ended December 31, 2019 and six-month period ended December 31, 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Balances at beginning of year/period | **192,375** | 220,419 |
| Unrealized valuation loss for the year/period | **(23,427)** | (28,044) |
| Balances at end of year/period | **168,948** | 192,375 |

In Philippine Peso

The cumulative net unrealized valuation loss on changes in fair values of financial assets at FVOCI account as at December 31, 2019 and 2018 is recognized under "Unrealized valuation loss on equity investments" account which is a separate component under the equity section in the statements of financial position.

Movements of unrealized valuation losses on financial assets at FVOCI for the year ended December 31, 2019 and six-month period ended December 31, 2018 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Balances at beginning of year/period | **(306,945)** | (278,901) |
| Changes in fair value of financial assets at FVOCI | **(23,427)** | (28,044) |
| Balances at end of year/period | **(330,372)** | (306,945) |

For the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018, the Company recognized dividend income pertaining to financial assets at FVOCI amounting to ₱12,312, ₱6,156 and ₱12,996, respectively (see Note 25).

Movements in allowance for ECL of long outstanding trade receivables and impairment of plant assets are as follow:

| | **Long-outstanding trade receivables** | **Plant Supplies** | **Total** |
|---|---|---|---|
| Balances as at June 30, 2018 | 1,381,525,501 | 66,027,835 | 1,447,553,336 |
| Provision for ECL for the six-month period | – | – | – |
| Reversal of allowance for impairment loss (Note 25) | – | (40,000) | (40,000) |
| Balances as at December 31, 2018 | 1,381,525,501 | 65,987,835 | 1,447,513,336 |
| Provision for ECL for the year | – | – | – |
| **Balance as at December 31, 2019** | **1,381,525,501** | **65,987,835** | **1,447,513,336** |

In 2018, the company sold various impaired plant assets as junks at some auction with proceeds representing the reversal of impairment loss recognized in the books.

## 15. TRADE AND OTHER PAYABLES

| | **2019** | 2018 |
|---|---|---|
| Trade | **173,106,967** | 198,758,174 |
| Customers' deposits | **166,464,740** | 36,346,942 |
| Others | **239,451** | 3,092,672 |
| | **339,811,158** | 238,197,788 |

Trade payables are non-interest bearing and are settled on a 30 to 120 days' term. Included in the trade payables are suppliers' credits under corporate rehabilitation amounted to ₱11,138,163 as at December 31, 2019 and 2018.

Customers' deposits pertain to 2 months advance and 1-month deposit of internet broadband monthly subscription fee from customers. This account also includes reservation deposits/fees from interested buyers of the Company's non-current assets held for sale. These deposits are refundable and/or to be applied to uncollected receivables from the customers/buyers.

Other payables represent advance payments from subscribers and lessees and refundable short-term rental deposits. These are refundable and/or to be applied to uncollected receivables from the customers/lessees upon expiration and/or termination of the contract of service or lease.

In Philippine Peso

## 16. STATUTORY OBLIGATIONS

The statutory obligations consist of liabilities to the Philippine government agencies and labor-related liabilities summarized as follows:

| | 2019 | 2018 |
|---|---|---|
| *Covered by Corporate Rehabilitation (Note 2)* | | |
| Labor-related | **171,723,519** | 185,749,667 |
| BIR | **138,514,480** | 138,514,480 |
| NTC | **65,724,944** | 65,724,944 |
| Home Development Mutual Fund (HDMF) | **28,448,186** | 28,448,186 |
| SSS | **15,101,233** | 16,940,916 |
| Philippine Health Insurance Corporation (PHIC) | **12,145,658** | 12,145,658 |
| National Home Mortgage Finance Corp. (NHFMC) | **1,132,874** | 1,132,874 |
| Other government agencies | **7,231,637** | 7,231,637 |
| | **440,022,531** | 455,888,362 |
| *Outside Corporate Rehabilitation:* | | |
| BIR | **20,197,996** | 14,512,459 |
| Labor-related | **7,130,970** | 589,857 |
| SSS | **213,100** | 336,153 |
| PHIC | **114,064** | 83,686 |
| HDMF | **75,706** | 63,446 |
| Other government agencies | **12,885,885** | 28,315,448 |
| | **40,617,721** | 43,901,049 |
| | **480,640,252** | 499,789,411 |

Labor-related
This pertains to unpaid salaries and wages of employees, and National Labor Relation Commission (NLRC) fees. NLRC, as arbiter, is handling labor-related cases against the Company. Some of these cases are already carried up to the courts (see Note 31).

In 2019, the Company settled labor-related statutory obligations covered by corporate rehabilitation amounting to ₱17,324,413, with waiver on interest amounting to ₱3,112,818 recognized as other income the year ended December 31, 2019 (see Note 25).

NTC
This pertains to unpaid SRF and Spectrum User Fees. SRF collected by the NTC from telecommunications company with valid legislative franchise.

HDMF and PHIC
These pertain to unremitted employer and employees' contributions.

SSS
This pertains to unremitted employer and employee contributions, and employee loans. On September 3, 2010, the Rehab Court ordered Philippine National Bank Trust Banking Group (PNB-TBG), as escrow agent under Escrow Agreement entered into by the Company and PNB-TBG on June 2, 1999, to release the escrow fund to pay obligations to SSS under the condonation program in RA No. 9903 and SSS Circular No. 2010-2005. In November 2010, the Company paid ₱32,466,271 out of the escrow fund (see Notes 1 and 2).

In August 30, 2019, the Company availed of SSS condonation program to settle ₱12,908,618 of obligations including interest of ₱1,012,344 (see Notes 1 and 2).

NHFMC
This pertains to unremitted employees housing loan deducted from their salaries.

In Philippine Peso

Other government agencies
These include liabilities with BIR for the various unpaid taxes, SEC for the unpaid filing fees, Department of Public Works & Highways for the excavation fees, Department of Environment and Natural Resources for area clearing permits, and City Treasurer of various municipalities for the real property tax.

Statutory obligations outside corporate rehabilitation are current obligations which are incurred after the Rehab Plan was filed with the Rehab Court. These obligations are paid on a regular basis as part of its normal business operations on a 5 to 30 days' term.

## 17. ACCRUED INTERESTS, EXPENSES AND OTHER LIABILITIES

| | **2019** | 2018 |
|---|---|---|
| Accrued interests | **242,578,122** | 219,203,130 |
| Accrued upstream internet connectivity | **18,453,777** | 12,769,782 |
| Accrued expenses | **13,407,437** | 8,500,564 |
| Accrued retainers and professional fees | **2,152,482** | 6,300,084 |
| Others | **1,550,375** | 1,097,346 |
| | **278,142,193** | 247,870,906 |

Pursuant to the order of the Rehab Court to pay 6% legal interest from the approval of the Rehab Plan until full payment of the obligation (see Note 2). Interest expense for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018 amounted to ₱27,500,155, ₱13,463,929 and ₱27,545,130, respectively (see Note 28).

Accrued expenses pertain to utilities and outside services which were incurred subsequent to the approval of the Rehab Plan.

In 2018, the Company entered into a contract agreement with an international telecommunication company to install and provide additional upstream internet connectivity for the Company.

The Company's foreign currency denominated accrued upstream internet connectivity and their Philippine peso equivalents restated at reference rate of prevailing market rate are as follows:

| | **2019** | 2018 |
|---|---|---|
| Foreign currency denominated | **$ 324,322** | $ 228,000 |
| Philippine peso equivalents | **₱ 16,456,098** | ₱ 12,021,072 |

The Company recognized unrealized foreign exchange gain from translating foreign currency denominated accrued upstream internet connectivity amounting to ₱770,764, ₱149,095 and nil for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018, respectively.

The Company has written-off unreversed long outstanding accruals amounting to ₱552,894, nil and ₱53,880,331 for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018, respectively (see Note 25).

In Philippine Peso

## 18. LOANS PAYABLE

The Company obtained several loans from a local bank and a financial institution of which the proceeds were used to finance the purchase of other work equipment for the Company's use. These service vehicles serve as collaterals for the chattel mortgage for the loans. Below are the details of the loans:

| | Loan 1 | Loan 2 | Loan 3 |
|---|---|---|---|
| Principal amount | 780,000 | 780,000 | 1,518,400 |
| Annual interest rate | 18.59% | 18.59% | 20.03% |
| Maturity date | 12/13/2022 | 12/13/2022 | 5/4/2020 |
| Amount outstanding: | | | |
| Principal | 599,123 | 599,123 | 296,718 |
| Interest | 5,569 | 7,426 | 4,292 |
| Monthly amortization | 22,801 | 22,801 | 77,300 |
| Term (months) | 48 | 48 | 24 |

The outstanding balances of the Company's loans as at December 31, 2019 and 2018 are as follows:

| 2019 | Current | Non-current | Total |
|---|---|---|---|
| Loan 1 | 182,358 | 422,334 | 604,692 |
| Loan 2 | 184,215 | 422,334 | 606,549 |
| Loan 3 | 301,010 | – | 301,010 |
| | 667,583 | 844,668 | 1,512,251 |

| 2018 | Current | Non-current | Total |
|---|---|---|---|
| Loan 1 | 153,942 | 599,123 | 753,065 |
| Loan 2 | 156,254 | 599,123 | 755,377 |
| Loan 3 | 796,484 | 296,718 | 1,093,202 |
| | 1,106,680 | 1,494,964 | 2,601,644 |

As at December 31, 2019 and 2018, the carrying value of the other work equipment pledged as collaterals for the chattel mortgages amounted to ₱2,386,443 and ₱3,117,090, respectively (see Note 12).

The Company paid a total of ₱1,074,910 and ₱508,526 of the principal for the year ended December 31, 2019 and six-month period ended December 31, 2018, respectively. Interest expense for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018 relating to these loans amounted to ₱385,432, ₱232,848 and nil, respectively (see Note 28).

Amount of principal repayment required in each of the next five (5) years are as follows:

| | Loan 1 | Loan 2 | Loan 3 | Total |
|---|---|---|---|---|
| 2020 | 176,789 | 176,789 | 296,718 | 650,296 |
| 2021 | 212,607 | 212,607 | – | 425,214 |
| 2022 | 209,727 | 209,727 | – | 419,454 |
| 2023 | – | – | – | – |
| 2024 | – | – | – | – |

In Philippine Peso

## 19. DEPOSIT FOR SUBSCRIPTION IN ACCORDANCE WITH THE COURT-APPROVED REHABILITATION PLAN

As discussed in Note 2 in the financial statements, the Rehab Court has ordered the Company the full conversion of all outstanding liabilities into 12-year serial redeemable preferred shares except for statutory obligations, financing and advances from owners and certain liabilities in the nature of suppliers' credits, under respective classifications as shown below:

| Type of Redeemable Serial Preferred Shares | Type of obligation |
|---|---|
| Series "A" | Secured obligations |
| Series "B" | Unsecured obligations |
| Series "C" | Obligations to affiliated companies |

The Company sent confirmation letters to all claimants concerned that the principal amount of their debts/liabilities have been fully converted to equity, by way of 12-year serial redeemable preferred shares and that the corresponding amount of ₱8,841,736,581 was lodged in the Company's books as "Deposit for subscription". The Company has filed with the SEC the increase in authorized capital stock on October 9, 2018. The increase in authorized capital was approved by the SEC on October 31, 2018 pending issuance of share certificates to the creditors (see Note 2) and the full implementation of the Company's debt-to-equity conversion as ordered by the Rehab Court amounting to ₱8,711,736,581 (see Note 21.02), thus, "Deposit for subscription" was already recognized in equity. No oppositions were made by the creditors except as discussed in Note 2.

As at April 14, 2020, the Company has issued share certificates to creditors amounting to ₱326,085.

Total deposit for subscription under liabilities as at December 31, 2019 and 2018 amounted to ₱130,000,000. The remaining balance of deposit for stock subscription under liabilities as at December 31, 2019 and 2018 pertains to the subscribed common shares of RETELCOM previously lodged under paid up capital.

## 20. RETIREMENT BENEFITS LIABILITY

The Company has a noncontributory defined benefit plan covering all regular and permanent employees. Benefits are based on the employee's final plan salary and at least 10 years of service ranging from 12.5% to 130%.

The latest actuarial valuation report as at December 31, 2019 is determined using the projected unit credit actuarial cost method. Currently, the Company has no plan asset established for the funding of the retirement benefits liability.

The following tables summarize the retirement benefits liability recognized in the statements of financial position and the components of retirement benefits costs recognized in the statements of income (loss) for the retirement plan:

Retirement benefits costs recognized in the statements of income (loss):

| | Note | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|---|
| Current service cost | | **6,279,902** | 2,304,676 | 2,867,468 |
| Interest expense on defined benefit plan | | **1,940,088** | 4,055,463 | 4,121,524 |
| | 27 | **8,219,990** | 6,360,139 | 6,988,992 |

In Philippine Peso

Retirement expense attributable to key management personnel amounted to ₱2,459,211, ₱786,181 and ₱3,087,667 for the year ended December 31, 2019, six-month period December 31, 2018 and year ended June 30, 2018, respectively (see Note 23).

Other comprehensive income (loss) in the statements of financial position pertains to the cumulative actuarial gains (losses) on non-contributory defined benefit plan:

| | **2019** | 2018 |
|---|---|---|
| Beginning balances | **14,898,232** | (1,533,213) |
| Actuarial gains (losses) due to: | | |
| Experience adjustments | **(12,915,983)** | 21,986,863 |
| Changes in demographic assumptions | **3,189,985** | – |
| Changes in financial assumptions | **(4,706,682)** | 1,486,629 |
| Actuarial gains (losses) recognized for the period/year | **(14,432,680)** | 23,473,492 |
| Tax effect | **4,329,804** | (7,042,047) |
| Actuarial gains (losses) recognized for the period/year – net of tax | **(10,102,876)** | 16,431,445 |
| Ending balances | **4,795,356** | 14,898,232 |

Changes in the present value of the retirement benefits liability are as follows:

| | **2019** | 2018 |
|---|---|---|
| Retirement benefits liability at beginning of period/year | **114,096,777** | 131,210,130 |
| Current service cost | **6,279,902** | 2,304,676 |
| Interest expense on retirement benefits liability | **1,940,088** | 4,055,463 |
| Actuarial losses (gains) due to: | | |
| Experience adjustments | **12,915,983** | (21,986,863) |
| Changes in demographic assumptions | **(3,189,985)** | – |
| Changes in financial assumptions | **4,706,682** | (1,486,629) |
| Benefits paid | **(3,435,845)** | – |
| Retirement benefits liability at end of period/year | **133,313,602** | 114,096,777 |

In 2009, the Company applied for corporate rehabilitation which was later approved in April 1, 2011 by the Rehab Court. As per Rehab Court's order, the Company may put on hold the benefits of separated employees for service rendered prior to August 24, 2009 Stay Order (see Note 1).

As at December 31, 2019 and 2018, the Company has retirement benefits liability attributable to separated employees amounting to ₱83,370,733 and ₱78,622,488, respectively.

The principal actuarial assumptions used to determine pension for the Company are as follows:

| | **2019** | 2018 |
|---|---|---|
| Discount rate | **4.92%** | 7.36% |
| Salary increase rate | **5.00%** | 5.00% |
| Mortality rate | 2017 Philippine Intercompany Mortality Table | |
| Disability rate | 1925 Disability Study, Period 2, Benefit 5 | |
| Turnover rate | A scale ranging from 9% at age 18 to 0% at age 60 | |

In Philippine Peso

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2019, assuming all other assumptions were held constant:

| | Increase (decrease) | Active | Deferred | Total |
|---|---|---|---|---|
| Discount rates | 5.69% (Actual + 1.00%) | 47,841,555 | 83,370,733 | 131,212,288 |
| | 4.92% (Actual) | 49,942,868 | 83,370,733 | 133,313,601 |
| | 3.92% (Actual - 1.00%) | 52,333,662 | 83,370,733 | 135,704,395 |
| Salary increase rate | 6.00% (Actual + 1.00%) | 52,547,176 | 83,370,733 | 135,917,909 |
| | 5.00% (Actual) | 49,942,868 | 83,370,733 | 133,313,601 |
| | 4.00% (Actual - 1.00%) | 47,603,946 | 83,370,733 | 130,674,679 |

Shown below is the maturity analysis of the Company's undiscounted benefit payments as at December 31, 2019:

| | Normal retirement | Other than normal retirement | Deferred benefit | Total |
|---|---|---|---|---|
| Less than 1 year | 25,300,241 | 499,830 | 83,370,733 | 109,170,804 |
| 1 to less than 5 years | 8,726,785 | 2,163,700 | – | 10,890,485 |
| 5 to less than 10 years | 28,290,405 | 2,986,431 | – | 31,276,836 |
| 10 to less than 15 years | 37,617,162 | 4,073,163 | – | 41,690,325 |
| 15 to less than 20 years | 30,277,917 | 6,226,407 | – | 36,504,324 |
| 20 years and above | 101,361,543 | 13,708,845 | – | 115,070,388 |
| | 231,574,053 | 29,658,376 | 83,370,733 | 344,603,162 |

The average duration of the retirement benefits liability at the end of the reporting period is 16.43 years.

## 21. SHARE CAPITAL

### 21.01 Paid-up Capital

As at December 31, 2019 and 2018, the Company's paid up capital consist of the following:

| | 2019 | 2018 |
|---|---|---|
| Common shares - ₱1 par value | | |
| Authorized - 4,500,000,000 shares | | |
| Issued - 1,500,000 shares | **1,500,000,000** | 1,500,000,000 |
| Subscribed shares – nil shares | **–** | – |
| APIC | **724,255,313** | 724,255,313 |
| | **2,224,255,313** | 2,224,255,313 |
| Preferred shares - ₱10 par value | | |
| Authorized - 230,000,000 shares | | |
| Issued and subscribed - nil shares | **–** | – |
| | **2,224,255,313** | 2,224,255,313 |

Preferred shares pertain to serial cumulative convertible redeemable preferred shares with the following terms and conditions:

1. Has no voting rights or right to be voted except as provided by law.
2. Entitled to cumulative and non-participating dividends.
3. Convertible into common shares as determined by the BOD.
4. Redemption period shall be fixed by the BOD and may be re-issued upon redemption as preferred or as common shares at the option of the BOD.

In Philippine Peso

As at December 31, 2019 and 2018, no preferred shares were subscribed and/or issued.

### 21.02 Deposit for Subscription in Accordance with the Court-Approved Rehabilitation Plan

As discussed in Note 2 to the financial statements, the Rehab Court approved the Company to amend its articles of incorporation increasing its authorized capital stock from ₱3,800,000,000 to ₱10,187,150,000, and to immediately issue the corresponding stock certificates to the claimants concerned.

The Company has filed with the SEC the increase in authorized capital stock from ₱3,800,000,000 to ₱15,600,000,000 on October 9, 2018 which was approved on October 31, 2018. As at December 31, 2019, the Company has yet to issue the share certificates to the creditors amounting to ₱8,711,736,581.

As at April 14, 2020, the Company has issued share certificates to creditors amounting to ₱326,085 (see Note 1).

## 22. BASIC/DILUTED EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to stockholders of the Company by the weighted average number of ordinary shares in issue during the period/year, excluding ordinary shares purchased by the Company and held as treasury shares.

Income (loss) per share for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018 are as follows:

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Net income (loss) shown in the statements of comprehensive income (loss) | **(52,402,835)** | (88,152,538) | 24,729,132 |
| Weighted average number of common shares for basic and diluted earnings (loss) per share | **1,500,000,000** | 1,500,000,000 | 1,473,258,703 |
| Basic and diluted earnings (loss) per share | **(0.03)** | (0.06) | 0.02 |

## 23. RELATED PARTY TRANSACTIONS

### 23.01 Related Party Relationships

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

In Philippine Peso

The related parties in these financial statements are as follows:

| Related party | Relationship | Nature of Transaction |
|---|---|---|
| TSI | Entity with significant influence over the Company | Advances to/from |
| MENLO | Entity with significant influence over the Company | Advances to/from |
| CWI | Affiliate | Advances to/from |
| PWI | Affiliate | Advances to/from |
| RETELCOM | Affiliate | Advances to/from |
| TIMCO | Affiliate | Advances to/from |
| WPI | Affiliate | Advances to/from |
| Stockholders | Other related party | Advances to/from |

Affiliate refers to an entity that is neither a parent, a subsidiary, nor an associate, but has stockholders common to the Company or under common control.

In the normal course of business, transactions with related parties consist mainly of rendering of, unsecured non-interest bearing, short-term cash advances for working capital requirements of the Company, which are due and demandable.

### 23.02 Related Party Transactions

Transactions and outstanding balances with related parties as at December 31, 2019 and 2018 which consist mainly of advances intended for working capital requirements are as follows:

| Category | Year/ Period | Volume/ Amount | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|---|
| Entities with significant influence over the Company | | | | | |
| TSI | | | | | |
| Revenues / | **2019** | **16,589,121** | **332,686** | Due and demandable, | Unimpaired |
| Receivables | 2018 | 3,468,741 | 472,984 | cash settled | |
| Due from related parties | **2019** | **–** | **–** | Due and demandable, | Unimpaired |
| | 2018 | (99,695) | – | cash settled | |
| Due to related parties | **2019** | **454,083** | **40,696,459** | Due and demandable, | Unsecured |
| | 2018 | 156,411 | 40,242,376 | cash settled | Unguaranteed |
| MENLO | | | | | |
| Due to related parties | **2019** | **(41,329,188)** | **19,013,613** | Due and demandable, | Unsecured |
| | 2018 | 55,983,287 | 60,342,801 | cash settled | Unguaranteed |
| Affiliates | | | | | |
| CWI | | | | | |
| Due from related parties | **2019** | **(2,365,687)** | **885,231** | Due and demandable, | Unimpaired |
| | 2018 | 131,412 | 3,250,918 | cash settled | |
| Due to related parties | **2019** | **–** | **440,000** | Due and demandable, | Unsecured |
| | 2018 | 440,000 | 440,000 | cash settled | |
| PWI | | | | | |
| Due from related parties | **2019** | **(2,215,153)** | **1,272,233** | Due and demandable, | Unimpaired |
| | 2018 | (896,878) | 3,487,386 | cash settled | |
| RETELCOM | | | | | |
| Due to related parties | **2019** | **661,212** | **6,613,704** | Due and demandable, | Unsecured |
| | 2018 | 1,041,918 | 5,952,492 | cash settled | Unguaranteed |
| TIMCO | | | | | |
| Due to related parties | **2019** | **–** | **38,355,000** | Due and demandable, | Unsecured |
| | 2018 | – | 38,355,000 | cash settled | |
| WPI | | | | | |
| Due from related parties | **2019** | **9,555** | **48,931** | Due and demandable, | Unimpaired |
| | 2018 | – | 39,376 | cash settled | |

In Philippine Peso

| Category | Year/ Period | Volume/ Amount | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|---|
| Other related parties | | | | | |
| Other individual stockholders | | | | | |
| Due to related parties | **2019** | **(658,885)** | **157,691,990** | Due and demandable, | Unsecured |
| | 2018 | 28,867,958 | 158,350,875 | cash settled | |
| Interest expenses / Due to related parties – accrued interest | **2019** | **12,434,887** | **6,195,494** | | |
| | 2018 | 6,415,025 | – | | |
| **Revenues (Note 24) / Receivables (Note 8)** | **2019** | **16,589,121** | **332,686** | | |
| | 2018 | 3,468,741 | 472,984 | | |
| **Due from related parties** | **2019** | | **2,206,395** | | |
| | 2018 | | 6,777,680 | | |
| **Due to related parties** | **2019** | | **262,810,766** | | |
| | 2018 | | 303,683,544 | | |
| **Interest expenses (Note 28) / Due to related parties – accrued interest** | **2019** | **12,434,887** | **6,195,494** | | |
| | 2018 | 6,415,025 | – | | |

Due from related parties pertain to non-interest-bearing advances handed by the Company to its related parties for working capital requirements.

Due to related parties represent interest and non-interest bearing, unsecured, and short-term Philippine Peso-denominated financing and advances from owners obtained by the Company mainly to finance working capital requirements prior to the entry of the new investor in accordance with the court-approved Rehab Plan (see Note 2).

The Company's foreign currency denominated due to related parties and their Philippine peso equivalents restated at reference rate of prevailing market rate are as follows:

| | 2019 | 2018 |
|---|---|---|
| Foreign currency denominated | **$ 288,805** | $ 288,805 |
| Philippine peso equivalents | **₱ 14,653,978** | ₱ 15,226,955 |

The Company recognized unrealized foreign exchange gain from translating foreign currency denominated due to related parties amounting to ₱690,245 and ₱230,466, for the year ended December 31, 2019 and six-month period ended December 31, 2018, respectively, and unrealized foreign exchange loss amounting to ₱832,481 for the year ended June 30, 2018.

### 23.03 Key Management Remuneration

Compensation of key management personnel of the Company are as follows:

| | 2019 | 2018 |
|---|---|---|
| Short-term employee benefits | **32,988,303** | 16,722,000 |
| Post-employment benefits (Note 20) | **2,459,211** | 786,181 |
| | **35,447,514** | 17,508,181 |

In Philippine Peso

## 24. REVENUES

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Broadband internet access services: | | | |
| Direct customers | **304,163,387** | 116,931,071 | 185,690,430 |
| Resellers | **41,766,571** | 3,468,741 | 8,857,176 |
| Information technology services | **42,260,011** | – | – |
| Other services | **7,853,754** | 9,171,830 | 6,266,293 |
| | **396,043,723** | 129,571,642 | 200,813,899 |

Revenue Sharing Agreement with IPS, Inc. (IPS)
The Company and IPS entered into an agreement where IPS is allowed to use the Company's last mile as local transport, as compensation, the Company collects monthly recurring rate depending on the bandwidth transported as agreed on subscription agreements.

Collection Agent Agreement with IPS
The Company agreed to act as the collecting agent of IPS. The Company shall perform the billing and collection of monthly subscription fee on behalf of IPS. In return, the Company shall be compensated equivalent to 3% of the gross receipts, net of VAT.

Facilities Exchange and Revenue Sharing Agreement with TSI
On February 13, 2013, the Company and TSI entered into a Memorandum of Understanding where both parties agree to exchange usufruct including, but not limited to, the Company's fiber facilities, capacities, and upgrades which were funded by TSI, TSI's multiplex and other equipment upgrades. These facilities shall be used to provide data transport facilities to clients for which the Company and TSI shall share revenue based on gross receipts. TSI and the Company's revenue sharing varies from 30:70, 50:50 and 40:60, respectively. TSI shall be an authorized reseller of the Company's data transport services. The Memorandum of Understanding shall be effective for a period of 15 years from the execution date.

Copper Cable Lease Agreement with APO Associated Radio Electronics and Communications Company, Inc. (APOCOM)
On October 4, 2012, the Company agreed to lease out copper cable to APOCOM in order for APOCOM to provide DSL services to its clients for a monthly lease rate of ₱200 per cable per client. In addition, the Company shall charge a one-time installation fee in the amount of ₱1,500 for each DSL service that APOCOM will provide its clients. APOCOM shall also be an authorized reseller of the Company's DSL.

Revenue disaggregation are as follows:

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Contracts: | | | |
| Revenue with IPS | **25,177,451** | 1,270,169 | 2,513,272 |
| Company's revenue-share from resell of data transport (Note 23) | **16,589,121** | 3,468,741 | 8,674,694 |
| Collection agreement with IPS | – | 65,612 | 284,033 |
| Facilities exchange with TSI (Note 23) | – | – | 16,159,166 |
| Revenue recognized – resell of DSL | – | – | 182,482 |
| Copper Cable Lease Agreement with APOCOM | – | – | 6,600 |
| Other individual and corporate contracts | **354,277,151** | 124,767,120 | 172,993,652 |
| | **396,043,723** | 129,571,642 | 200,813,899 |

In Philippine Peso

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Type of customers: | | | |
| Government | **58,064,700** | 5,981,346 | 9,372,707 |
| Non-government | **337,979,023** | 123,590,296 | 191,441,192 |
| | **396,043,723** | 129,571,642 | 200,813,899 |
| Timing of recognition of revenue: | | | |
| Over time | **346,288,274** | 122,124,088 | 188,412,860 |
| At a point in time | **49,755,449** | 7,447,554 | 12,401,039 |
| | **396,043,723** | 129,571,642 | 200,813,899 |
| Geographical markets: | | | |
| Metro Manila | **289,788,118** | 102,690,928 | 157,491,124 |
| Luzon | **98,846,675** | 26,880,714 | 43,322,775 |
| Visayas | **3,292,858** | – | – |
| Mindanao | **4,116,072** | – | – |
| | **396,043,723** | 129,571,642 | 200,813,899 |

## 25. OTHER INCOME

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Unrealized foreign exchange gain (Notes 17 and 23) | **1,461,009** | 379,561 | – |
| Rack rental income (Note 30) | **1,372,581** | 1,589,373 | 3,568,762 |
| Reversal of long outstanding accruals (Note 17) | **552,894** | – | 53,880,331 |
| Interest income (Note 7) | **71,532** | 24,407 | 112,188 |
| Dividend income (Note 14) | **12,312** | 6,156 | 12,996 |
| Reversal of allowance for ECL (Note 8) | – | 133,609 | – |
| Realized foreign exchange gain | – | 103,054 | – |
| Reversal of impairment (Note 14) | – | 40,000 | 882,250 |
| Miscellaneous | **3,595,946** | – | – |
| | **7,066,274** | 2,276,160 | 58,456,527 |

Miscellaneous includes waiver on interest of labor-related statutory obligations related to corporate rehabilitation (see Note 16) and other incidental income of the Company.

In Philippine Peso

## 26. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Personnel cost (Note 27) | **203,824,120** | 83,024,788 | 74,303,350 |
| Utilities and supplies | **21,656,070** | 9,401,508 | 14,429,229 |
| Professional and other contracted services | **16,079,410** | 15,996,534 | 11,572,183 |
| Taxes, licenses, and other fees | **14,458,986** | 34,566,130 | 5,068,556 |
| Marketing and commission | **11,117,342** | 5,842,771 | 14,196,259 |
| Outside services | **9,493,864** | 4,614,261 | 5,243,409 |
| Representation and entertainment | **6,808,727** | 3,096,093 | 10,754,896 |
| Trustee fee | **5,312,500** | – | – |
| Repairs and maintenance | **1,882,800** | 871,209 | 1,415,800 |
| Software licenses | **1,479,295** | 214,907 | 683,093 |
| Seminar expense | **917,330** | 833,566 | 553,754 |
| Insurance expense | **845,277** | 303,121 | 133,201 |
| Provision for ECL (Note 8) | **780,496** | 669,809 | 899,350 |
| Realized foreign exchange loss | **195,142** | – | – |
| Unrealized foreign exchange loss (Notes 7 and 14) | **152,028** | 6,476 | 832,481 |
| Rent | **–** | 6,192,759 | 9,793,388 |
| Miscellaneous expense | **6,069,549** | 2,794,567 | 3,015,317 |
| | **301,072,936** | 168,428,499 | 152,894,266 |

Trustee fee pertains to the amount paid by the Company in relation with the transfer of records of its Mortgage Trust Indenture wherein a trustee was appointed to act as an impartial intermediary between the Company and its creditors in the administration of properties securing the Company's loans.

Miscellaneous includes bank charges, membership fees, postage and mailing, access fee and other incidental business expenses of the Company.

## 27. PERSONNEL COST

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Salaries and wages | **144,714,467** | 62,027,385 | 54,550,043 |
| Retirement costs (Note 20) | **8,219,990** | 6,360,139 | 6,988,992 |
| Other benefits | **50,889,663** | 14,637,264 | 12,764,315 |
| | **203,824,120** | 83,024,788 | 74,303,350 |

Other benefits include government contributions, short-term compensated absences, bonuses, non-monetary benefits and other short-term benefits.

In Philippine Peso

## 28. INTEREST EXPENSES

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Corporate rehabilitation obligations (Note 17) | **27,500,155** | 13,463,929 | 27,545,130 |
| Due to related parties (Note 23) | **12,434,887** | 6,217,444 | – |
| Lease liabilities (Note 30) | **2,227,216** | – | – |
| Bank loans (Note 18) | **385,432** | 232,848 | – |
| Others | **382,868** | 197,581 | 190,836 |
| | **42,930,558** | 20,111,802 | 27,735,966 |

Others pertain to interest expenses paid by the Company to various suppliers.

## 29. INCOME TAX

### 29.01 Income Tax Recognized in Profit or Loss

The components of income tax expense for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018 are as follows:

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Income tax expense: | | | |
| Regular corporate income tax at 30% | **–** | – | 28,799,624 |
| Minimum corporate income tax at 2% | **2,873,472** | – | – |
| Income tax expense reported in the statements of comprehensive income (loss) | **2,873,472** | – | 28,799,624 |

The reconciliation of income tax computed at the statutory income tax rate to provision for income tax as shown in the statements of comprehensive income (loss) is as follows:

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Income (loss) at statutory income tax rate | **(14,858,809)** | (26,445,761) | 16,058,627 |
| Income tax effects of: | | | |
| Change in unrecognized deferred income tax assets | **16,595,787** | 23,416,616 | 4,242,204 |
| Non-deductible expenses | **1,161,648** | 3,038,314 | 8,794,122 |
| Interest income subjected to final tax | **(21,460)** | (7,322) | (33,657) |
| Dividend income | **(3,694)** | (1,847) | (3,899) |
| Application of MCIT | **–** | – | (257,773) |
| | **2,873,472** | – | 28,799,624 |

As at December 31, 2019 and 2018, net deferred income tax recognized in the statements of financial position are as follows:

| | **2019** | 2018 |
|---|---|---|
| *Deferred income tax liabilities* | | |
| Revaluation surplus | **43,758,000** | 43,758,000 |
| Actuarial gain on retirement benefits | **2,055,153** | 6,384,957 |
| | **45,813,153** | 50,142,957 |

In Philippine Peso

As at December 31, 2019 and 2018, no deferred income tax assets have been recognized on the following tax bases because management believes that it is not probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

| | 2019 | 2018 |
|---|---|---|
| Provision for ECL on long outstanding trade receivables (Note 14) | **1,381,525,501** | 1,381,525,501 |
| Accrued interests (Notes 17 and 23) | **248,773,616** | 219,203,130 |
| Retirement costs | **140,164,111** | 135,379,966 |
| NOLCO | **67,133,911** | 57,735,119 |
| Provision for impairment losses on plant supplies (Note 14) | **65,987,835** | 65,987,835 |
| Provision for ECL on receivables (Note 8) | **3,546,195** | 2,765,699 |
| MCIT | **2,873,472** | – |
| Leases – PFRS 16 | **1,207,130** | – |
| Total | **1,911,211,771** | 1,862,597,250 |

Unrecognized deferred tax assets are as follows:

| | 2019 | 2018 |
|---|---|---|
| Provision for ECL on long outstanding trade receivables | **414,457,650** | 414,457,650 |
| Accrued interests | **74,632,085** | 65,760,939 |
| Retirement costs | **42,049,233** | 40,613,990 |
| NOLCO | **20,140,173** | 17,320,535 |
| Provision for impairment losses on plant supplies | **19,796,351** | 19,796,351 |
| MCIT | **2,873,472** | – |
| Provision for ECL on receivables | **1,063,859** | 829,710 |
| Leases – PFRS 16 | **362,139** | – |
| Total | **575,374,962** | 558,779,175 |

As at December 31, 2019, the Company has NOLCO that can be claimed as deductions from future taxable income as follows:

| Period of recognition | Availment period | NOLCO | Applied | Expired | Balance |
|---|---|---|---|---|---|
| December 31, 2018 | 2019-2021 | 57,735,119 | – | – | 57,735,119 |
| December 31, 2019 | 2020-2022 | 9,398,792 | – | – | 9,398,792 |
| | | **67,133,911** | – | – | **67,133,911** |

As at December 31, 2019, the Company has MCIT that can be claimed as deductions from future taxable income as follows:

| Period of recognition | Availment period | MCIT | Applied | Expired | Balance |
|---|---|---|---|---|---|
| December 31, 2019 | 2020-2022 | **2,873,472** | – | – | **2,873,472** |

In Philippine Peso

## 30. LEASES

*a. The Company as a Lessee*

The Company has lease contracts for various network equipment for cell sites telecommunications equipment locations and leased poles and other work equipment for car rentals used in its operations which generally have lease terms between 1 and 10 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets and some contracts require the Company to maintain certain financial ratios. There are several lease payments which are further discussed below.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during 2019:

| | Network equipment | Other work equipment | Total |
|---|---|---|---|
| Cost: | | | |
| Balance at beginning of year | 40,160,065 | 2,266,792 | 42,426,857 |
| Additions | – | – | – |
| Balance at end of year | 40,160,065 | 2,266,792 | 42,426,857 |
| Accumulated depreciation: | | | |
| Balance at beginning of year | – | – | – |
| Depreciation | 11,321,656 | 989,099 | 12,310,755 |
| Balance at end of year | 11,321,656 | 989,099 | 12,310,755 |
| **Net book value** | 28,838,409 | 1,277,693 | 30,116,102 |

Set out below are the carrying amounts of lease liabilities and the movements during the year:

| | 2019 | 2018 |
|---|---|---|
| At January 1 | 42,250,103 | – |
| Additions | – | – |
| Accretion of interest | 2,227,216 | – |
| Payments | (13,330,841) | – |
| | 31,146,478 | – |

The following is the current and non-current portion of lease liabilities as at December 31, 2019:

| | 2019 | 2018 |
|---|---|---|
| Current | 11,223,922 | – |
| Non-current | 19,922,556 | – |
| | 31,146,478 | – |

In Philippine Peso

The maturity analysis of lease liabilities as at December 31, 2019 is disclosed below:

| | Network and office premises | Other work equipment | Total |
|---|---|---|---|
| Lease payments: | | | |
| Within 1 Year | 11,722,653 | 1,163,085 | 12,885,738 |
| 1-2 Years | 7,393,733 | 255,567 | 7,649,300 |
| 2-3 Years | 5,731,389 | – | 5,731,389 |
| 3-4 Years | 8,935,243 | – | 8,935,243 |
| 4-5 Years | 296,075 | – | 296,075 |
| | 34,079,093 | 1,418,652 | 35,497,745 |
| Finance charges: | | | |
| Within 1 Year | 1,514,043 | 127,070 | 1,641,113 |
| 1-2 Years | 993,162 | 8,337 | 1,001,499 |
| 2-3 Years | 644,257 | – | 644,257 |
| 3-4 Years | 1,052,184 | – | 1,052,184 |
| 4-5 Years | 12,214 | – | 12,214 |
| | 4,215,860 | 135,407 | 4,351,267 |
| Net present values: | | | |
| Within 1 Year | 10,208,611 | 1,036,015 | 11,244,626 |
| 1-2 Years | 6,400,571 | 247,230 | 6,647,801 |
| 2-3 Years | 5,087,132 | – | 5,087,132 |
| 3-4 Years | 7,883,059 | – | 7,883,059 |
| 4-5 Years | 283,860 | – | 283,860 |
| 5-10 Years | – | – | – |
| | 29,863,233 | 1,283,245 | 31,146,478 |

The following are the amounts recognized in profit or loss:

| | 2019 | 2018 |
|---|---|---|
| Depreciation expense of right-of-use assets | 12,310,755 | – |
| Interest on lease liabilities (Note 28) | 2,227,216 | – |
| | 14,537,971 | – |

*b. The Company as a Lessor*

The Company has entered into various lease agreements on its investment properties and telecommunication rack spaces. The operating lease agreements are short-term periods ranging from 1 to 12 months from the date of contracts.

For the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018, the Company recognized rental income from investment properties amounting to ₱1,578,240, ₱1,624,023 and ₱6,994,454, respectively (see Note 13). During the year, majority of the lease agreements expired and were no longer renewed.

In Philippine Peso

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

| | 2019 | 2018 |
|---|---|---|
| Less than one year | **49,376** | 1,386,004 |

Total rental income earned by the Company from its leased telecommunication rack spaces amounted to ₱1,372,581, ₱1,589,373 and ₱3,568,762, respectively (see Note 25) for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018, respectively. During the year, the Company's lease agreement expired and was no longer renewed.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

| | 2019 | 2018 |
|---|---|---|
| Less than one year | – | 1,372,581 |

## 31. LEGAL CONTINGENCIES

The Company is a party to various legal cases and assessments which are pending in courts or are under protest. The Company's management and the Company's legal counsels, both in-house and external, strongly believe that the liabilities, if any, that may result from the final outcome of these cases and assessments will not materially affect the Company's financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these cases and assessments. The disclosure of additional details beyond the present disclosures may seriously prejudice the Company's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, only a general description is provided.

## 32. SEGMENT REPORTING

The Company has only one operating segment which is the broadband internet access services which include, among others: (a) fiber optic dedicated, e-line or shared broadband; (b) wireless dedicated or shared broadband; (c) very small aperture terminal; and (d) gateway peering. Revenues derived from these services consists of fixed monthly subscription rate plus installation charges and other one-time fees associated with the customer service.

The Company shifted its products and services from LEC to broadband data services, fixed wireless services Point to Point and Point to Multipoint Wireless Communications Services and Network Operations Center using the same LEC Network (see Note 1).

The Company monitors the operating results based on earnings before interest, taxes and depreciation and amortization (EBITDA).

In Philippine Peso

The Company's EBITDA for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018, are as follows:

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Net income (loss) | **(52,402,835)** | (88,152,538) | 24,729,132 |
| Interest expenses (Note 28) | **42,930,558** | 20,111,802 | 27,735,966 |
| Depreciation (Notes 12 and 30) | **43,731,398** | 14,716,397 | 19,947,611 |
| Income tax (Note 29) | **2,873,472** | – | 28,799,624 |
| | **37,132,593** | (53,324,339) | 101,212,333 |

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### 33.01 General Risk Management Principles

The Company's principal financial instruments comprise of cash in banks, receivables, due to/from related parties, trade and other payables and loans payables. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial instruments such as refundable security deposits, accrued expenses and other liabilities, which arise directly from its operations.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest risk, and currency risk. The BOD reviews and approves policies for managing each of these risks.

The following table summarizes the carrying amount of financial assets and liabilities recorded by category:

| | **2019** | 2018 |
|---|---|---|
| Financial assets: | | |
| Cash in banks | **23,761,220** | 11,717,930 |
| Receivables* | **55,895,196** | 36,693,167 |
| Due from related parties | **2,206,395** | 6,777,680 |
| Refundable security deposits | **12,744,208** | 7,348,678 |
| Financial assets at FVOCI | **168,948** | 192,375 |
| | **94,775,967** | 62,729,830 |

| | **2019** | 2018 |
|---|---|---|
| Financial liabilities: | | |
| Trade and other payables** | **339,571,707** | 237,727,503 |
| Due to related parties | **269,006,260** | 303,683,544 |
| Accrued interest, expenses, and other liabilities | **278,142,193** | 247,870,906 |
| Lease liabilities | **31,146,478** | – |
| Loans payable | **1,512,251** | 2,601,644 |
| | **919,378,889** | 791,883,597 |

**Excluding advances to suppliers and contract assets totaling to ₱17,790,212 and ₱7,199,127 as at December 31, 2019 and 2018, respectively.*
***Excluding non-refundable other payables of ₱239,451 and ₱470,285 as at December 31, 2019 and 2018, respectively.*

### 33.02 Credit and Counterparty Risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument leading to a financial loss. The Company is exposed to credit risk from its operating activities, primarily receivables.

In Philippine Peso

Concentration of credit risk relating to customer receivables is limited due to the large number of customers.

The Company trades only with recognized and creditworthy third parties. It is the Company's 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 the Company's exposure to bad debts.

The Company aims to minimize the credit risk of liquid assets and non-current financial assets. Credit limit are set based on each counterparty's size and risk of default. The methodology used to set the credit limit considers the counterparty's credit ratings and default probabilities. Counterparties are monitored regularly, taking into consideration the evolution of the above parameters. The Company's credit quality review process allows it to assess the potential loss as a result of the risks to which it is exposed and to take corrective actions. As a result of this review, changes on credit limits and risk allocation are carried out.

The Company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Company during the year. The Company has not identified significant risk concentrations arising from the nature, type or location of collateral and other credit enhancements held against the Company's credit exposures.

The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking into account any collateral held or other credit enhancements, is equal to the carrying amount of the Company's financial assets.

Credit risk arising from the inability of a counterparty to meet the terms of the Company's financial instruments is generally limited to the amount, if any, by which the counterparty's obligations exceed the obligation of the Company.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash, financial assets at FVOCI and refundable security deposits, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

*Credit Risk Exposure*

The following tables provide the credit information and maximum exposure of the Company's financial assets as at December 31, 2019 and 2018:

| | **2019** | 2018 |
|---|---|---|
| Financial assets: | | |
| Cash in banks | **23,761,220** | 11,717,930 |
| Receivables* | **59,441,391** | 39,458,866 |
| Long-outstanding trade receivables | **1,381,525,501** | 1,381,525,501 |
| Due from related parties | **2,206,395** | 6,777,680 |
| Refundable security deposits | **12,744,208** | 7,348,678 |
| Financial assets at FVOCI | **168,948** | 192,375 |
| | **1,479,847,663** | 1,447,021,030 |

**Excluding advances to suppliers and contract assets totaling to ₱17,790,212 and ₱7,199,127 as at December 31, 2019 and 2018, respectively.*

- *Trade Receivables and Contract Assets*
  The Company's exposures to credit risk is influenced mainly by the individual characteristics of each customer. The Company maintains a defined credit policy to ensure that the credit is given only to customers with an appropriate credit history. The Company principally transacts with its members.

In Philippine Peso

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities.

The Company applies the provision matrix in providing for ECL for trade and other receivables which permits the use of the lifetime expected loss provision. The ECL rates are based on Company's observed historical default experience, as well as the future prospects of the industries obtained from economic expert reports, financial analyst reports and considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The Company has calculated allowance for ECL of ₱1,385,074,696 and ₱1,384,291,200 as at December 31, 2019 and 2018.

The Company evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

*Risk Concentration of the Maximum Exposure to Credit Risk*

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Company's financial strength and undermine public confidence.

Given the Company's diverse base counterparties, it is not exposed to large concentration of credit risks.

Credit risk from balances with banks is managed by the Company's treasury department in accordance with the Company's policy.

*Credit Quality of Financial Assets*

Set out below is the credit risk exposure on the Company's trade receivables and contract assets using a provision matrix:

| | | Trade Receivables* | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past Due | | | | |
| | **Contract assets** | **Current** | **<30 days** | **31-60 days** | **61-90 days** | **>90 days** | **Total** |
| 2019: | | | | | | | |
| Expected Credit Loss Rate | 0% | 0%-3.7% | 7.3%-9.2% | 9.3%-11.7% | 13.2%-16.5% | 47.2%-100% | |
| Estimated total gross amount at default | 13,578,633 | 39,385,235 | 5,179,994 | 3,653,943 | 2,208,092 | 1,390,539,628 | 1,440,966,892 |
| **Expected Credit Loss** | **–** | **301,397** | **33,985** | **14,468** | **555,988** | **1,384,165,858** | **1,385,071,696** |

**Including long outstanding trade receivables but excluding advances to suppliers amounting to ₱4,211,579.*

| | | Trade Receivables* | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past Due | | | | |
| | Contract Assets | Current | <30 days | 31-60 days | 61-90 days | >90 days | Total |
| 2018: | | | | | | | |
| Expected Credit Loss Rate | 0% | 0% | 0% | 0% | 100% | 100% | |
| Estimated total gross amount at default | – | 35,030,431 | 1,393,205 | 269,531 | 135,502 | 1,384,155,698 | 1,420,984,367 |
| Expected Credit Loss | – | – | – | – | 135,502 | 1,384,155,698 | 1,384,291,200 |

**Including long outstanding trade receivables but excluding advances to suppliers amounting to ₱7,199,127.*

In Philippine Peso

Credit risk from balances with banks and financial institutions by the Company's treasury department in accordance with the Company's policy. The Company manages its credit risk by depositing its cash with high credit quality banking institutions. Investments of surplus funds are made only with the approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Company's management on an annual basis and may be updated throughout the year subject to approval of the Company's Board of Directors. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through counterparty's potential failure to make payments.

The Company's maximum exposure to credit risk for the components of the statements of financial position at December 31, 2019 and 2018 is the carrying amounts of current and long outstanding trade receivables amounted to ₱55,895,196 and ₱36,693,167, excluding advances to suppliers and contract assets amounting to ₱17,790,212 and ₱7,199,127 as at December 31, 2019 and 2018, respectively.

### 33.03 Liquidity Risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of availments and extensions of advances to and from related parties. The contractual maturity of the Company's trade and nontrade payables is generally within 30 to 90 days after the recognition of the liability.

The tables below summarize the maturity profile of the Company's liabilities as at December 31, 2019 and 2018 based on contractual undiscounted repayment obligations. The table also analyses the maturity profile of the Company's financial assets in order to provide a complete view of the Company's contractual commitments. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity dates.

| December 31, 2019 | Within 1 Year | 1 – 5 Years | Total |
|---|---|---|---|
| Financial liabilities: | | | |
| Trade and other payables* | 339,571,707 | – | 339,571,707 |
| Due to related parties | 269,006,260 | – | 269,006,260 |
| Accrued interest, expenses and other liabilities | 278,142,193 | – | 278,142,193 |
| Lease liabilities | 11,223,922 | 19,922,556 | 31,146,478 |
| Loans payable | 667,583 | 844,668 | 1,512,251 |
| | 898,611,665 | 20,767,224 | 919,378,889 |
| Financial assets: | | | |
| Cash in banks | 23,761,220 | – | 23,761,220 |
| Receivables** | 59,441,391 | – | 59,441,391 |
| Due from related parties | 2,206,395 | – | 2,206,395 |
| Refundable security deposits | – | 12,744,208 | 12,744,208 |
| | 85,409,006 | 12,744,208 | 98,153,214 |

**Excluding advance rental of ₱239,451.*
*** Excluding advances to suppliers and contract assets totaling to ₱17,790,212.*

In Philippine Peso

| December 31, 2018 | Within 1 Year | 1 – 5 Years | Total |
|---|---|---|---|
| Financial liabilities: | | | |
| Trade and other payables* | 237,727,503 | – | 237,727,503 |
| Due to related parties | 303,683,544 | – | 303,683,544 |
| Accrued interest, expenses and other liabilities | 247,870,906 | – | 247,870,906 |
| Loans payable | 1,106,680 | 1,494,964 | 2,601,644 |
| | 790,388,633 | 1,494,964 | 791,883,597 |
| Financial assets: | | | |
| Cash in banks | 11,717,930 | – | 11,717,930 |
| Receivables** | 39,458,866 | – | 39,458,866 |
| Due from related parties | 6,777,680 | – | 6,777,680 |
| Refundable security deposits | – | 7,384,678 | 7,384,678 |
| | 57,954,476 | 7,384,678 | 65,339,154 |

**Excluding advance rental of ₱470,285.*
***Excluding advances to suppliers amounting to ₱7,199,127.*

### 33.04 Interest Rate Risk

The Company is exposed to interest risk as it borrows funds at both fixed and floating interest rates. For floating rate liabilities, the sensitivity analysis is prepared assuming the amount of liability outstanding at December 31, 2019 and 2018 was outstanding for the whole period/year.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. A 50-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

| | **2019** | 2018 |
|---|---|---|
| Profit before tax | **+/-163,207** | +/-12,849 |
| Equity* | **+/-114,245** | +/-8,994 |

**Equity is based on 70% of the total exposure.*

### 33.05 Currency Risk

The Company undertakes transactions denominated in foreign currencies of United States Dollar (USD); consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **USD** | **PHP** | USD | PHP |
| Financial assets | | | | |
| Cash in bank (Note 7) | **28,041** | **1,422,898** | 26,189 | 1,380,803 |
| Refundable security deposits (Note 14) | **76,000** | **3,856,544** | – | – |
| | **104,041** | **5,279,442** | 26,189 | 1,380,803 |
| Financial liabilities | | | | |
| Accrued expenses (Note 17) | **324,322** | **16,456,098** | 228,000 | 12,021,072 |
| Due from related parties (Note 23) | **288,805** | **14,653,978** | 288,805 | 15,226,955 |
| | **613,127** | **31,110,076** | 516,805 | 27,248,027 |
| Exposure | **(509,086)** | **(25,830,634)** | (490,616) | (25,867,224) |

In Philippine Peso

The balances have been restated at ₱50.744 and ₱52.724 per USD, which is based on the reference rate of prevailing market rate as at December 27, 2019 and December 28, 2018, respectively.

The following table details the Company's sensitivity to a 5% increase and decrease in the PHP against the relevant foreign currencies. The sensitivity rate of 5% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

| | **2019** | 2018 |
|---|---|---|
| Profit before tax | **+/-1,291,532** | +/-1,293,361 |
| Equity* | **+/-904,072** | +/-905,353 |

**Equity is based on 70% of the total exposure.*

A positive number indicates an increase in profit and other equity where the PHP strengthens 5% against the USD. For a 5% weakening of the PHP against the USD, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the period/year end exposure does not reflect the exposure during the period/year. The Company mitigates its exposure to foreign currency risk by monitoring its foreign currency cash flows.

The foreign exchange gain (loss) recognized for the year ended December 31, 2019, six-month period ended December 31, 2018 and year ended June 30, 2018 in the statements of income (loss) are as follows:

| | **December 31, 2019** | December 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Realized foreign exchange gain (loss) – net (see Notes 25 and 26) | **(195,142)** | 103,054 | – |
| Unrealized foreign exchange gain – net (see Notes 8, 14,17 and 23) | **1,308,981** | 373,085 | 832,481 |

### 32.06 Capital Management

The Company manages its capital to ensure that the Company will be able to continue as a going concern, while maximizing the return on investments of stockholders. The Company is currently on corporate rehabilitation proceedings. The details of the rehabilitation plan are disclosed in Note 2. The capital structure of the Company consists of equity comprising of paid-up capital, revaluation surplus, due to related parties, deposit for subscription in accordance with the court-approved Rehab Plan and deficit.

In Philippine Peso

As at December 31, 2019 and 2018, the capital structure of the Company consists of the following:

| | 2019 | 2018 |
|---|---|---|
| Paid-up capital | **2,224,255,313** | 2,224,255,313 |
| Revaluation surplus | **102,102,000** | 102,102,000 |
| Due to related parties | **269,006,260** | 303,683,544 |
| Deposit for subscription in accordance with the court-approved rehabilitation plan | **8,841,736,581** | 8,841,736,581 |
| Deficit | **(11,819,294,517)** | (11,766,891,682) |
| | **(382,194,363)** | (295,114,244) |

## 34. FAIR VALUE MEASUREMENTS

Fair value is the 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 in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

Set out below is a comparison by category and by class of carrying and fair values of all the Company's financial assets and financial liabilities as at December 31, 2019 and 2018, other than those with carrying amounts that are measurable approximations of fair values such as, cash in banks, receivables, due from related parties, trade and other payables, due to related parties, and accrued interest, expenses and other liabilities:

| | **Carrying Value** | **Fair Value** | | | |
|---|---|---|---|---|---|
| **December 31, 2019** | | **Quoted (Unadjusted) Prices in Active Markets (Level 1)** | **Significant Observable nputs (Level 2)** | **Significant Unobserva ble Inputs (Level 3)** | **Total** |
| Financial assets | | | | | |
| Refundable security deposits | **12,744,208** | **12,744,208** | – | – | **12,744,208** |
| Financial assets at FVOCI | **168,948** | **168,948** | – | – | **168,948** |
| | **12,913,156** | **12,913,156** | – | – | **12,913,156** |
| Financial Liabilities | | | | | |
| Lease liabilities | **31,146,478** | – | **31,146,478** | – | **31,146,478** |
| Loans payable | **1,512,251** | – | **1,512,251** | – | **1,512,251** |
| | **32,658,729** | – | **32,658,729** | – | **32,658,729** |

| | Carrying Value | Fair Value | | | |
|---|---|---|---|---|---|
| December 31, 2018 | | Quoted (Unadjusted) Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservabl e Inputs (Level 3) | Total |
| Financial assets | | | | | |
| Refundable security deposits | 7,348,678 | 7,348,678 | – | – | 7,348,678 |
| Financial assets at FVOCI | 192,375 | 192,375 | – | – | 192,375 |
| | 7,541,053 | 7,541,053 | – | – | 7,541,053 |
| Financial Liabilities | | | | | |
| Loans payable | 2,601,644 | – | 2,601,644 | – | 2,601,644 |

In Philippine Peso

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate on such date:

*Refundable Security Deposits*
The fair value of refundable security deposits cannot be readily determined nor reliably measured because the actual timing of the payment cannot be reasonably predicted as these deposits are generally re-deposited every renewal of contracts.

*Financial assets at FVOCI under PFRS 9*
The fair values of financial assets at FVOCI is determined by reference to quoted market bid prices at the close of business on the reporting date.

*Lease Liabilities*
The Company recognizes lease liabilities based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

*Loans Payable*
The Company did not discount its outstanding loans payable since the Management deemed that the effect of discounting the difference of market rate and interest rate of the loan is insignificant.

*Fair Value Hierarchy*
The Company has assets for which its fair values are disclosed (i.e., land at revalued amounts, building and improvements, and investment properties) uses Level 1 category, its fair values have been determined based on current bank and market valuations (see Notes 11, 12 and 13).

## 35. NOTES TO CASH FLOWS

The following are the financing activities resulting to changes in the Company's liabilities:

| 2019 | January 1, 2019 | Cashflows | Effect of foreign exchange | Others | December 31, 2019 |
|---|---|---|---|---|---|
| Due to related parties | 303,683,544 | (40,182,533) | (690,245) | 6,195,494 | 269,006,260 |
| Lease liabilities* | 42,250,103 | (13,330,841) | – | 2,227,216 | 31,146,478 |
| Loans payable | 2,601,644 | (1,074,910) | – | (14,483) | 1,512,251 |
| | 348,535,291 | (54,588,284) | (690,245) | 8,408,227 | 301,664,989 |

**Cashflows include payment of principal and interest portion amounting to ₱11,103,625 and ₱2,227,216, respectively (see Note 30).*

| 2018 | July 1, 2018 | Cashflows | Effect of foreign exchange | Others | December 31, 2018 |
|---|---|---|---|---|---|
| Due to related parties | 217,193,970 | 86,720,040 | (230,466) | – | 303,683,544 |
| Loans payable | – | 2,569,874 | – | 31,770 | 2,601,644 |
| | 217,193,970 | 89,289,914 | (230,466) | 31,770 | 306,285,188 |

Others include the effect of accretion of loans payable and effect of recognition and accretion of lease liabilities, effect of accrued but not yet paid interest on interest-bearing loans and borrowings at the end of the period.

### 35.01 Non-cash Activities

Significant non-cash investing and financing activities of the Company pertains to initial recognition of right-of-use assets and lease liabilities amounting to ₱42,426,857 and ₱42,250,103, respectively (see Note 30) and transfers from land, property and equipment, and investment properties to non-current assets held for sale amounting to ₱360,360,000, ₱8,234,244, and ₱10,086,500, respectively (see Note 10).

## 36. EVENTS AFTER THE REPORTING PERIOD

As discussed in Notes 1, 2 and 10 in the financial statements, the following are the material and/or significant events after December 31, 2019:

- On February 5, 2020, the CRMD issued a certification relating to the Company's good standing with the SEC.
- On February 17, 2020, the CA issued a resolution denying the MR of the TRO and dismissing the Petitions of Certiorari.
- On February 20, 2020, the Company sold its idle land with carrying amount of ₱2,061,500. The proceeds from sale of the land amounted to ₱2,700,000.
- On March 16, 2020, the Company filed its Revised Amended Registration Statements to update the SEC on the events that occurred from October 3, 2018 filing up to the filing of the report.
- On March 16, 2020, the Company addressed the effects of COVID-19 on its business and operations through the letter sent by its President and Chief Executive Officer to its clients and employees informing them of the actions undertaken by the Company to protect its employees from COVID-19 and the assurance to its clients that the services being provided will continue.
- As at April 14, 2020 the Company has issued additional share certificates to creditors amounting to ₱326,085.

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As the responses to COVID-19 continue to develop, there is uncertainty about the impact this will have on economic activity and how those may translate to an impact on the Company's operations. At the date of this financial statements, it is impractical to estimate the duration or severity of this outbreak and to determine the related financial effect on assets and liabilities. Therefore, no further adjustments have been made to the financial statements.

While no material effects on the Company's financial position, results of operations and cash flows have yet been identified at the date of these financial statements, management will continue monitoring and evaluating them during the 2020 financial year.

In Philippine Peso

## 37. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS NO. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010, amending certain provisions of RR No. 21-2002, implementing Section 6 (H) of the tax code of 1997, prescribing the manner of compliance with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes and licenses pair or accrued during the period. The Company also reported and/or paid the following types of taxes for the period:

### 37.01 Value-added taxes

The National Internal Revenue Code of 1997 provides for the imposition of value-added tax (VAT) on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. Details of the Company's net sales/receipts, output VAT and input VAT accounts are as follows:

*Output VAT*

Details on the Company's VAT output tax declared during the year are as follows:

| | December 31, 2019 | |
|---|---|---|
| | **Tax base** | **Output VAT** |
| Sale of services | 310,587,087 | 37,270,450 |
| Sales to government | 22,385,186 | 2,686,222 |
| Exempt | 17,697,720 | – |
| | 350,669,993 | 39,956,672 |

The Company's sale of services as reported in the VAT returns are based on actual collections received, hence, such may not be same with amounts accrued in profit or loss.

Zero-rated sales are sale of services rendered to a person engaged in business conducted outside the Philippines or to a non-resident person not engaged in business who is outside the Philippines when the services are performed, the consideration for which is paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP) as provided under NIRC Section 108 B(2).
*Input VAT*

The amount of VAT input taxes claimed are broken down into:

| | **2019** |
|---|---|
| Beginning of the period | – |
| Current period's domestic purchases/importations for: | |
| Goods other than capital goods | 651,717 |
| Services | 9,593,698 |
| Capital goods < 1M | 346,948 |
| Capital goods > 1M | – |
| Total available input VAT | 10,592,363 |
| Input VAT on purchase of capital goods from previous period | 955,143 |
| Sale to government closed to expense | 1,493,203 |
| Application against output tax | (13,040,709) |
| End of the period | – |

In Philippine Peso

The input VAT is being deferred when the accumulated purchases of capital goods for each month equals to ₱1 million or more. The input VAT is amortized over five (5) years or the life of the capital goods, whichever is shorter.

### 37.02 Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees.

Details consist of the following:

| | 2019 |
|---|---|
| Operating expenses: | |
| License and permits | **14,249,999** |
| Others | **208,987** |
| | **14,458,986** |

### 37.03 Withholding Taxes

Details of withholding taxes for the period are as follows:

| | 2019 |
|---|---|
| Withholding taxes on compensation | **27,455,071** |
| Expanded withholding taxes | **3,480,276** |
| | **30,935,347** |

### 37.04 Others

The Company has pending Letter of Authority (LOA) from the Bureau of Internal Revenue (BIR) for all internal revenue tax liabilities for the taxable period from January 1, 2018 to December 31, 2018 pursuant to Sec. 6(A) & Sec. 10(C) of the National Internal Revenue Code of 1997, as amended, under AUDM35/123456/2018 SN: eLA20150001111 dated November 28, 2019. As of December 31, 2019, the Company has not received any assessment notice from the BIR, in relation to the abovementioned LOA. The Company has no outstanding tax cases in any other court or bodies outside of the BIR as at December 31, 2019.

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION (PT&T)**
**LIST OF SUPPLEMENTARY INFORMATION**
**DECEMBER 31, 2019**



*These schedules, which are required by Revised SRC Rule 68, have been omitted because they are either not required, not applicable or the information required to be presented is included/shown in the related financial statements or in the notes thereto.

# Alas Oplas & Co., CPAs

**Alas Oplas & Co., CPAs**
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Independent Member of
BKR International

**REPORT ON THE ADDITIONAL COMPONENTS OF FINANCIAL STATEMENTS UNDER REVISED SECURITIES REGULATION CODE RULE 68**

The Board of Directors and Stockholders
**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
Spirit of Communications Centre,
106 C. Palanca Street, Legaspi Village
Makati City

We have audited the basic financial statements of **PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION** for the year ended December 31, 2019 and six-month period ended December 31, 2018, in accordance with Philippine Standards on Auditing, on which we have rendered the attached report dated April 14, 2020.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are presented for purposes of compliance with the requirements under Revised Securities Regulation Code Rule 68, and are not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards.

Such supplementary information are the responsibility of the Management of **PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**ALAS, OPLAS & CO., CPAs**
BOA Registration No. 0190, valid from September 4, 2019 to October 30, 2022
SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 002-013-406-000
BIR A.N. 08-001026-000-2018, issued on January 25, 2018; effective until January 24, 2021

By:

**GADIOSA R. MARTINEZ**
Partner
CPA License No. 0107497
SEC A.N. (Individual) No. 1766-A, issued on August 27, 2019; effective until August 26, 2022
TIN 223-383-235
BIR A.N. 08-006636-001-2020, issued on February 24, 2020; effective until February 23, 2023
PTR No. 8117106, issued on January 2, 2020, Makati City

April 14, 2020
Makati City, Philippines

# Alas Oplas & Co., CPAs

**Alas Oplas & Co., CPAs**
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**INDEPENDENT AUDITORS' REPORT ON**
**COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Board of Directors and Stockholders
**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
Spirit of Communications Centre,
106 C. Palanca Street, Legaspi Village
Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of **PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION** (the "Company") as at December 31, 2019 and 2018 and for the year ended December 31, 2019, six-month period ended December 31, 2019 and year ended June 30, 2018, and have issued our report thereon dated April 14, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for the year ended December 31, 2019, six-month period ended December 31, 2019 and year ended
June 30, 2018 and no material exceptions were noted.

**ALAS, OPLAS & CO., CPAs**
BOA Registration No. 0190, valid from September 4, 2019 to October 30, 2022
SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 002-013-406-000
BIR A.N. 08-001026-000-2018, issued on January 25, 2018; effective until January 24, 2021

By:

Gadiosa R. Martinez

**GADIOSA R. MARTINEZ**
Partner
CPA License No. 0107497
SEC A.N. (Individual) No. 1766-A, issued on August 27, 2019; effective until August 26, 2022
TIN 223-383-235
BIR A.N. 08-006636-001-2020, issued on February 24, 2020; effective until February 23, 2023
PTR No. 8117106, issued on January 2, 2020, Makati City

April 14, 2020
Makati City, Philippines

SCHEDULE I

RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION

As of December 31, 2019

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
Spirit of Communications Center, 106 C. Palanca Street, Legaspi Village, Makati City

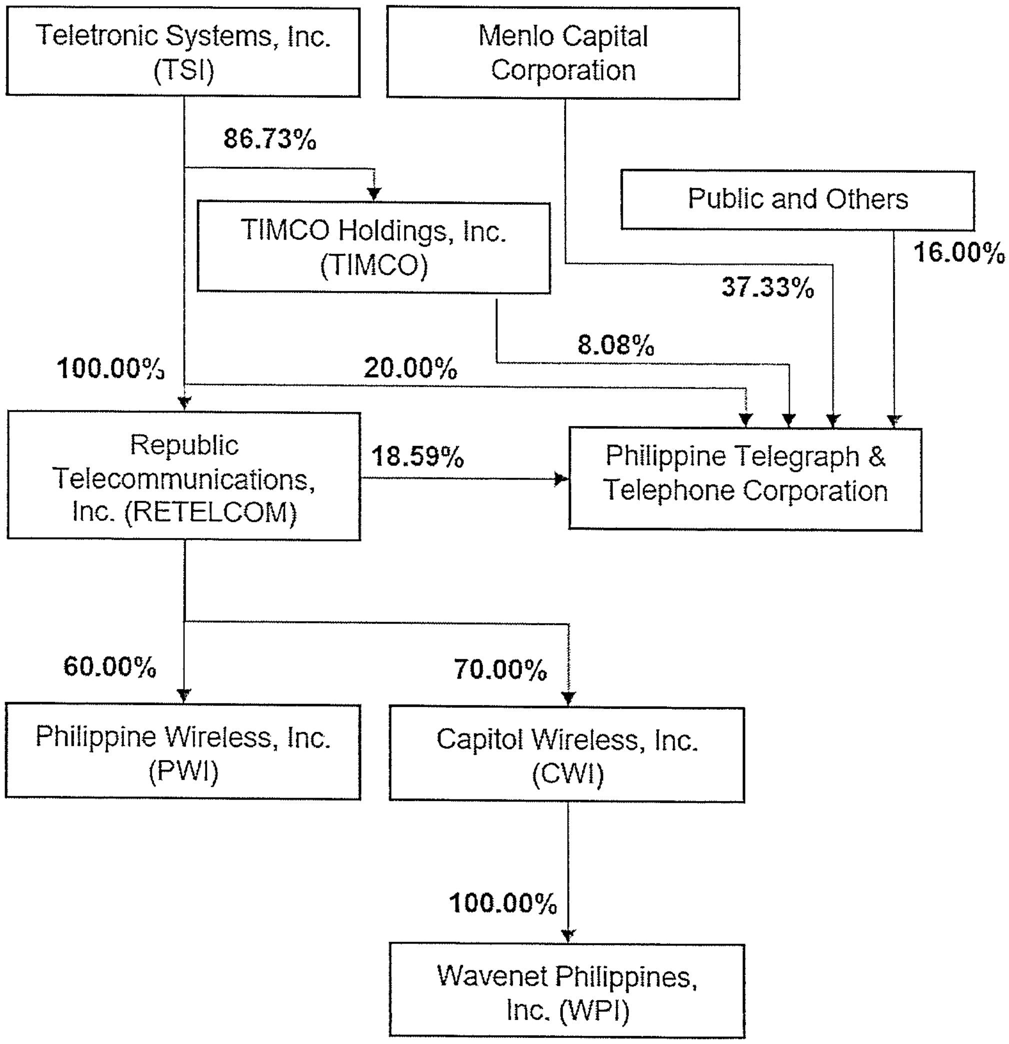
**NOT APPLICABLE**

## SCHEDULE II
## PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION
## SCHEDULE SHOWING FINANCIAL SOUNDNESS
## PURSUANT TO REVISED SRC RULE 68

| Ratio | Formula | As at 2019 | As at 2018 |
|---|---|---|---|
| **Liquidity Ratio:** | | | |
| Current ratio | Total Current Assets divided by Total Current Liabilities<br><br>Total Current Assets 486,646,293<br>Divide by: Total Current Liabilities 1,388,748,891<br>Current ratio 0.35 | **0.35:1** | 0.06:1 |
| Quick ratio | Quick Assets (*Cash add Receivables – net*) divided by Total Current Liabilities<br><br>Quick Assets 97,601,628<br>Divide by: Total Current Liabilities 1,388,748,891<br>Quick ratio 0.07 | **0.07:1** | 0.04:1 |
| **Solvency Ratio:** | | | |
| Debt ratio / Debt-to-asset ratio | Total Liabilities divided by Total Assets<br><br>Total Liabilities 1,718,642,870<br>Divide by: Total Assets 941,907,231<br>Debt-to-asset ratio 1.82 | **1.82:1** | 1.81:1 |
| Debt-to-equity ratio | Total Liabilities divided by Total Capital Deficiency<br><br>Total Liabilities 1,718,642,870<br>Divide by: Total Capital Deficiency 776,735,639<br>Debt-to-equity ratio 2.21 | **(2.21):1** | (2.24):1 |
| Asset-to-equity ratio | Total assets divided by Total Capital Deficiency<br><br>Total Assets 941,907,231<br>Divide by: Total Capital Deficiency 776,735,639<br>Asset-to-equity ratio 1.21 | **(1.21):1** | (1.24):1 |
| **Interest Rate Coverage Ratio:** | Earnings Before Interest, Taxes and Depreciation and Amortization (EBITDA) divided by Interest Expenses<br><br>EBITDA 37,132,593<br>Divide by: Interest Expenses 42,930,558<br>Interest rate coverage ratio 0.86 | **0.86:1** | (4.38):1 |

| Ratio | Formula | As at 2019 | 2018 |
|---|---|---|---|
| **Profitability Ratios:** | | | |
| Return on assets | Net Loss divided by Average Total Assets (*Total Assets as of December 31, 2019 add Total Assets as of December 31, 2018 divided by two)*<br><br>Net Loss 52,402,835<br>Divide by: Average Total Assets 913,200,611<br>Return on assets 5.74% | **(5.74%)** | (9.97%) |
| Return on equity | Net Loss divided by Average Total Capital Deficiency (*Total Capital Deficiency as of December 31, 2019 add Total Capital Deficiency as of December 31, 2018 divided by two)*<br><br>Net Loss 52,402,835<br>Divide by: Avg. Total Capital Deficiency 745,471,070<br>Return on equity 7.03% | **7.03%** | 12.34% |
| Gross profit margin | Gross Profit (*Revenues less Direct Expenses*) divided by Revenues<br><br>Gross Profit 136,200,864<br>Divide by: Revenues 396,043,723<br>Gross profit margin 34.39% | **34.39%** | 62.45% |
| **Activity Ratio:** | | | |
| Asset turnover | Revenues divided by Average Total Capital Deficiency (*Total Capital Deficiency as of December 31, 2019 add Total Capital Deficiency as of December 31, 2018 divided by two)*<br><br>Revenues 396,043,723<br>Divide by: Avg. Total Capital Deficiency 745,471,070<br>Asset turnover 0.53 | **(0.53):1** | (0.14):1 |

**SCHEDULE III**
**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
**A MAP SHOWING THE RELATIONSHIP**
**BETWEEN AND AMONG**
**THE COMPANY AND ITS ULTIMATE PARENT COMPANY,**
**MIDDLE PARENT AND ITS CO-SUBSIDIARIES**
**PURSUANT TO REVISED SRC RULE 68**
**As at December 31, 2019**



**SCHEDULE IV**
**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
**SCHEDULE A**
**FINANCIAL ASSETS**
**DECEMBER 31, 2019**

| Name of issuing entity and association of each issue | Number of shares or principal amount of bonds and notes | Amount shown in the balance sheet | Income received and accrued |
|---|---|---|---|

**NOT APPLICABLE**

## PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION
## SCHEDULE B
## AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
## DECEMBER 31, 2019

| Name and Designation of debtor | Balance at beginning of period | Additions | Amounts collected | Amounts written off | Current | Not Current | Balance at end of period |
|---|---|---|---|---|---|---|---|

**NOT APPLICABLE**

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
**SCHEDULE C**
**AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
**DECEMBER 31, 2019**

**NOT APPLICABLE**

## PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION
## SCHEDULE D
## LONG TERM DEBT
## DECEMBER 31, 2019

| Name of issuer and type of obligation | Total Outstanding Balance | Amount shown under caption "Current portion of long-term debt" | Amount shown caption "Long-term Debt" |
|---|---|---|---|
| *Car Loans:* | | | |
| Philippine Savings Bank | 1,211,241 | 366,573 | 844,668 |
| First United & Leasing Corp. | 301,010 | 301,010 | – |
| | **1,512,251** | **667,583** | **844,668** |

## PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION
## SCHEDULE E
## INDEBTEDNESS TO RELATED PARTIES (LONG - TERM LOANS FROM RELATED COMPANIES)
## DECEMBER 31, 2019

| Name of the Related Party | Balance at beginning of period | Balance at end of period |
| --- | --- | --- |

**NOT APPLICABLE**

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**
**SCHEDULE F**
**GUARANTEES OF SECURITIES OF OTHER ISSUERS**
**DECEMBER 31, 2019**

| Name of the issuing entity of securities guaranteed by the company for which the statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owned by person for which statement is lifted | Nature of guarantee |
|---|---|---|---|---|

**NOT APPLICABLE**

# PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION
## SCHEDULE G
## CAPITAL STOCK
## DECEMBER 31, 2019

| Title of Issue | Number of Shares Authorized | Number of shares issued and outstanding as shown under related financial position caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by related parties | Directors, officers and employees | Others |
|---|---|---|---|---|---|---|
| Common | 1,500,000,000 | 1,500,000,000 | – | 1,260,000,246 | 12 | 239,999,754 |

# CORPORATE INFORMATION


**Headquarters**
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| | |
|---|---|
| Broadband Internet Inquiries: | inquiries@ptt.com.ph |
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**Other Inquiries**
For inquiries or concerns from analysts, institutional investors, the financial community, and the general public, please contact:
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For career opportunities and latest job openings, please contact:
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**Shareholder Services and Assistance**
For inquiries regarding dividend payments, change of address and account status, lost or damaged stock certificates, please contact:

**Professional Stock Transfer, Inc.**
10th Floor, Telecom Plaza 1200,
316 Sen. Gil J. Puyat Ave., Makati City, 1226 Philippines

| | |
|---|---|
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**PT&T**

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