

SEC Number 21817  
FILE Number \_\_\_\_\_



**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
(Company's Full Name)

**Spirit of Communications Centre,**  
**106 C. Palanca Jr. St., Legaspi Village, Makati City**  
(Company's Address)

**(632)815-9961**  
(Telephone Number)

**June 30**  
(Calendar Year Ending)  
(month & day)

**Form 17-A**  
Form Type

\_\_\_\_\_  
Amended Designation (if applicable)

**June 30, 2015**  
Period Ended Date

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-A, AS AMENDED**

**ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF CORPORATION CODE OF THE PHILIPPINES**

1. For the calendar year ended June 30, 2015
2. SEC Identification Number 21817
3. BIR Tax Identification No. 470-000-530-631
4. Philippine Telegraph and Telephone Corp. (PT&T)  
Exact name of issuer as specified in its charter:
5. Metro Manila, Philippines  
Province, Country or other jurisdiction of incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. Spirit of Communication Centre Building,  
106 Carlos Palanca Jr. St., Legaspi Village, Makati City 1229  
Address of principal office Postal Code
8. (632)815-9961 to 65  
Issuer's telephone number, including area code
9. Not Applicable  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

| Title of each class | Number of Shares of Common Stock Outstanding<br>and Amount of Debt Outstanding |
|---------------------|--|
| Common stock        | ₱1.00 par value 1,500,000,000 shares   |

11. Are any or all of these securities listed on a Philippine Stock Exchange?  
Yes  No
- If yes, state the name of such Stock Exchange and the class/es of securities listed therein:  
Philippine Stock Exchange (PSE) – Common Stock
12. Indicate by check mark whether the issuer:
  - (a) has filed all reports required to be filed by Section 17 of the SRC and the SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):  
Yes  No
  - (b) has been subject to such filing requirements for the past ninety (90) days.  
Yes  No
13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").  
  
Not Applicable (PSE trading of PT&T common stock has been voluntarily suspended since December 13, 2004)

**APPLICABLE ONLY TO ISSUERS INVOLVED IN  
INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS:**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.  
Yes  No

PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION (PT&T)

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## BUSINESS AND GENERAL INFORMATION

### Item 1. Business

#### (A) Description of Business.

##### 1. Business Development

Philippine Telegraph & Telephone Corporation (the "Company" or "PT&T") 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.

As at June 30, 2015, the Company is 75.92%-owned subsidiary of Republic Telecommunications Holdings, Inc. ("RETELCOM"). PT&T is the flagship company of RETELCOM whose other telecommunication based companies are Capitol Wireless, Inc. (CWI) and Philippine Wireless, Inc. (PWI). They are collectively called "RETELCOM Group of Companies (or RETELCOM Group for brevity)." The RETELCOM Group's ultimate parent company is Telectronics Systems, Inc. (TSI).

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

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 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, the RETELCOM Group including Wavenet Philippines, Inc. (WPI), a 100% subsidiary of CWI 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 Makati RTC Branch 66 (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 (the "Rehab Order"), which was immediately executory. Petitioners as well as all claimants and creditors were ordered to strictly comply to the RETELCOM Group's rehabilitation which include, among others, the following:

- i. Modification of the rehabilitation period from 15 years to a 2-year moratorium and 12-year debt payment period;

- ii. 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;
- iii. 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; (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;
- iv. 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;
- v. 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;
- vi. The Company, within a reasonable time from receipt of the Rehab Order, 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;
- vii. 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;
- viii. 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;
- ix. Immediately settle obligations to petitioners such as salaries, wages and benefits out of escrow account; and
- x. 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.

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. The cases were consolidated and as of June 30, 2015 is pending resolution by the CA.

## 2. Legislative Franchise and Business of the Issuer

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. As of June 30, 2015, the Company is reasonably optimistic that its franchise will be renewed again based on the congressional House Bill which is currently being processed.

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, 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.

In 2008, the Company has ceased its LEC operations.

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.

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. The Company offers dedicated or shared internet access service, via fiber or wireless, and operates a 10+ Gbps broadband network across the NCR, and Regions III and IV catering corporate, business and residential customers.

As mentioned in the foregoing, the Company is currently focused in broadband internet services which is now its main source of revenues. In addition to the Company's organic sales and marketing force who tap the institutional broadband market, the Company also generates revenues through arrangements with third parties, as follows:

(i) 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.

In 2015 and 2014, revenues recognized from this agreement amounted to ₱5,458,139 and ₱2,616,640, respectively. The Company's revenue-share from resell of data transport amounted to ₱1,002,076, and ₱777,750 in 2015 and 2014, respectively.

**(ii) 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.

In 2015 and 2014, revenues recognized from this agreement amounted to ₱1,248,585 and ₱1,242,257, respectively.

**(iii) 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.

In 2015 and 2014, revenues recognized from this agreement amounted to ₱502,655 and ₱303,599, respectively

**(iv) 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.

In 2015 and 2014, revenues recognized from this agreement amounted to ₱19,200 and ₱24,000, respectively. The Company's revenue-share from resale of DSL amounted to ₱366,317 and ₱85,125 in 2015 and 2014, respectively.

As of June 30, 2015, the Company's employee force is 60 from the previous fiscal year's manpower complement of 53. For the forthcoming fiscal year 2016, the number of employees is expected to further increase. Since the start of the implementation of the rehabilitation, the Company does not have collective bargaining agreement (CBA).

The Company has recorded its personnel cost as follows:

|                    | <b>2015</b>       | <b>2014</b>       |
|--------------------|-------------------|-------------------|
| Salaries and wages | 14,358,242        | 12,810,750        |
| Retirement costs   | 9,777,178         | 28,005,546        |
| Other benefits     | 4,962,180         | 4,628,240         |
|                    | <b>29,097,600</b> | <b>45,444,536</b> |

As discussed elsewhere in this report, the Company instituted several measures to alleviate operational cash flow difficulties. Among these is the observance of furlough days for certain executive officers and management staffs. The above tabulation of personnel costs reflect the said furlough days following the principle of "No Work, No Pay".

**Item 2. Properties****(B) Description of Property**

The principal properties of the Company which consists of land, buildings, other land improvements, telecommunication equipment, machinery and equipment, and office equipment are located mainly at the main office of the Company which is situated at 106 C. Palanca Jr. St., Legaspi Village, Makati City.

In its August 20, 2009 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 Company submitted a list of the following properties:

|    | <b>Property Location</b>                    | <b>Address</b>   | <b>Lot Area</b>                 |
|----|---|--|---------------------------------|
| 1  | SCC Bldg. Carlos Palanca, Makati            | 106 SCC Bldg., C. Palanca Street, Legaspi Village, Makati City                         | 858 sqm lot with 7-storey bldng |
| 2  | Tuba, Benguet                               | Mountain of Sto Tomas, Tuba Benguet  | 2,000 sqm                       |
| 3  | Mabalacat, Pampanga                         | Lot #018 Mcarthur highway brgy.Camachile Mabalacat Pampanga                            | 665 sqm                         |
| 4  | Antipolo City, Brgy Mayamot, Marcos Highway | Brgy. Mayamot, Marcos Highway Antipolo   | 1,923 sqm                       |
| 5  | St. Anthony Village, Cainta Rizal           | Ipil St. cor Duhat St., Saint Anthony Subdivision Cainta Rizal                         | 589 sqm                         |
| 6  | Taytay Rizal,Kaytikling Bo. Dolores         | Cabrera Road, Sitio Kaytikling, Brgy. Dolores, Taytay Rizal                            | 2,675 sqm                       |
| 7  | Lores / Bo. Balimbing Antipolo City, Rizal  | Lores Country Homes, Brgy. Dalig, Antipolo City  | 1,199 sqm                       |
| 8  | La Montana Estates, Antipolo City           | Lot18 Blk 3, La Montana Estates, Andes St. cor Everest, Brgy. Sta. Cruz, Antipolo City | 445 sqm                         |
| 9  | Angono, Rizal                               | Col Guido St., Brgy. San Roque, Angono Rizal   | 1,000 sqm                       |
| 10 | Binangonan Rizal                            | Calumpang Binangonan Rizal   | 1,000 sqm                       |
| 11 | San Mateo Rizal                             | 143 Daang Bakal St., Guitnang Bayan 2, San Mateo Rizal                                 | 1,403 sqm                       |
| 12 | Tanay Rizal                                 | Sampalok Road, Plaza Aldea, Tanay Rizal  | 1,640 sqm                       |
| 13 | Biñan Laguna, National Road, Bo. Tubigan    | Lot 1 A National Road, Tubigan, Binan, Laguna  | 1,439 sqm (raw land)            |
| 14 | Cabuyao Laguna, El Sol Subd., Bo. Sala      | Lot 1-B-3 Elsol Subdivision, Brgy. Sala, Cabuyao, Laguna                               | 1,032 sqm                       |
| 15 | Calamba Laguna, National Highway, Bo. Real  | 8002 National Highway, Brgy. Real, Calamba, Laguna                                     | 2,152 sqm                       |
| 16 | San Pedro, Pacita Complex,Laguna            | Lot 4 Blk. 12 Pacita Ave, Brgy. San Vicente, San Pedro, Lag                            | 1,605sqm                        |
| 17 | San Pedro (Sampaguita) Laguna               | Sampaguita United Bayanihan, San Pedro, Laguna   | 1,254 sqm                       |

|    |                             |   |           |
|----|-----------------------------|---|-----------|
| 18 | Los Baños, Laguna           | Brgy. Batong Malake, Los Baños, Laguna                | 1,156 sqm |
| 19 | Calauan, Laguna             | Kaunlaran Road, Calauan, Laguna                       | 972 sqm   |
| 20 | Paete, Laguna               | J.P Rizal Street, Brgy. Macumbo, Paete, Laguna        | 479 sqm   |
| 21 | Sta. Cruz, Laguna           | Lot 1568 - A Bagumbayan, Sta. Cruz, Laguna            | 1,839 sqm |
| 22 | San Pablo City Laguna       | National Highway, Brgy. San Roque, San Pablo, Laguna  | 944 sqm   |
| 23 | Cavinti, Laguna             | Caliraya  | 3,725 sqm |
| 24 | Tacloban City, Anibong Dist | Lot 1713, Barrio of San Jose, City of Tacloban, Leyte | 400 sqm   |

#### **Mortgage, lien or encumbrance**

The Company's property, plant and equipment are pooled under a mortgage trust indenture (the MTI) which is managed by the MTI Trustee, Export Industry Bank – Trust as successor of Philippine National Bank – Trust Group. Mortgage participation certificates are given by the MTI Trustee to secured creditors principally as security for their long term loans to the Company, representing their respective pro-rata interest over the collateral pool.

However, pursuant to the Rehab Order, the obligations to the secured creditors have been settled already by way of their conversion to 12-year Series "A" redeemable preferred shares. Consequently, it is the Company's contention that there are no more MTI liens and encumbrances over the Company's property, plant and equipment.

In accordance with PFRS, the liabilities for conversion to serial redeemable preferred shares which has been directed by the Rehab Court under its Rehab Order to be treated as "Deposit for Subscription" is not booked anymore in the equity account but instead presented as non-current liabilities.

#### **Lease Agreements**

The company has entered into various lease agreements on office space, cell sites telecommunications equipment locations and car rentals. The operating lease agreements are for periods ranging from 1 to 5 years from the date of contracts.

The Company's investment properties consist of land in various locations in NCR, and Regions 3 and 4. Some of these lands are rented out for a free 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.

| <b>Lessee</b>              | <b>Location</b>                              | <b>Monthly Rent</b> | <b>Expiration Date</b> |
|----------------------------|--|---------------------|------------------------|
| Jaime Ortega               | SCC Bldg. Carlos Palanca, Makati             | 208,365.00          | October 31, 2016       |
| Paket Santiago             | Antipolo City, Brgy. Mayamot, Marcos Highway | 165,000.00          | April 14, 2017         |
| Empire Elite Boxing        | SCC Bldg. Carlos Palanca, Makati             | 68,694.00           | October 31, 2016       |
| Formerge Integrated School | SCC Bldg. Carlos Palanca, Makati             | 30,000.00           | September 15, 2018     |
| Telectronic Systems, Inc.  | SCC Bldg. Carlos Palanca, Makati             | 29,988.00           | February 15, 2021      |

|                         |                                   |           |                   |
|-------------------------|-----------------------------------|-----------|-------------------|
| NRP General Merchandise | San Pedro, Pacita Complex, Laguna | 28,940.00 | December 31, 2017 |
| Inner Arc – Alicia      | SCC Bldg. Carlos Palanca, Makati  | 26,750.00 | October 31, 2016  |
| Remnant Bible Baptist   | Angono, Rizal                     | 20,000.00 | May 30, 2018      |
| Capitol Wireless, Inc.  | SCC Bldg. Carlos Palanca, Makati  | 14,619.84 | August 28, 2016   |
| Jennelyn Ledesma        | SCC Bldg. Carlos Palanca, Makati  | 11,466.00 | November 9, 2017  |
| Benedict Bocalbos       | SCC Bldg. Carlos Palanca, Makati  | 8,820.00  | May 30, 2017      |
| Millawave System Corp,  | SCC Bldg. Carlos Palanca, Makati  | 4,074.00  | April 15, 2017    |

**Item 3. Legal Proceedings**

**(C) Legal Proceedings**

The Rehab Court approved the RETELCOM Group's Rehab Plan pursuant to its Order dated April 1, 2011 which was immediately executory. The Rehab Plan as modified includes certain directives and orders that are presented in the preceding discussions.

Prior to the issuance of the said Rehab Order, the Rehab Court issued a Stay Order dated August 21, 2009. Among others, the said Stay Order stayed the enforcement of all claims against the petitioners, whether for money or otherwise and whether such enforcement by the Rehab Court, action or otherwise, against the petitioners and its guarantors and sureties not solidarily liable with the petitioners.

In 2011, certain creditors representing 8.5% and 12.8% of the secured and unsecured creditors, respectively, filed before the Court of Appeals ("CA") their petition for review of the Rehab Order, with prayer for Temporary Restraining Order and/or Writ of Preliminary Injunction. The cases were consolidated and as of June 30, 2015 are pending resolution by the CA.

**Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of the security holders during the 4<sup>th</sup> quarter of the fiscal year covered by this report.

**PART II OPERATIONAL AND FINANCIAL INFORMATION**

**Item 5. Market for Issuer's Common Equity and Related Stockholder Matters**

**A) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters**

**(1) Market Information**

Out of the current 1,500,000,000 authorized common stocks of the Company (at ₱1.00 par value), 800,000,000 thereof are listed with the Philippine Stock Exchange ("PSE"). However, the trading of the listed stocks is currently suspended as a result of the Company's request for voluntary suspension of trading last 10 December 2004. The request of the Company to suspend the trading of its common stocks was approved by the PSE last 13 December 2004.

**(2) Holders**

The number of shareholders of record as of June 30, 2015 was 3,630 common shareholders and the subscribed, issued and outstanding shares as of same date amounted to ₱1,500,000,000.

The top 20 common shareholders as of same date and presented also in the Company's General Information Sheet are the following:

|    | STOCKHOLDER'S NAME                                 | NATIONALITY  | TOTAL         | PERCENTAGE |
|----|--|--------------|---------------|------------|
| 1  | Republic Telecommunications Holdings, Inc.         | Filipino     | 1,138,873,772 | 75.92%     |
| 2  | Pcd Nominee Corporation                            | Filipino     | 149,897,157   | 9.99%      |
| 3  | Timco Holdings, Inc                                | Filipino     | 121,126,474   | 8.08%      |
| 4  | Pcd Nominee Corporation                            | Non-Filipino | 7,485,164     | 0.50%      |
| 5  | Lim, Ernesto B.                                    | Filipino     | 2,500,000     | 0.17%      |
| 6  | Pioneer Insurance And Surety Corporation           | Filipino     | 2,148,000     | 0.14%      |
| 7  | Tan, Felix L.                                      | Filipino     | 1,808,500     | 0.12%      |
| 8  | Ang, Teresa W.                                     | Filipino     | 1,448,000     | 0.10%      |
| 9  | Knights Of Columbus Fraternal Assoc. Of The Phils. | Filipino     | 986,664       | 0.07%      |
| 10 | G & L Sec. Co., Inc.                               | Filipino     | 923,667       | 0.06%      |
| 11 | David Go Securities Corp.                          | Filipino     | 855,830       | 0.06%      |
| 12 | Yan, Lucio W.                                      | Filipino     | 850,000       | 0.06%      |
| 13 | Pioneer Intercontinental Insurance Corp.           | Filipino     | 850,000       | 0.06%      |
| 14 | Santiago, Severina M.                              | Filipino     | 818,260       | 0.05%      |
| 15 | Caedo, Jose Jr. P.                                 | Filipino     | 811,963       | 0.05%      |
| 16 | Camarines Minerals Inc.                            | Filipino     | 800,000       | 0.05%      |
| 17 | Lopez-Santiago, Eleanor M.                         | Filipino     | 729,926       | 0.05%      |
| 18 | Santiago, Virginia M.                              | Filipino     | 729,926       | 0.05%      |
| 19 | Guy, Michael                                       | Filipino     | 669,000       | 0.04%      |
| 20 | Sua, Warren H.                                     | Filipino     | 663,000       | 0.04%      |
|    | Others And Below                                   |              | 65,024,697    | 4.33%      |
|    | Total Paid-Up Capital                              |              | 1,500,000,000 | 100%       |

No acquisition, business combination or reorganization was implemented that would have affected the amount or percentage of the current holdings of the Company's common equity beneficially owned by more than 5% of the beneficial owners, each director and nominee and all directors as a group.

**(3) Dividends**

The Company has not declared any dividends for its common equity in the last two (2) fiscal years. The Company is not in a position to declare dividends due to its accumulated deficits amounting to ₱11,628,997,734 as of June 30, 2015.

Moreover, the Company is undergoing rehabilitation and should first settle its obligations before it can declare any dividends to its stockholders.

**(4) Recent Sales of Unregistered Securities**

There are no recent sale of unregistered securities or exempt securities or recent issuance of securities constituting an exempt transaction.

**B) Description of Registrant's Securities.+**

**(1) Preferred Stock**

Pursuant to the Rehab Order, the RETELCOM Group has been directed to fully convert all its 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 |

In this regard, 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 ₱8,711,736,581 was lodged in the Company's books as "Deposit for subscription" pending approval by the SEC of the increase in authorized capital stock. No oppositions were made by the creditors except as discussed elsewhere in this report. As at June 30, 2015, the Company has not yet filed the increase in authorized capital stock with the SEC.

**C) Management's Discussion and Analysis or Plan of Operation**

**(A) Management's Discussion and Analysis**

**(1) Management's Discussion and Analysis (MDA) of Fiscal year ended June 30, 2015 (FY 2015)**

The following discussion and analysis should be read in conjunction with the accompanying financial statements and the related notes. PT&T's financial statements and the financial information discussed below have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The Company has selected and applied accounting policies so that financial statements will comply with all the requirements of Statement of Financial Accounting Standard and Interpretations. If there are no specific requirements, management has developed policies to ensure that the financial statements provide relevant and reliable information.

The Company maintains and adopted no change in accounting principle or practice, or in the method of applying any accounting principle or practice which affects relevance, reliability and comparability of the financial statements with those of prior periods.

The Company has no significant change in accounting estimates of the amount reported during the interim period of the financial year and in the other interim period or changes in estimates of amounts reported in prior financial years.

Since the last annual balance sheet date as of 30 June 2014, the Company has no change in contingent liabilities and contingent assets during the interim financial period reported.

The Company is contingently liable for various claims arising in the ordinary conduct of business and certain tax assessments, which are being contested. Additional details of the disclosures are disclosed in the SEC Form 17-A and its attachments previously submitted.

During the interim period, there is no change in the Company's composition with regards to business combination, acquisition or disposal of subsidiaries and long-term investments and discontinuing operations, other than the explanations presented in Items 1 and 2 and Notes to Financial Statements.

The discussion below should be read in conjunction with the Audited Financial Statements of the Company attached as Item 7 of this report.

#### Revenue Performance

For fiscal year 2015, the Company improved its growth rate in the number of data services circuits over the prior fiscal year 2014. It recorded a total of 259 circuits by 30 June 2015 compared to 173 ending circuits in fiscal year 2014. This sustained increase in the number of data circuits resulted in operating revenues of ₱57.4 million and ₱38.2 million for fiscal years ending 2015 and 2014 respectively. This revenue increase, before revenues from rental of Company's premises, showed a growth rate of 50% for the comparative fiscal years. The details of the revenue performance for the comparative fiscal years are presented below:

|                      | FY Ending June 30 |                   |
|----------------------|-------------------|-------------------|
|                      | 2015              | 2014              |
| Broadband            | 57,497,919        | 38,217,013        |
| Rental Income/Others | 11,038,122        | 7,261,678         |
|                      | <b>68,536,041</b> | <b>45,478,691</b> |

The Company's growth is buoyed up by its on-going infrastructure development anchored on platform transformation that is accompanied with process, practice and expanded brand and market initiatives. The Company continued its pursuit of a deliberate technology transformation, with minimal capital outlay through creative 3<sup>rd</sup>-party arrangements. Thus, the Company's expansion and upgrade in Region IV enabled it to access several growth areas and industrial parks such as those in the Cavite area. The Company likewise instituted protection, upgrading and expansion projects in its main networks in Rizal and Laguna. These involved, among others, the completion of the 10Gbps upgrade in Metro Manila's North and South backbone rings and the Company's Laguna lake backbone network.

Capitalizing on the progressive fixed wire and wireless network brought about by the abovementioned facilities and improvement projects, the Company was able to implement saturation drives in selected commercial business districts (CBDs) with particular focus on the business segment of the market thus generating relatively high average revenue per connected circuit exceeding ₱ 20,000 per month.

The strong revenue performance generated from a relatively small client base, i.e. from 174 broadband circuits at the start of fiscal year 2014 and increased to 259 circuits by the end of fiscal year 2015, has been the key driver of the Company's encouraging financial performance.

Market penetration was made solely and under collaborative and mutually beneficial arrangements with other telecommunication service providers. Thus, more buildings are now accessible with the

Company's fiber network. The potential subscribers therein are being tapped by an increased direct and indirect sales force for new and old services, markets, alongside increased direct and indirect operations crews to handle expanded scope of installation, restoration and general service support.

#### Cost and Expenses

The attainment of the aforesaid revenue growth had a concomitant increase in cost and expenses.

In support of the infrastructure development and sales thrust, the Company also enhanced its organizational capabilities in the technical and support areas. The staffing level increased from 55 at the start of fiscal year 2014 to 72 at the end of fiscal year 2015. Mobility for the sales and technical crews were continuously improved through the acquisition of service vehicles. Nevertheless, their impact on operational expenses has generally been manageable and was more than covered up by the strong revenue performance. The details of the cost and expenses are shown below:

#### **COSTS & EXPENSES**

(In Phippine Pesos)

|                           | FY Ending June 30 |                   |
|---------------------------|-------------------|-------------------|
|                           | 2015              | 2014              |
| <b>Operating Expenses</b> |                   |                   |
| Staff Related Expenses    | 29,097,600        | 45,444,536        |
| Premises Related Expenses | 18,472,022        | 14,978,114        |
| Other Operations Expenses | 18,023,344        | 15,820,878        |
|                           | <b>65,592,966</b> | <b>76,243,528</b> |

#### EBITDA and Profitability Performance

From the foregoing revenue performance, the Company has consistently produced positive and increasing EBITDA during fiscal years 2014 and 2015 in the respective amounts of (P30.7 million) and P2.6 million. The EBITDA margin performance has significantly improved from (68%) in fiscal year 2014 to 4% in fiscal year 2015. The EBITDA margin improvement is expected to continue in the forthcoming months.

However, despite the encouraging EBITDA performance, the Company posted annual losses of P83.5 million in fiscal year 2014 and P58.6 million in fiscal year 2015. Noticeable however is the improvement in bottom line performance as the annual losses continued to decline in the comparative fiscal years. The Company is reasonably optimistic that continuous improvement can still be achieved in the subsequent fiscal years.

The losses were brought about by recognizing the Rehabilitation Court's imposed 6% p.a. legal interest on unpaid obligations and the depreciation charges.

A tabulation of the comparative EBITDA and net income/(loss) presentation for fiscal years 2015 and 2014 is presented below:

#### **EBITDA**

(In Phippine Pesos)

|                          | FY Ending June 30   |                     |
|--------------------------|---------------------|---------------------|
|                          | 2015                | 2014                |
| Revenues                 | 68,536,041          | 45,478,691          |
| Cost and Expenses        | 65,975,607          | 76,188,864          |
| <b>EBITDA</b>            | <b>2,560,434</b>    | <b>(30,710,173)</b> |
| EBITDA Margin            | 4%                  | -68%                |
| <b>NET INCOME (LOSS)</b> | <b>(58,630,463)</b> | <b>(83,537,882)</b> |

## Financial Condition - Balance Sheet Accounts

| <u>( In Philippine pesos)</u>        | <u>2015</u>          | <u>2014</u>          |
|--------------------------------------|----------------------|----------------------|
| Current Assets                       | 22,645,995           | 20,345,155           |
| Non-current Assets                   | 566,564,796          | 586,919,248          |
| <b>Total Assets</b>                  | <b>589,210,791</b>   | <b>607,264,403</b>   |
| Current Liabilities                  | 1,025,496,314        | 1,003,302,371        |
| Non-current liabilities              | 8,962,604,187        | 8,950,062,362        |
| <b>Total Liabilities</b>             | <b>9,988,100,501</b> | <b>9,953,364,733</b> |
| Capital Deficiency                   | (9,398,889,710)      | (9,346,100,330)      |
| <b>Total Liabilities and Capital</b> | <b>589,210,791</b>   | <b>607,264,403</b>   |

The Company's total assets amounted to ₱589 million as of 30 June 2015. A major portion of the total assets are property, plant and equipment and investment properties in the respective amounts of ₱328.9 million and ₱235.8 million. To explain, the investment properties consist of lands in various locations in NCR and Regions 3 and 4 some of which are rented out to third parties as shown in Item 2 of this report.

The Company's accounts receivables amounting to ₱9.4 million as of 30 June 2015 are attributable to trade transactions and dues from related parties as explained in Note 19 of the audited financial statements.

Other current assets amount to ₱11.3 million as of ending 30 June 2015 which is mostly attributable to creditable withholding taxes. They can be claimed as credit against the Company's future tax liabilities.

Trade and other payables amount to ₱327.3 million as of 30 June 2015. A major component is under the account due to related parties which, as explained in Note 19 of the audited financial statements, are principally non-interest bearing unsecured and short-term Philippine Peso-denominated financing and advances from the Company's owners to finance the working capital requirements prior to entry of the new investor in accordance with the court-approved rehab plan as explained above.

Deferred income tax liability amounted to ₱2.6 million as of 30 June 2015. The net deferred income tax liability is principally due to revaluation surplus and a minimal actuarial loss on retirement benefits amounting to ₱57.1 thousand.

The deficit as of 30 June 2015 amounted to ₱11.6 billion. Had the court-directed debt-to-equity conversion been booked as part of equity instead of deposit for subscription under non-current liabilities, the said deficit could have been reduced significantly. The treatment as equity component is held in abeyance pending approval by the Securities and Exchange Commission (SEC) of the Company's increase in its authorized capital stock.

The current ratio as of June 30, 2015 is 0.02:1.

### **(B) Plan of Operation**

Moving forward 30 June 2015, the Company is introducing its new logo and brand positioning. The Company's website has been updated and marketing materials have been prepared for new market approaches. Market testing was conducted for scalable burstable services platform which, with affordable pricing, is targeted to lower budget markets such as small business and power user residential clients.

Another service being considered is the ability to access the niche national market for remote access and disaster recovery, focusing on the transport, mining, banking production, and other sectors. The market test launch for VSAT services is under way, with the service under brand name "PT&T Frontier".

The technology platform transformation is undertaken with incremental organizational adjustments in order to meet market scaling and distribution requirements. As a matter of strategy, the direct and indirect/ 3<sup>rd</sup> party sales force is being increased to attend to new and old services/markets. Equally important, technical and operations crews, both direct and indirect/ 3<sup>rd</sup> parties, are being strengthened in order to handle expanded scope of installation, restoration, and general service support.

Finally, as the PT&T's appetite for internet bandwidth increases commensurate to the demand of its new and existing subscribers, the Company continues to strengthen and foster mutually beneficial healthy business relationships with its established carrier-neutral bandwidth provider, and at the same time open up with other 3<sup>rd</sup> parties also.

Based on the operational and financial performance of FY2015, all indications suggest that the Company may be able to sustain its healthy revenue growth and finally be able to produce a net income in the subsequent fiscal years, absent significant debt load which have been converted already to serial redeemable preferred shares in accordance with the Rehab Order.

PT&T, with the involvement of the Rehab Receiver, continues to entertain offers on the sale of its assets particularly the head office in Makati City (the Spirit of Communications Center also known as the SCC). On October 23, 2015 the Rehabilitation Court had an initial hearing of the Motion for Leave to Sell and/or Dispose Certain Assets more specifically real properties. The said Motion is preparatory to concluding the sale to interested parties of the Makati property as well as 7 other properties in Rizal and Laguna provinces. However, opposition to the sale were filed by the secured creditors.

On several occasions, the Company received threats of public auction of certain properties due to delinquency in payment of real property taxes. Fortunately, the threats were removed upon representation by the counsels and Rehab Receiver of the ongoing court-approved rehabilitation.

Pending conclusion of asset sale transactions, PT&T continues to pursue the leasing or renting out of the unutilized or vacant premises both in Metro Manila and the provinces, in the ordinary course of business as shown in Item 2 of this report.

Likewise, the Company continues to entertain potential investors and possible partners within the purview of the respective non-disclosure agreements. The Board of Directors and the Rehab Receiver are duly apprised of developments especially for those with apparently serious interest.

In the meantime, pending entry of a strategic investor or a possible partner, the Company continues to pursue business relationships at the operational level under mutually beneficial arrangements that will also restore the Company's viability with very minimal capital outlay. More important, such arrangements pave the groundwork for future growth in a more focused market niche.

A fruitful result of the strategic alliances is PT&T's upgrade of its telecommunication nodes in Metro Manila and nearby Rizal and Laguna provinces thereby giving PT&T new growth opportunities for both fiber and wireless markets. Likewise, creative partnership arrangements enabled the Company to reach Pampanga. Further arrangements are being pursued so that the Company can establish a wider and more reliable fiber distribution network in Metro Manila and nearby town of Rizal and Laguna.

#### **D) Financial Statements**

The Audited Financial Statements for fiscal year ending 30 June 2015 with comparative audited figures for fiscal years ending 30 June 2014 are attached for reference.

#### **E) Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

The Company has not been able to submit its audited financial statements since fiscal year ending June 30, 2004. Its independent external auditor for the prior fiscal year ending June 30, 2003 required the Company to resolve three (3) issues before they can render the audited financial statements and submit

the same to the SEC for purposes of SEC 17A reportorial requirements.

In view of the non-submission to the SEC of the audited financial statements, the Company applied with the SEC for temporary exemptive relief. As of 30 June 2015, the SEC has not yet approved the Company's request for exemptive relief.

**PART III CONTROL AND COMPENSATION INFORMATION**

**F) Directors and Executive Officers of the Issuer**

**(A) Directors, Executive Officers, Promoters and Control Persons**

(1) As of June 30, 2015, the Company's board of directors and executive officers are composed of the following:

**BOARD OF DIRECTORS**

| NAME                      | POSITION              | AGE | CITIZENSHIP |
|---------------------------|-----------------------|-----|-------------|
| Jose Luis Santiago        | Chairman of the Board | 76  | Filipino    |
| Mario C. Lorenzo          | Independent Member    | 73  | Filipino    |
| Maureen Virginia Santiago | Member                | 51  | Filipino    |
| Gerardo R. de Leon        | Member                | 63  | Filipino    |
| Lucie Quidato Bantolino   | Member                | 77  | Filipino    |
| Bryan Joseph Santiago     | Member                | 41  | Filipino    |
| Epimaco V. Densing III    | Independent Member    | 44  | Filipino    |

The executive officers that have been nominated or chosen to assume executive position are enumerated below:

**EXECUTIVE OFFICERS**

| NAME                        | POSITION   | AGE | CITIZENSHIP |
|-----------------------------|--|-----|-------------|
| Jose Luis Santiago          | Chairman, President & CEO  | 76  | Filipino    |
| Maureen Virginia Santiago   | Executive Vice President – External Affairs                      | 51  | Filipino    |
| Gerardo R. de Leon          | Senior Vice President – Chief Finance & Admin Officer            | 63  | Filipino    |
| Bryan Joseph Santiago       | Executive Vice President – CIO                                   | 41  | Filipino    |
| Alicia A. Arogo             | Vice President – Treasurer                                       | 59  | Filipino    |
| Pedro R. Santos Jr.         | Senior Vice President - Network Engineering & Technical Services | 62  | Filipino    |
| Arturo T. Falco             | Senior Vice President – Comptroller                              | 63  | Filipino    |
| Fina dela Cuesta – Tantuico | Corporate Secretary  | 53  | Filipino    |
| Ma. Christina R. Gonzales   | Asst. Corporate Secretary  | 62  | Filipino    |

**Engr. Jose Luis Santiago**, Chairman of the Board, *President & CEO* —has been President & CEO of PT&T since TSI's acquisition of PT&T in April 1976 up until June 30, 1998 when he assumed chairmanship of the Board. From thereon, he continues to be elected as President & CEO concurrent to being Chairman of the Board. He has served in operational and administrative capacities in telecommunications for 54 years, including 3 years of engineering training with ITT in the USA. Concurrently, he is Chairman of sister companies RETELCOM, PT&T, Capitol Wireless, Inc. (Capwire), and Philippine Wireless, Inc. (PWI) — also known as the "RETELCOM Group of Companies", as well as President of RETELCOM and Telectronic Systems, Inc. (TSI). Mr. Santiago obtained his B. S. in Electrical Engineering degree from the Polytechnic Colleges of the Philippines now Central Colleges of the Philippines., is a licensed Electrical Engineer and Electronics and Communications Engineer (ECE), and completed the Harvard School of Business Admin. Faculty - Advanced Management Program in the Far East.

**Mario C. Lorenzo**, *Independent Director* — has been an Independent Director of PT&T since December 2002. Likewise, he is a Director of PT&T's affiliated companies — RETELCOM, Capwire, and PWI. Presently, he also serves as a Director and Corporate Secretary of other major corporations, such as Philippine Postal Savings Bank, Inc. among others. He also served in the corporate sector as Vice President of the Bancom Group of Companies and as consultant and external legal advisor to various banking and financial institutions such as Citibank, GSIS, Equitable Banking, and PNOC to name a few. He was a partner in the law firm of Picazo Buyco Tan Fider & Santos from 1993 to 2005. Atty. Lorenzo finished his Bachelor of Laws at the University of the Philippines in 1962 and MBA at the Asian Institute of Management in 1977.

**Maureen V. Santiago**, *Director & EVP-External Affairs and Special Projects* — has been involved in the telecommunications industry since 1989 in various operational capacities. She started her career with PT&T as AVP-Funds Management prior to assuming the role of EVP & COO of Capwire and affiliates in the Satelcom Group of Companies. Concurrently, she also serves as Director and President of other affiliated companies in the TSI Group of Companies, such as the Philippine Scout Veterans Security Agency, Inc. (PSVSIA) and El Jovir Realty Development Corp. She also serves as Director of RETELCOM, CWI, and PWI. Ms. Santiago finished her B.S. Business Management at Pepperdine University, California and her Top Management Program at the Asian Institute of Management, Bali, Indonesia.

**Gerardo R. De Leon**, *Director & Sr. Vice President- Chief Finance & Administration Officer (CFAO)*— has been a Director of PT&T since November 2010 and concurrently serves as SVP-CFAO. He began his career in PT&T 32 years ago, handling different positions in the area of Finance. Prior to joining PT&T, he was an Investment Manager for the Philippine Investment Systems Organization (PISO Bank) wherein he served for 5 years. Mr. De Leon completed his B.S. in Mechanical Engineering at the University of Sto. Tomas, after which he pursued a MBA degree at the University of the Philippines, Diliman, Quezon City.

**Lucie Q. Bantolino**, *Director*— has been a Director of PT&T since October 2012. She has served PT&T and its affiliates in various capacities, primarily as Sr. Vice President-Human Resources and Funds Management and as a corporate personnel/secretary and legal administration officer, for 42 years prior to her retirement in July 2003. She concurrently serves as Director of RETELCOM and CWI. Ms. Bantolino completed her B. S. in Commerce at the Iloilo City University and MBA for Top Executive Program at the Pamantasan ng Maynila.

**Bryan J. Santiago**, *Director & EVP-Chief Information Officer (CIO) and Head-Cluster 1* — has been a Director of PT&T since April 2012. He started his career in the telecoms industry in 1996 as Product Manager of PWI and later assumed the position of Head — New Business. He also served as a Consultant to PT&T's Marketing & Corporate Business Group in 2004 and later assumed the position of Marketing Head, and was in charge of its Broadband Systems Development Project. Currently, as CIO and Head of Cluster 1, he is tasked primarily to formulating strategies essential to taking advantage of the astounding developments of Internet-based technologies, as well as those essential to capturing a bigger share of the broadband market for PT&T. Mr. Bryan Santiago completed his B.A. in English at the University of California, Berkeley.

**Epimaco V. Densing**, *Independent Director* - has been an Independent Director of PT&T since September 2012. Presently, he serves as Chairman & CEO of Medicare Plus, Inc., CEO & Group Managing Head, Luzon of Norkis Financials Corp. of the Norkis Group of Companies, and Director of the Metro South Cooperative Bank. He is also a professor at the Ateneo Graduate School of Business since 2002 to date. Previously, he served as President & CEO

of BDO (Binder Dijker Otte) Alba Consulting and ARMCI Solutions & Consultancy, Inc., as well as in various capacities with notable companies, such as the CAP Group of Companies, Philippine Rabbit Bus Lines, Inc., Bank of the Philippine Islands, and Monterey Foods Corp. among others. He was also appointed by the Rehabilitation Court for the generation and implementation of the CAP's Group of Companies' Rehabilitation Plan, A Certified Public Accountant, Mr. Denising completed his B. S. Accounting and A.B. Humanities degrees at De La Salle University, and his MBA degree at the Ateneo Graduate School of Business.

**Alicia A. Arogo, Vice President-Treasurer** — has been in service with PT&T for 30 years and has held various roles, primarily in treasury and collection, prior to assuming her present position. She holds the same position concurrently with the other sister companies of PT&T - RETELCOM, Capwire, and PWI. Ms. Arogo completed her B. S. in Commerce degree at the Rizal Technological College, Pasig City and her MBA degree at the Pamantasan ng Maynila.

**Pedro R. Santos, Jr., Sr. Vice President — Network Engineering & Technical Services**—has been serving in his current position for 23 years, including more than 30 years of experience in telecommunications network design and operation. He has been sent to various telecommunications training courses abroad. Prior to assuming his present role as SVP-NETS, he was Vice President - Project Planning & Implementation Division (PPID). Mr. Santos finished his B. S. in Electrical Engineering degree at the Feati University and is a licensed Electrical Engineer and Electronics and Communications Engineer (ECE).

**Arturo T. Falco, Sr. Vice President-Comptroller** - has been in service with PT&T and sister company, Philippine Wireless, Inc. (PWI) since 1998. Concurrently, he serves as a Director of Retelcom, Capwire and PWI. Prior to his stint with the RETELCOM Group of Companies, he was First Vice President and CFO of Billion Land, Inc, and Vice President — Finance of Primetown Property Group, Inc. He held various positions in his 16 years at SGV & Co. Mr. Falco holds a Master's Degree in Business Management from the Asian Institute of Management and is a Certified Public Accountant.

**Fina Bernadette Dela Cuesta-Tantuico, Corporate Secretary Legal Counsel** — has served in her present capacity since 2004. She is a Managing Partner of Dela Cuesta Delas Alas & Tantuico Law Offices. Presently, she also serves as corporate secretary and legal consultant to the Magellan Group of Companies, and is an instructor at the UP College of Law and the Lyceum of the Philippines Law School. She served as a member of the Legal Panel of Presidential Fact Finding Commission On the Protection of Overseas Workers and as Judicial Staff Head and Private Secretary to the Office of the former Associate Justice, Arneufina Melencio-Herrera. She is an active member of the UP Women Lawyer's Circle (WILOCI) and the UP Law Alumni Foundation, Inc. Atty. Tantuico earned her Bachelor of Laws degree from the University of the Philippines and has participated in Advance Management Studies at Harvard University and at the Sorbonne University, Paris, France.

**Ma. Christina R. Gonzales, Assistant Corporate Secretary**— has been in service with PT&T for 43 years and has held various roles, primarily in Administration – General Services prior to assuming her present position. She completed her A.B. in International Studies degree at Maryknoll College, Quezon City. She also served as a Director of Fast Stock Transfers, Inc.

## **(2) Significant Person**

Atty. Lito A. Mondragon is the appointed Rehab Receiver of the Company. His role in the rehabilitation of the Company is specified under the Rules of Procedure on Corporate Rehabilitation, A.M No. 00-8-10-SC.

## **(3) Family Relationship**

Ms. Maureen Virginia P. Santiago and Mr. Bryan Joseph Santiago, are respectively the daughter and son of the Chairman/President and CEO of the Board of Directors. Other than this family relationship disclosure, the Company is not aware of any other family relationships up to the fourth civil degree either by consanguinity or affinity among the other directors and key officers of the Company who will be nominated as director or executive officers of the Company.

#### (4) Involvement in Certain Legal Proceedings

The Company is involved in 39 labor cases. All these labor cases stemmed from the financial difficulties experienced by the Company which led to the filing by the Company and its affiliates of a Petition for Corporate Rehabilitation and Suspension of Payments in August 2009. As a consequence of the Stay Order issued by the Rehab Court, proceedings in all these labor cases are suspended. The possible liability of the Company arising from the labor disputes is indicated in Note 13 of the Company's audited financial statements.

The Company is likewise party in 45 civil cases which are primarily collection cases. All these cases stemmed from the financial difficulties experienced by the Company which led to the filing by the Company and its affiliates of a Petition for Corporate Rehabilitation and Suspension of Payments in August 2009. As a consequence of the Stay Order issued by the Rehab Court, proceedings in all these cases are suspended. The amount involved in these cases are part of or are included in the obligations mentioned in Note 15 of the Company's audited financial statements which are to be settled through debt-to-equity conversion with the issuance of Series "A", "B", and "C" Redeemable Preferred Shares.

#### G) Executive Compensation

##### (B) Executive Compensation

##### (1) General

The disclosure of executive compensation made in this paragraph (B) is for the President/CEO and the five (5) most highly compensated executive officers. However, since the start of the rehabilitation and during the last completed fiscal year, the Company instituted several measures to alleviate operational cash flow difficulties. Among these is the observance of furlough days for certain executive officers and management staffs. In effect, the affected executive officer and management staff did not receive any compensation during his furlough days under the principle of "No Work-No Pay".

##### (2) Summary Compensation Table

The aggregate compensation paid to the Chief Executive Officer and key officers of the Company, named below as a group, for the past three (3) FYs ended June 30, are as follows:

| SUMMARY COMPENSATION TABLE                                    |             |  |              |  |
|---|-------------|--|--------------|--|
| (a)<br>Name and Principal Position                            | (b)<br>Year | (c) Annual Compensation                        |              |  |
|   |             | (c)<br>Salary                                  | (d)<br>Bonus | (e)<br>Other Annual Compensation<br>Income |
| Chairman, President & CEO and<br>five most highly compensated |             |  |              |  |
| Jose Luis Santiago  |             | Chairman, President & CEO                      |              |  |
| Maureen Virginia Santiago                                     |             | Executive Vice President- External Affairs     |              |  |
| Arturo T. Falco   |             | SVP - Comptroller                              |              |  |
| Gerardo R. De Leon  |             | SVP - Chief Finance & Admin Officer            |              |  |
| Pedro R. Santos   |             | SVP - Network Engineering & Technical Services |              |  |
| Alicia A. Arogo   |             | Vice President - Treasurer                     |              |  |
|   | 2015        | 11,670,229                                     | 144,000      | 864,000                                    |
|   | 2014        | 11,577,710                                     | 144,000      | 864,000                                    |
|   | 2013        | 10,651,493                                     | 144,000      | 864,000                                    |
| All officers and directors as a<br>group unnamed              | 2015        | 1,634,198                                      | 72,000       | 672,000                                    |
|   | 2014        | 1,628,931                                      | 72,000       | 672,000                                    |
|   | 2013        | 1,498,616                                      | 72,000       | 672,000                                    |

The members of the Board of Directors receive a monthly per diem and a year-end bonus equivalent to the monthly director's fee.

The executive officers receive a monthly compensation package for 12 months and a year-end gratuity pay which the Board also extends to all qualified managers and supervisory employees of the Company. Certain top level key executives are given a deferred compensation package whereby a certain amount of his compensation is accrued and becomes payable to him only upon retirement.

However, as mentioned in the preceding paragraph, the Company instituted furlough arrangements for certain key executive officers and management staffs.

The Company has a qualified non-contributory retirement plan providing death, disability and retirement benefits for substantially all of its employees.

#### H) Security Ownership of Certain Beneficial Owners and Management.

##### (1) Security Ownership of Certain Record and Beneficial Owners

As of June 30, 2015, there are 1,500,000,000 subscribed, issued and outstanding common shares entitled to vote at the meeting, with each share entitled to one vote.

A holder of common shares may vote such number of shares in his name for as many directors to be elected or he may cumulate said shares and give one candidates as many votes as the number of directors to be elected multiplied by the number of shares held or he may distribute among as many candidate as he deems fit.

There are no delinquent stocks and the direct and indirect record and beneficial owners of more than 5% of common shares are shown below.

| Class of Shares | Stockholder's Name & Address of Record  | No. of Shares | Percent Of Ownership |
|-----------------|---|---------------|----------------------|
| Common Stock    | Republic Telecommunications Holdings, Inc.®<br>21 <sup>st</sup> Floor, Strata 2000 Bldg.,<br>Emerald Avenue, Ortigas Ctr.<br>Pasig City | 1,138,873,772 | 75.92%               |
| Common Stock    | PCD Nominee Corporation**<br>G/F, MSE Bldg.<br>6767 Ayala Avenue,<br>Makati City  | 149,897,157   | 11.27%               |
| Common Stock    | Timco Holdings, Inc.<br>SCC Bldg. 106 C.<br>Palanca St. Legaspi<br>Village, Makati City   | 121,126,474   | 9%                   |

Shares are voted upon by the respective Chairman of the Board of Republic Telecommunications Holdings, Inc. (RETELCOM) and Timco Holdings, Inc. who would be authorized by their respective Board of Directors in their meeting prior to the Annual Stockholders' meeting.

To the best knowledge of the Company none of the beneficial owners of the shares registered under *the* name of PCD Nominee Corp., a private company organized to implement an automated book entry of stock and transfer transactions of securities listed in PSE, owns more than 5% of the company's common.

### (3) Security Ownership of Management

The following are the number of common shares owned of record by the incumbent Directors, Chief Executive Officer and key officers of the Company and the percentage of their shareholdings as of 30 June 2015.

| Class of Shares | Directors and Officers                         | Total Shares   |   | Percentage     |
|-----------------|--|----------------|---|----------------|
| Directors       | Jose Luis Santiago                             | 20,016         | R | 0.0016%        |
|                 | Mario C. Lorenzo                               | 1              | R | 0.0000%        |
|                 | Maureen Virginia Santiago                      | 1              | R | 0.0000%        |
|                 | Gerardo R. De Leon                             | 847            | R | 0.0001%        |
|                 | Lucie Quidato Bantolino                        | 118,242        | R | 0.0094%        |
|                 | Bryan Joseph Santiago                          | 10             | R | 0.0000%        |
|                 | Epimaco V. Densing Iii                         | 1              | R | 0.0000%        |
| Key Officers    | Pedro R. Santos Jr.                            | 44,724         |   | 0.0036%        |
|                 | Ma. Christina R. Gonzales                      | 6,666          |   | 0.0005%        |
|                 | <b>Directors &amp; Key Officers as a Group</b> | <b>190,508</b> |   | <b>0.0152%</b> |

Except as stated above, the Board of Directors and Management of the Company have no knowledge of any person who, as of 30 June 2016, was directly or indirectly the beneficial owner of more than 5% of the Company's outstanding shares of common stock or who has voting power or investment power with respect to shares comprising more than 5% of the Company's outstanding common stock.

The aggregate number of common shares owned of record by all key officers and incumbent directors as a group as 30 June 2015 is 190,508 or 0.0152% of the Company's outstanding common shares.

As of 30 June 2015, no director and nominees for director, and key officers directly or beneficially owned 5% or more than 5% of the Company's outstanding common shares.

No director or key officer own any convertible preferred shares.

### (4) Voting Trust Holders of 5% or More

The Company is not aware of voting trust holders of 5% or more.

### (5) Changes in Control

There has been no change in control since the beginning of the preceding fiscal year. As of 30 June 2015, Retelcom remains the majority shareholder of the Company holding 72.8% of the company's voting shares.

Management however, is aware together with the principal shareholder, that there are directives under the court approved rehabilitation such as the stock swaps among shareholders of PT&T and its affiliate companies that may change the ownership but not necessarily the control of the Company.

### I) Certain Relationships and Related Transactions

#### D) Certain Relationships and Related Transactions

The Company or any of its subsidiaries, for the last two (2) years, is not involved in any transaction or series similar transaction with any of its director, executive officer, or stockholder owning 10% or more of total outstanding shares and members of their immediate family who may have a direct or indirect material interest in such transaction.

## **PART IV – CORPORATE GOVERNANCE**

### **J) Corporate Governance**

Other than the Manual of Corporate Governance submitted to the SEC on July 31, 2014, in accordance with the SEC Memorandum circular, this report is not intended in any way as a Registration Statement and Prospectus which require information under Part V of Annex "C" as amended of SEC Rule 12.

## **PART V EXHIBITS AND SCHEDULES**

### **K) Exhibits and Reports on SEC Form 17-C**

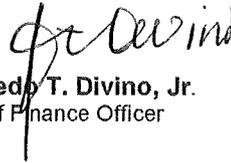
Please see refer to accompanying Index to Exhibit and Reports on SEC Form 17-C.

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati, Metro Manila, Philippines on \_\_\_\_\_, 2019.

By:

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

  
**Alfredo T. Divino, Jr.**  
 Chief Finance Officer

  
**Kenneth Joey H. Maceren**  
 Corporate Secretary

MAY 31 2019

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_ affiant(s) exhibiting to me his/their Residence Certificates, as follows:

| NAMES                  | PASSPORT NO. | DATE OF ISSUE | PLACE OF ISSUE |
|------------------------|--------------|---------------|----------------|
| James G. Velasquez     | P3536307A    | June 30, 2017 | Manila         |
| Alfredo T. Divino, Jr. | EC4175583    | May 15, 2015  | Manila         |

| NAMES                   | TIN         | DATE OF ISSUE     | PLACE OF ISSUE |
|-------------------------|-------------|-------------------|----------------|
| Kenneth Joey H. Maceren | 259-161-439 | February 04, 2009 | Makati City    |

\_\_\_\_\_  
 Notary Public

Doc No : 387  
 Page No : 79  
 Book No : 575  
 Series of : 2019

  
**RENATO M. LEE**  
 Appt. No.M-75 Until 31 Dec. 2020  
 IBP No. 053631; 11-05-2018; Makati  
 PTR No. 5226615; 01/03/2019, Rizal  
 Roll No. 32579  
 6F, SCC Bldg., 106 C. Palanca St.,  
 Legaspi Village, Makati City

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION  
INDEX TO FINANCIAL STATEMENTS**

**FORM 17-A, Item 7**

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

**FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

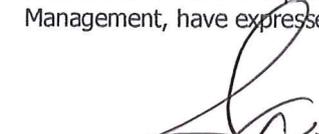
The Management of **PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended June 30, 2015 and 2014, in accordance with the prescribed financial reporting framework 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.

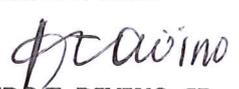
**Alas, Oplas & Co., CPAs**, the independent auditors, appointed by the Management have audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their reports to the Management, have expressed their opinion on the fairness of presentation upon completion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



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



**JAMES G. VELASQUEZ**  
Chief Executive Officer



**ALFREDO T. DIVINO, JR.**  
Chief Financial Officer

Signed this 28<sup>th</sup> of May 2019

MAY 31 2019

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ affiants exhibiting to me their government issued IDs as follows:

| NAMES                  | PASSPORT NO. | DATE OF ISSUE    | PLACE OF ISSUE |
|------------------------|--------------|------------------|----------------|
| Salvador B. Zamora II  | EC2656585    | November 7, 2014 | Manila         |
| James G. Velasquez     | P3536307A    | June 30, 2017    | Manila         |
| Alfredo T. Divino, Jr. | EC4175583    | May 15, 2015     | Manila         |

\_\_\_\_\_  
Notary Public

Doc. No. : 382  
Page No. : 78  
Book No. : 575  
Series of : 2019



**RENATO M. LEE**  
Appt. No. M-75 Until 31 Dec. 2020  
IBP No. 053631; 11-05-2018; Makati  
PTR No. 5226615; 01/03/2019, Rizal  
Roll No. 32579  
6F, SCC Bldg., 106 C. Palanca St.,  
Legaspi Village, Makati City

# Alas Oplas & Co., CPAs

Alas Oplas & Co., CPAs  
23/F Philippine AXA Life Centre  
1286 Sen. Gil Puyat Avenue  
Makati City, Philippines 1200  
Phone: (632) 759-5090 | Fax: (632) 887-6180  
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www.alasoascpas.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**, for the years ended June 30, 2015 and 2014 on which we have rendered the attached report dated May 6, 2019.

In compliance with SRC Rule 68, As Amended (2011), we are stating that the said Company has a total number of three thousand six hundred thirty (3,630) stockholders owning more than one hundred (100) shares.

### **ALAS, OPLAS & CO., CPAs**

BOA Registration No. 0190, valid from January 1, 2017 to December 31, 2019  
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:



**DANILO T. ALAS**

Partner  
CPA License No. 0027120  
SEC A.N. (Individual) 1529-AR-1, issued on February 7, 2019; effective until February 6, 2022  
TIN 132-466-021-000  
BIR A.N. 08-001026-001-2018, issued on January 25, 2018; effective until January 24, 2021  
PTR No. 7333597, issued on January 3, 2019, Makati City

May 6, 2019  
Makati City, Philippines

# Alas Oplas & Co., CPAs

## INDEPENDENT AUDITORS' REPORT

Alas Oplas & Co., CPAs  
23/F Philippine AXA Life Centre  
1286 Sen. Gil Puyat Avenue  
Makati City, Philippines 1200  
Phone: (632) 759-5090 | Fax: (632) 887-6180  
Email: aocheadoffice@alasoascpas.com  
www.alasoascpas.com

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

Independent Member of  
**BKR International**

### 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 June 30, 2015 and 2014, and the statements of loss, statements of comprehensive income (loss), statements of changes in capital deficiency and statements of cash flows for the years ended June 30, 2015 and 2014, 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 June 30, 2015 and 2014, and its financial performance and its cash flows for the years ended June 30, 2015 and 2014 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 ₱58,630,463 and ₱83,537,882 in 2015 and 2014, respectively, resulting to accumulated deficit amounting to ₱11,628,997,734 and ₱11,570,367,271 as at June 30, 2015 and 2014, respectively, and capital deficiency amounting to ₱9,398,889,710 and ₱9,346,100,330 as at June 30, 2015 and 2014, respectively.

We further draw attention to Note 1 to the financial statements, which indicates that 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, 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.

# Alas Oplas & Co., CPAs

On December 12, 2018, the Board of Directors 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 May 6, 2019.

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.

The action plans of the Company's management, to achieve effective implementation of the court-approved Rehab Plan and exit in the corporate rehabilitation status, to attain sustainable financial stability, improve its financial position, and to restore and reinstate to its former position of successful operation and solvency are discussed in Note 1 to the financial statements.

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. Our opinion is not modified in respect of this matter.

## **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 4 to the financial statements.

# Alas Oplas & Co., CPAs

## *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.

## *Fair Value Measurement of Land included under Property and Equipment*

The Company has adopted the revaluation model for subsequent measurement of land included under property and equipment. The Company engaged independent professional appraisers to value its land included under property and equipment. The revaluation of the land under property and equipment at their fair value is a complex process which involves estimates using a number of assumptions and specific methods and models. There is inherent uncertainty in these valuations in relation to the use of various projections and assumptions with higher subjectivity.

We considered audit of the fair valuation of land included under property and equipment as a key audit matter as there is estimation involved in the valuation process which uses various assumptions which includes forecast cash flows, discount rates, yield rates and market prices (see Note 8).

## *Audit Response*

We have considered the objectivity, independence and expertise of the external appraisers. We furthermore assessed the correctness of the property related data as used as input for the valuations and utilized our valuation specialists to assist us in analyzing the valuations and challenging the underlying assumptions. We further focused on the adequacy of the disclosures 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 June 30, 2015 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 June 30, 2015 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.

# Alas Oplas & Co., CPAs

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.

## **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.

# Alas Oplas & Co., CPAs

## Report on the Supplementary Information Required Under Revenue Regulation 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 29 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 Danilo T. Alas.

### **ALAS, OPLAS & CO., CPAs**

BOA Registration No. 0190, valid from January 1, 2017 to December 31, 2019  
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:



**DANILO T. ALAS**

Partner

CPA License No. 0027120  
SEC A.N. (Individual) 1529-AR-1, issued on February 7, 2019; effective until February 6, 2022  
TIN 132-466-021-000  
BIR A.N. 08-001026-001-2018, issued on January 25, 2018; effective until January 24, 2021  
PTR No. 7333597, issued on January 3, 2019, Makati City

May 6, 2019  
Makati City

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2015 AND 2014**  
**In Philippine Pesos**

|  | Notes | 2015               | 2014               |
|--|-------|--------------------|--------------------|
| <b>ASSETS</b>  |       |                    |                    |
| <b>Current Assets</b>  |       |                    |                    |
| Cash   | 5     | 1,969,374          | 2,635,006          |
| Receivables – net  | 6     | 649,374            | 755,740            |
| Due from related parties   | 19    | 8,722,242          | 7,113,930          |
| Other current assets   | 7     | 11,305,005         | 9,840,479          |
| Total Current Assets   |       | 22,645,995         | 20,345,155         |
| <b>Non-current Assets</b>  |       |                    |                    |
| Land at revalued amount  | 8     | 223,080,000        | –                  |
| Property and equipment at cost – net   | 9     | 105,758,245        | 349,218,423        |
| Investment properties  | 10    | 235,794,708        | 235,794,708        |
| Deferred tax asset   | 22    | 57,194             | –                  |
| Other non-current assets – net   | 11    | 1,874,649          | 1,906,117          |
| Total Non-current Assets   |       | 566,564,796        | 586,919,248        |
| <b>TOTAL ASSETS</b>  |       | <b>589,210,791</b> | <b>607,264,403</b> |
| <b>LIABILITIES AND CAPITAL DEFICIENCY</b>  |       |                    |                    |
| <b>Current Liabilities</b>   |       |                    |                    |
| Trade and other payables   | 12    | 118,602,915        | 121,585,010        |
| Due to related parties   | 19    | 208,687,113        | 211,892,939        |
| Statutory obligations  | 13    | 501,601,598        | 500,507,658        |
| Accrued interests, expenses and other liabilities                                  | 14    | 196,604,688        | 169,316,764        |
| Total Current Liabilities  |       | 1,025,496,314      | 1,003,302,371      |
| <b>Non-current Liabilities</b>   |       |                    |                    |
| Deposit for subscription in accordance with the court-approved rehabilitation plan | 15    | 8,841,736,581      | 8,841,736,581      |
| Retirement benefits liability  | 16    | 118,293,606        | 108,325,781        |
| Deferred tax liability   | 22    | 2,574,000          | –                  |
| Total Non-current Liabilities  |       | 8,962,604,187      | 8,950,062,362      |
| Total Liabilities  |       | 9,988,100,501      | 9,953,364,733      |
| <b>Capital Deficiency</b>  |       |                    |                    |
| Paid-up capital  | 17    | 2,224,255,313      | 2,224,255,313      |
| Revaluation surplus  | 8     | 6,006,000          | –                  |
| Accumulated actuarial loss on retirement benefits                                  | 16    | (133,453)          | –                  |
| Unrealized valuation loss on AFS investments                                       | 11    | (19,836)           | 11,628             |
| Deficit  |       | (11,628,997,734)   | (11,570,367,271)   |
| Total Capital Deficiency   |       | (9,398,889,710)    | (9,346,100,330)    |
| <b>TOTAL LIABILITIES AND CAPITAL DEFICIENCY</b>                                    |       | <b>589,210,791</b> | <b>607,264,403</b> |

See accompanying Notes to the Financial Statements.

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**STATEMENTS OF LOSS**  
**FOR THE YEARS ENDED JUNE 30, 2015, 2014 AND 2013**  
**In Philippine Pesos**

|  | Notes | 2015                | 2014         | 2013         |
|--|-------|---------------------|--------------|--------------|
| <b>REVENUES</b>                            | 20    | <b>57,497,919</b>   | 38,217,013   | 18,688,165   |
| <b>COST AND EXPENSES</b>                   |       |                     |              |              |
| Depreciation and amortization              | 9     | 32,679,846          | 24,316,658   | 26,277,847   |
| Personnel costs                            | 21    | 29,097,600          | 45,444,536   | 26,695,780   |
| Utilities and supplies                     |       | 8,975,552           | 7,097,740    | 7,351,713    |
| Rent                                       | 23    | 5,898,556           | 5,022,062    | 5,526,025    |
| Professional and other contracted services |       | 5,372,109           | 1,380,956    | 1,501,422    |
| Marketing and commission                   |       | 3,790,157           | 2,973,248    | 1,292,451    |
| Outside services                           |       | 3,597,914           | 2,858,312    | 2,553,684    |
| Taxes and licenses                         |       | 2,521,583           | 7,132,053    | 3,211,404    |
| Repairs and maintenance                    |       | 995,885             | 592,884      | 526,646      |
| Representation and entertainment           |       | 980,910             | 612,754      | 498,656      |
| Others                                     |       | 4,362,700           | 3,128,983    | 2,749,371    |
|  |       | <b>98,272,812</b>   | 100,560,186  | 78,184,999   |
| <b>OTHER INCOME (CHARGES)</b>              |       |                     |              |              |
| Interest                                   | 14    | (28,511,051)        | (28,511,051) | (28,511,051) |
| Rent                                       | 23    | 11,038,122          | 7,261,678    | 8,265,958    |
| Others – net                               |       | (382,641)           | 54,664       | 60,412       |
|  |       | <b>(17,855,570)</b> | (21,194,709) | (20,184,681) |
| <b>LOSS BEFORE INCOME TAX</b>              |       | <b>(58,630,463)</b> | (83,537,882) | (79,681,515) |
| <b>INCOME TAX</b>                          | 22    | –                   | –            | –            |
| <b>NET LOSS</b>                            |       | <b>(58,630,463)</b> | (83,537,882) | (79,681,515) |
| <b>BASIC AND DILUTED LOSS PER SHARE</b>    | 18    | <b>(0.05)</b>       | (0.07)       | (0.07)       |

See accompanying Notes to the Financial Statements.

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEARS ENDED JUNE 30, 2015, 2014 AND 2013**  
**In Philippine Pesos**

|   | Notes | 2015                | 2014         | 2013         |
|---|-------|---------------------|--------------|--------------|
| <b>NET LOSS</b>   |       | <b>(58,630,463)</b> | (83,537,882) | (79,681,515) |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>  |       |                     |              |              |
| <i>Items that will be reclassified to profit or loss in subsequent periods</i>    |       |                     |              |              |
| Unrealized valuation gain (loss) on AFS investments                               | 11    | (31,464)            | 8,208        | 49,590       |
| <i>Item that will not be reclassified to profit or loss in subsequent periods</i> |       |                     |              |              |
| Revaluation surplus – net of tax  | 8     | 6,006,000           | –            | –            |
| Actuarial loss on retirement benefits liability – net of tax                      | 16    | (133,453)           | –            | –            |
|   |       | <b>5,841,083</b>    | 8,208        | 49,590       |
| <b>TOTAL COMPREHENSIVE LOSS</b>   |       | <b>(52,789,380)</b> | (83,529,674) | (79,631,925) |

*See accompanying Notes to the Financial Statements.*

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY**  
**FOR THE YEARS ENDED JUNE 30, 2015, 2014, AND 2013**  
**In Philippine Pesos**

|  | Paid-up Capital<br>(Note 17) |           | Revaluation<br>Surplus<br>(Note 8) | Accumulated<br>Actuarial<br>Loss on<br>Retirement<br>Benefits<br>(Note 16) | Unrealized<br>Valuation<br>Gain (Loss)<br>on AFS<br>Investments<br>(Note 11) | Deficit                 | Total                  |
|--|------------------------------|-----------|------------------------------------|--|--|-------------------------|------------------------|
|  | Common                       | Preferred |                                    |  |  |                         |                        |
| Balances at July1, 2012                  | 2,224,255,313                | -         |                                    |  | (46,170)   | (11,407,147,874)        | (9,182,938,731)        |
| Net loss                                 | -                            | -         |                                    |  | -  | (79,681,515)            | (79,681,515)           |
| Other comprehensive income               | -                            | -         |                                    |  | 49,590   | -                       | 49,590                 |
| <b>Total comprehensive income (loss)</b> | <b>-</b>                     | <b>-</b>  |                                    |  | <b>49,590</b>  | <b>(79,681,515)</b>     | <b>(79,631,925)</b>    |
| Balances at June 30, 2013                | 2,224,255,313                | -         | -                                  | -  | 3,420  | (11,486,829,389)        | (9,262,570,656)        |
| Net loss                                 | -                            | -         | -                                  | -  | -  | (83,537,882)            | (83,537,882)           |
| Other comprehensive income               | -                            | -         | -                                  | -  | 8,208  | -                       | 8,208                  |
| <b>Total comprehensive income (loss)</b> | <b>-</b>                     | <b>-</b>  | <b>-</b>                           | <b>-</b>   | <b>8,208</b>   | <b>(83,537,882)</b>     | <b>(83,529,674)</b>    |
| Balances at June 30, 2014                | 2,224,255,313                | -         | -                                  | -  | 11,628   | (11,570,367,271)        | (9,346,100,330)        |
| Net loss                                 | -                            | -         | -                                  | -  | -  | (58,630,463)            | (58,630,463)           |
| Other comprehensive income (loss)        | -                            | -         | 6,006,000                          | (133,453)  | (31,464)   | -                       | 5,841,083              |
| <b>Total comprehensive income (loss)</b> | <b>-</b>                     | <b>-</b>  | <b>6,006,000</b>                   | <b>(133,453)</b>   | <b>(31,464)</b>  | <b>(58,630,463)</b>     | <b>(52,789,380)</b>    |
| <b>Balances at June 30, 2015</b>         | <b>2,224,255,313</b>         | <b>-</b>  | <b>6,006,000</b>                   | <b>(133,453)</b>   | <b>(19,836)</b>  | <b>(11,628,997,734)</b> | <b>(9,398,889,710)</b> |

See accompanying Notes to the Financial Statements.

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2015, 2014 AND 2013**  
**In Philippine Pesos**

|   | Notes | 2015                | 2014         | 2013         |
|---|-------|---------------------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |       |                     |              |              |
| Loss before income tax  |       | <b>(58,630,463)</b> | (83,537,882) | (79,681,515) |
| Adjustments for:  |       |                     |              |              |
| Interest  | 14    | <b>28,511,051</b>   | 28,511,051   | 28,511,051   |
| Depreciation and amortization                                 | 9     | <b>32,679,846</b>   | 24,316,658   | 26,277,847   |
| Movement in retirement benefits liability                     | 16    | <b>9,777,178</b>    | 28,005,546   | 3,723,469    |
| Reversal of allowance for doubtful accounts                   | 6     | —                   | (37,193)     | —            |
| Provision for:  |       |                     |              |              |
| Doubtful accounts   | 6     | <b>85,659</b>       | 204,514      | 202,419      |
| Impairment loss   | 11    | <b>1,684,997</b>    | 1,798,606    | 1,710,812    |
| Dividend income   | 11    | <b>(26,676)</b>     | (30,609)     | (29,412)     |
| Interest income   | 5     | <b>(6,563)</b>      | (12,570)     | —            |
| Operating income before working capital changes               |       | <b>14,075,029</b>   | (781,879)    | (19,285,329) |
| Decrease (increase) in operating assets:                      |       |                     |              |              |
| Receivables   |       | <b>20,707</b>       | 1,519,542    | (1,306,489)  |
| Due from related parties                                      |       | <b>(1,608,312)</b>  | (3,230,493)  | (3,596,769)  |
| Other current assets  |       | <b>(3,149,523)</b>  | 726,352      | 630,547      |
| Other non-current assets                                      |       | <b>4</b>            | (1,446,339)  | (1,129,412)  |
| Increase (decrease) in operating liabilities:                 |       |                     |              |              |
| Trade and other payables                                      |       | <b>(2,982,095)</b>  | (2,104,021)  | 2,797,715    |
| Statutory obligations   |       | <b>1,093,940</b>    | 1,215,259    | 1,128,062    |
| Accrued expenses and other liabilities                        |       | <b>(1,223,127)</b>  | 4,063,314    | 13,247,765   |
| Net cash generated from (used in) operations                  |       | <b>6,226,623</b>    | (38,265)     | (7,513,910)  |
| Interest received   | 5     | <b>6,563</b>        | 12,570       | —            |
| Net cash flows generated from (used in) operating activities  |       | <b>6,233,186</b>    | (25,695)     | (7,513,910)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |       |                     |              |              |
| Additions to property and equipment                           | 9     | <b>(3,719,668)</b>  | (4,707,220)  | (390,694)    |
| Dividend received   | 11    | <b>26,676</b>       | 30,609       | 29,412       |
| Net cash used in investing activities                         |       | <b>(3,692,992)</b>  | (4,676,611)  | (361,282)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |       |                     |              |              |
| Net proceeds from (payments to) advances from related parties | 19    | <b>(3,205,826)</b>  | 6,142,687    | 6,505,724    |
| <b>NET INCREASE (DECREASE) IN CASH</b>                        |       | <b>(665,632)</b>    | 1,440,381    | (1,369,468)  |
| <b>CASH AT BEGINNING OF YEAR</b>                              |       | <b>2,635,006</b>    | 1,194,625    | 2,564,093    |
| <b>CASH AT END OF YEAR</b>                                    | 5     | <b>1,969,374</b>    | 2,635,006    | 1,194,625    |

*See accompanying Notes to the Financial Statements.*

## 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.

As at June 30, 2015, the Company is 68.78%-owned subsidiary of Republic Telecommunications Holdings, Inc. ("RETELCOM"). The Company's ultimate parent company is Teletronics Systems, Inc. ("TSI").

On August 25, 2017, 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 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 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 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. 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 and the management is positive that this will lead to a favorable turning point in the Company's compliance requirements.

On October 3, 2018, the Company submitted the required documents and reports in full compliance of the Order dated June 5, 2018. The management is positive that this will lead to a favorable turning point in the Company's compliance requirements.

#### 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 May 6, 2019, the Company has yet to issue the share certificates to the creditors.

#### 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, 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 Board of Directors 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 May 6, 2019.

Status of Operations

In 2008, the Company has ceased its LEC operations (see Notes 13 and 25).

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 20). The Company offers dedicated or shared internet access service, via fiber or wireless, and operates a 10+ Gbps 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 market place. 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, specially 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 actually 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 pending 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 May 6, 2019, the Company has yet to issue the share certificates to the creditors.

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.

#### Going Concern

The Company has incurred net losses amounting to ₱58,630,463 and ₱83,537,882 in 2015 and 2014, respectively, resulting to accumulated deficit amounting to ₱11,628,997,734 and ₱11,570,367,271 as at June 30, 2015 and 2014, respectively, and capital deficiency amounting to ₱9,398,889,710 and ₱9,346,100,330 as at June 30, 2015 and 2014, respectively. As at June 30, 2015, the Company is under corporate rehabilitation as approved by the Rehab Court. 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:

- Conversion of debt into equity (see Notes 2 and 15);
- Availment of condonation program of the Social Security System (SSS) pursuant to RA No. 9003 and SSS Circular Nos. 2010-2004 and 2010-2005 (see Notes 2 and 13);
- 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
- Possible foreign partner 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 28).

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, as discussed above.

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 June 30, 2015 and 2014 and for each of the three years in the period ended June 30, 2015 were authorized for issue by the Board of Directors (BOD) on May 6, 2019.

## **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 14);

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 13); (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 19);
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 15);
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 17);
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 Note1). As at May 6, 2019, the Company has yet to issue the share certificates to the creditors.

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 Note1).

### **3. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**

#### **3.01 Basis of Preparation**

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

The Company's financial statements have been prepared on a historical cost basis, except for land included under property and equipment and available-for-sale (AFS) investments included under other non-current assets, which is carried at revalued amounts and fair value, respectively. The Company's financial statements are presented in Philippine Peso, the Company's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

#### **3.02 Current versus Non-current Classification**

The Company presents assets and liabilities in the Statements of financial position based on whether it is current and non-current classification.

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities, respectively.

### 3.03 Operating Segments

The Company's operating businesses are recognized and managed according to the nature of the products or services offered, with each segment representing strategic business unit that serves different markets.

Segment assets include operating assets used by a segment and consist principally of operating cash, receivables and property and equipment.

Segment liabilities include all operating liabilities and consist principally of trade, accrued expenses and other payables which were incurred after the approval of the Rehab Plan.

Segment revenue, expenses and profit are recognized and incurred in the ordinary course of business. These are accounted at competitive market prices.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Operating Officer (COO) of the Company who makes strategic decisions.

### 3.04 New and Revised PFRSs in Issue but Not Yet Effective

The accounting policies adopted are consistent with those of the previous financial year for the following new and amended PFRS, Philippine Accounting Standards (PAS), Philippine Interpretation based on International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS which were adopted as at July 1, 2014. The adoption of these amendments did not have any significant impact on the Company's financial statements.

- Amendments to PFRS 10, PFRS 12 and PAS 27, *Investment Entities*
- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- Philippine Interpretation International Reporting Interpretations Committee (IFRIC 21), *Levies*
- Annual Improvements to PFRSs 2010-2012 Cycle
  - PFRS 13, *Fair Value Measurement*
- Annual Improvements to PFRSs 2011-2013 Cycle
  - PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards-First-time Adoption of PFRS*

#### Future Changes in Accounting Policies

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 July 1, 2015*

- *Amendments to PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions*
- *Annual Improvements to PFRSs 2011-2013 Cycle*
  - *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*
  - *PFRS 13, Fair Value Measurement - Portfolio Exception*
  - *PAS 40, Investment Property - Ancillary Services*

- *Annual Improvements to PFRSs 2010 - 2012 Cycle*
  - *PFRS 2, Share-based Payment - Definition of Vesting Condition*
  - *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  - *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  - *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
  - *PAS 24, Related Party Disclosures - Key Management Personnel*
  - *Amendment to PAS 38: Revaluation method - proportionate restatement of accumulated amortization*

*Effective beginning on or after July 1, 2016*

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

*Effective beginning on or after July 1, 2017*

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

*Effective beginning on or after July 1, 2018*

- *Amendment to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- *Amendment to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments with PFRS 4*
- *Amendment to PFRS 9, Financial Instruments*
- *PFRS 15, Revenue from Contracts with Customers*
- *Amendment to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

- Amendment to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Considerations*.

*Effective beginning on or after July 1, 2019*

- PFRS 16, *Leases*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

*Deferred effectivity*

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

### **3.05 Summary of Significant Accounting Policies**

#### 3.05.01 Presentation of Financial Statements

The Company has elected to present all items of recognized income and expenses in two (2) statements, one displaying components of profit or loss in the statements of loss and a second statement beginning with profit or loss and displaying components of other comprehensive income (loss) in the statements of comprehensive income (loss).

#### 3.05.02 Financial Instruments

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.

##### 3.05.02.01 Initial Recognition

The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument.

All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets, loans and receivables or as hedging instrument in an effective hedge as appropriate. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date i.e., the date that an asset is delivered to or by an entity.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual agreement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The Company classifies its financial liabilities into financial liabilities at FVPL, loans and borrowings, trade and other payables or as derivative designated as hedging instrument in an effective hedge, as appropriate. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates such designation at each end of the reporting period.

The Company's financial assets are in the nature of loans and receivables and AFS financial assets, while its financial liabilities are in the nature of loans and borrowings. As at June 30, 2015 and 2014, the Company has no financial assets classified as at FVPL, HTM investments and derivatives designated as hedging instruments in an effective hedge. Further, the Company has no financial liabilities classified as at FVPL and derivatives designated as hedging instrument in an effective hedge as at June 30, 2015 and 2014.

3.05.02.02 Subsequent Measurement

The subsequent measurement of financial instruments depends on their classification as follows:

*Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "financial assets held for trading" or designated as "AFS financial assets" or "financial assets at FVPL."

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. 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 and losses arising from impairment are recognized in "Others" in the statements of loss.

The Company's cash, receivables, and long-outstanding trade receivables and refundable security deposits included under "other non-current assets", are classified as loans and receivables as at June 30, 2015 and 2014.

*AFS Financial Assets*

AFS financial assets are those which are designated as such or do not qualify to be classified or designated as FVPL, HTM investments or loans and receivables. AFS financial assets are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses arising from the fair valuation of AFS financial assets being reported as net unrealized gain (loss) on AFS financial assets in the statements of financial position balances until the investment is derecognized. These are also reported as other comprehensive income in the statements of comprehensive income (loss). Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method. Any dividend earned on holding AFS financial asset is recognized in the statements of loss when the right of payment has been established.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Company may elect to reclassify these financial assets.

Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Company has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM investments category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statements of loss.

#### *Loans and Borrowings*

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. Loans and borrowings are subsequently measured at amortized cost using the EIR method. 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 loss. Gains and losses are recognized in "Other income (charges)" in the statements of loss when the liabilities are derecognized as well as through the amortization process.

The Company's loans and borrowings include trade and other payables, accrued expenses and other liabilities as at June 30, 2015 and 2014.

#### 3.05.02.03 Impairment of Financial Assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include: indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial Assets Carried at Amortized Cost*

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in the statements of loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statements of loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### *AFS Financial Assets*

For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Company treats significant generally as 20% or more of the original cost of investment, and prolonged as greater than 12 months. If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statements of loss, is transferred from equity to the statements of loss. Reversals in respect of equity instruments classified as AFS are not recognized in the statements of loss.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

#### 3.05.02.04 Derecognition of Financial Assets and Liabilities

##### *Financial Assets*

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of Company's continuing involvement in the asset.

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

##### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in the Company's statements of loss.

#### 3.05.02.05 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 set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

#### 3.05.02.06 Fair Value Measurement

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 27.

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.

#### 3.05.03 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.

#### 3.05.04 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.

*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.

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 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.

The Company changes its accounting policy only if the change is required by PFRS or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Where impracticability impairs the Company's ability to apply a change in accounting policy retrospectively from the earliest prior period presented, the new accounting policy must be applied prospectively from the beginning of the earliest period feasible which may be the current period, as permitted by PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

*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                           |
| Central office 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 ceases 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.

#### 3.05.05 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 property 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 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.

#### 3.05.06 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.

#### 3.05.07 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 is 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 loss.

#### *Property and Equipment and Investment Properties*

The Company assesses at each reporting period whether there is an indication that property and equipment, and investment properties 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 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 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 and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement 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 plant 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.

#### 3.05.08 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 loss. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented on the statements of loss, net of any reimbursement.

#### 3.05.09 Retirement Benefits Costs

The net retirement benefits liability or asset is the aggregate of the present value of the retirement benefits 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 net 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 net retirement benefits liability or asset
- remeasurements of net 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 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 net retirement benefits liability or asset is the change during the period in the net 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 net retirement benefits liability or asset. Net interest on the net retirement benefits liability or asset is recognized as expense or income in the statements of 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 retirement benefits 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.

When the Company deems that it is impractical to use the projected unit credit method to measure its liability and costs under defined benefit plan, the Company measures the liability using the following assumptions: 1) current salaries continue until current employees are expected to begin receiving post-employment benefits; 2) closure of the plan for existing as well as any new employees; 3) all current employees will receive the post-employment benefits.

At the reporting date, the Company measures its retirement benefits liability under defined benefit plans at the net total of its defined benefit obligation minus fair value of plan assets. The Company recognizes the net change in the retirement benefits liability as the retirement benefits costs for the year of report.

#### 3.05.10 Capital Deficiency

Capital stock 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. Dividends are recognized as a liability and deducted from equity when these are approved by the BOD of the Company. Dividends for the period that are approved after the end of the reporting period are dealt with as an event after the reporting period.

#### 3.05.11 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 15).

### 3.05.12 Loss Per Share

#### *Basic*

Basic loss per share is calculated by dividing the net 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 loss per share is calculated by dividing the net 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.

### 3.05.13 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

#### *Broadband Internet Access Services*

Recognized when earned and as the service is provided to customers, net of share of other service providers.

#### *Dividend income*

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

#### *Rental Income*

Recognized as the service is performed.

#### *Interest Income*

Income is recognized as the interest accrues using the EIR method.

### 3.05.14 Costs and Expenses

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or depreciations of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized in statements of loss in the period these are incurred.

### 3.05.15 Leases

#### *Determination of Whether an Arrangement Contains a Lease*

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the date of inception and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised, or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

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

#### *Operating Leases*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statements of loss on a straight-line basis over the lease terms.

#### 3.05.16 Income Taxes

##### *Current Income Tax*

Current tax liabilities for the current and prior year periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the financial reporting date.

##### *Deferred Income Tax*

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward benefits of unused net operating loss carry-over (NOLCO) and excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences, unused NOLCO and excess of MCIT over RCIT can be utilized.

The carrying amount of deferred income tax assets is reviewed at each end of the reporting period and reduced 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. Unrecognized deferred income tax assets are reassessed at each end of the reporting period and are recognized to the extent that it has become probable that the sufficient future taxable income will allow the deferred tax assets to be recovered.

Deferred income tax assets are measured at the tax rate that is expected to apply to the period when the asset is realized based on tax rate and tax laws that has been enacted or substantively enacted as at the reporting date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the statements of loss.

#### 3.05.17 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.

#### 3.05.18 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.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the accompanying disclosures. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcome can differ from these estimates.

##### 4.01 Judgments

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.

##### 4.01.01 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.

##### 4.01.02 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.

##### 4.01.03 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.

4.01.04 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 June 30, 2015 and 2014, deposit for subscription in accordance with the court-approved Rehab Plan amounted to ₱8,841,736,581 (see Note 15).

4.02 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.

4.02.01 Estimation of Allowance for Doubtful Accounts on Receivables and Long-outstanding Trade Receivables included under "Other Non-current Assets"

If the Company assessed that there is objective evidence that an impairment loss has been incurred on its receivables and long-outstanding trade receivables, the Company estimates the related allowance for doubtful accounts on these assets that are specifically identified as doubtful of collection. The level of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. In these cases, the Company uses judgment based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer and the customer's credit status based on third-party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce the receivables to amounts that the Company expects to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

Provision for doubtful accounts on receivables amounted to ₱85,659, ₱204,514 and ₱202,419 in 2015, 2014 and 2013, respectively (see Note 6). Provision for doubtful accounts on long-outstanding trade receivables amounted to nil in 2015, 2014 and 2013 (see Note 11).

As at June 30, 2015 and 2014, the carrying values of receivables amounted to ₱649,374 and ₱755,740, respectively, net of allowance for doubtful accounts amounting to ₱991,315 and ₱905,656 as at June 30, 2015 and 2014, respectively (see Note 6).

As at June 30, 2015 and 2014, the carrying values of long-outstanding trade receivables amounted to nil, net of allowance for doubtful accounts amounting to ₱1,381,525,501 as at June 30, 2015 and 2014 (see Note 11).

4.02.02 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 June 30, 2015 and 2014, the carrying amounts of plant supplies amounted to nil, net of allowance for impairment losses of ₱69,182,620 and ₱67,497,623, as at June 30, 2015 and 2014, respectively. In 2015 and 2014, provision for impairment on plant supplies amounted to ₱1,684,998 and ₱1,798,606, respectively (see Note 11).

4.02.03 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 our financial position and financial performance. No impairment loss was recognized by the Company in 2015, 2014 and 2013.

The carrying values of property and equipment amounted to ₱105,758,245 and ₱349,218,423 as at June 30, 2015 and 2014, respectively (see Note 9).

The carrying values of investment properties amounted to ₱235,794,708 as at June 30, 2015 and 2014 (see Note 10).

4.02.04 Estimation of Useful Lives of Property and Equipment, except Land

The Company estimates the useful lives and residual values of property and equipment, except land, 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, 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 in 2015 and 2014.

As at June 30, 2015 and 2014, the carrying values of property and equipment, except land, amounted to ₱105,758,245 and ₱134,718,423, respectively. Depreciation and amortization expense recognized in 2015, 2014 and 2013 amounted to ₱32,679,846, ₱24,316,658, and ₱19,788,986 respectively (see Note 9).

4.02.05 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 January 29, 2018 covering valuation date as at June 30, 2015. As at June 30, 2015, the fair value of land under property and equipment amounted to ₱223,080,000 (see Note 8).

4.02.06 Estimation of Retirement Benefits

The costs of retirement benefits liability as well as the present value of the retirement benefits costs 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 practicality and the complexity of the valuation, the underlying assumptions and its long-term nature, retirement benefits liability is highly sensitive to changes in these assumptions. All assumptions are reviewed at each end of the reporting period.

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 retirement benefits retirement liability.

The Company deemed that it is impractical to use the projected unit credit method to measure its liability and costs under defined benefit plan, the Company measured the liability using the following assumptions: 1) current salaries continue until employees are expected to begin receiving post-employment benefits; 2) closure of the plan for existing as well as any new employees; 3) all current employees will receive the post-employment benefits.

Also included in the retirement benefits liability are the unpaid benefits of separated employees for service rendered prior to August 24, 2009 Stay Order in 2009 of which the Company may put on hold as per Rehab Court's order (see Note 1). Retirement benefits liability attributable to separated employees were computed considering accrual of 6% annual legal interest and are discounted to get the present value as of the ending period of the report.

At the reporting date, the Company measured its retirement benefits liability under defined benefit plans at the net total of its defined benefit obligation minus fair value of plan assets. The Company recognizes the net change in the retirement benefits liability as the retirement benefits costs for the years ended June 30, 2014 and 2013.

Retirement benefits costs amounted to ₱9,777,178, ₱28,005,546, and ₱3,723,469 in 2015, 2014, and 2013, respectively. Retirement benefits liability amounted to ₱118,293,606 and ₱108,325,781 as at June 30, 2015 and 2014, respectively. Further details about the assumptions used are provided in Note 16.

#### 4.02.07 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 June 30, 2015 and 2014, unrecognized deferred income tax assets amounted to ₱533,771,237 and ₱533,927,215, respectively, as the Company believes that the carry forward benefit would not be realized in the future prior to their expiration. As at June 30, 2016 and 2015, deferred income tax asset recognized amounted to ₱57,194 and nil, respectively (see Note 22).

#### 4.02.08 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 24).

#### 4.02.09 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 June 30, 2015 and 2014, accrued interest on these obligations amounted to ₱121,171,968 and ₱92,660,917, respectively. Interest expense recognized in 2015 and 2014 amounted to ₱28,511,051 for each year (see Note 14).

5. CASH

|               | 2015             | 2014             |
|---------------|------------------|------------------|
| Cash in banks | 1,899,374        | 2,565,006        |
| Cash on hand  | 70,000           | 70,000           |
|               | <b>1,969,374</b> | <b>2,635,006</b> |

Cash in banks earn interest at the respective bank deposit rates. Interest income earned amounted to ₱6,563, ₱12,570 and nil in 2015, 2014 and 2013, respectively.

6. RECEIVABLES – net

|                                       | Note | 2015             | 2014             |
|---------------------------------------|------|------------------|------------------|
| Trade                                 |      |                  |                  |
| Third parties                         |      | 388,280          | 153,491          |
| Related party                         | 19   | 547,223          | 561,592          |
| Others                                |      | 705,186          | 946,313          |
|                                       |      | <b>1,640,689</b> | <b>1,661,396</b> |
| Less: Allowance for doubtful accounts |      | 991,315          | 905,656          |
|                                       |      | <b>649,374</b>   | <b>755,740</b>   |

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

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

Movements in allowance for doubtful accounts as follow:

|   | Trade          | Other<br>Receivables | Total          |
|---|----------------|----------------------|----------------|
| Balances as at June 30, 2013                | 30,884         | 707,451              | 738,335        |
| Provision for the year                      | 204,514        | –                    | 204,514        |
| Reversal of allowance for doubtful accounts | –              | (37,193)             | (37,193)       |
| Balances as at June 30, 2014                | 235,398        | 670,258              | 905,656        |
| Provision for the year                      | 85,659         | –                    | 85,659         |
| <b>Balances as at June 30, 2015</b>         | <b>321,057</b> | <b>670,258</b>       | <b>991,315</b> |

7. OTHER CURRENT ASSETS

|        | 2015              | 2014             |
|--------|-------------------|------------------|
| CWTs   | 10,860,575        | 9,422,488        |
| Others | 444,430           | 417,991          |
|        | <b>11,305,005</b> | <b>9,840,479</b> |

CWTs represent taxes withheld that can be claimed as credit against the Company's future tax liabilities. Others pertain to various prepayments which will be expensed once consumed.

## 8. LAND AT REVALUED AMOUNTS

As at June 30, 2015, the land used in the operations is revalued amounting to ₱223,080,000. In 2015, the Company has changed its accounting policy on measurement of its land from cost method to revaluation. Management takes the view that this policy provides reliable and more relevant information because it is based on up-to-date values of its land. The policy has been applied prospectively from the start of 2015 because it was not practicable to estimate the effects of applying the policy retrospectively from any earlier date since obtaining valuations at the comparative reporting date and the opening balance sheet date for land is likely to be a difficult and costly exercise to perform. Thus, the Company's land is carried at cost amounting to ₱214,500,000 in 2014, as disclosed in Note 9.

The Company revalued its land as at June 30, 2015 based on estimated fair values as indicated in the independent appraiser's report dated January 29, 2018. 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 ₱223,080,000 as at June 30, 2015 and the existing utility represents the highest and best use of the land. Accordingly, as at June 30, 2015, the Company recognized an increase of ₱6,006,000 which was directly credited to revaluation surplus, net of deferred income tax amounting to ₱2,574,000. The revaluation surplus is not available for distribution to stockholders until this is realized through sale.

As at June 30, 2015 and 2014, revaluation surplus pertaining to the revalued land amounted to ₱6,006,000 and nil, net of tax effect amounting to ₱2,574,000 and nil, respectively.

## 9. PROPERTY AND EQUIPMENT – AT COST

| June 30, 2015                                     | Telecommunications Equipment |                          |                           |                      | Total              |
|---|------------------------------|--------------------------|---------------------------|----------------------|--------------------|
|   | Buildings and Improvements   | Central office equipment | Cable and wire facilities | Other work equipment |                    |
| <b>Cost:</b>                                      |                              |                          |                           |                      |                    |
| Balance at beginning of year                      | 40,552,696                   | 166,209,686              | 129,551,517               | 6,591,912            | 342,905,811        |
| Additions   | –                            | 1,832,450                | 1,417,041                 | 470,177              | 3,719,668          |
| Balance at end of year                            | 40,552,696                   | 168,042,136              | 130,968,558               | 7,062,089            | 346,625,479        |
| <b>Accumulated Depreciation and Amortization:</b> |                              |                          |                           |                      |                    |
| Balance at beginning of year                      | 40,552,696                   | 125,368,872              | 39,830,383                | 2,435,437            | 208,187,388        |
| Additions   | –                            | 14,251,814               | 16,045,650                | 2,382,382            | 32,679,846         |
| Balance at end of year                            | 40,552,696                   | 139,620,686              | 55,876,033                | 4,817,819            | 240,867,234        |
| <b>Net Book Value</b>                             | <b>–</b>                     | <b>28,421,450</b>        | <b>75,092,525</b>         | <b>2,244,270</b>     | <b>105,758,245</b> |

| June 30, 2014                                     | Telecommunications Equipment |                            |                          |                           |                      | Total              |
|---|------------------------------|----------------------------|--------------------------|---------------------------|----------------------|--------------------|
|   | Land (Note 8)                | Buildings and Improvements | Central office equipment | Cable and wire facilities | Other work equipment |                    |
| <b>Cost:</b>                                      |                              |                            |                          |                           |                      |                    |
| Balance at beginning of year                      | 214,500,000                  | 40,552,696                 | 161,770,616              | 129,370,241               | 6,505,038            | 552,698,591        |
| Additions   | –                            | –                          | 4,439,070                | 181,276                   | 86,874               | 4,707,220          |
| Balance at end of year                            | 214,500,000                  | 40,552,696                 | 166,209,686              | 129,551,517               | 6,591,912            | 557,405,811        |
| <b>Accumulated Depreciation and Amortization:</b> |                              |                            |                          |                           |                      |                    |
| Balance at beginning of year                      | –                            | 40,552,696                 | 121,831,852              | 20,196,166                | 1,290,016            | 183,870,730        |
| Additions   | –                            | –                          | 3,537,020                | 19,634,217                | 1,145,421            | 24,316,658         |
| Balance at end of year                            | –                            | 40,552,696                 | 125,368,872              | 39,830,383                | 2,435,437            | 208,187,388        |
| <b>Net Book Value</b>                             | <b>214,500,000</b>           | <b>–</b>                   | <b>40,840,814</b>        | <b>89,721,134</b>         | <b>4,156,475</b>     | <b>349,218,423</b> |

In 2015, the Company has changed its accounting policy on measurement of its land from cost method to revaluation. Management takes the view that this policy provides reliable and more relevant information because it is based on up-to-date values of its land. The policy has been applied prospectively from the start of 2015 because it was not practicable to estimate the effects of applying the policy retrospectively from any earlier date since obtaining valuations at the comparative reporting date and the opening balance sheet date for land is likely to be a difficult and costly exercise to perform.

As at June 30, 2015 and 2014, the Company has fully depreciated assets still used in operations amounting to ₱124,635,178 and ₱123,521,905, respectively.

#### 10. INVESTMENT PROPERTIES – AT COST

The Company's investment properties consist of lands in various locations in NCR, and Regions 3 and 4 amounted to ₱235,794,708. 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.

In 2015, 2014 and 2013, the Company recognized rental income from these investment properties amounting to ₱8,121,650, ₱7,261,678, and ₱8,265,958, respectively (see Note 23).

#### 11. OTHER NON-CURRENT ASSETS – net

|   | 2015                   | 2014            |
|---|------------------------|-----------------|
| Long-outstanding trade receivables                          | 1,381,525,501          | 1,381,525,501   |
| Plant supplies  | 69,182,620             | 67,497,622      |
| Refundable security deposits                                | 1,395,165              | 1,395,169       |
| AFS investments   | 479,484                | 510,948         |
|   | <b>1,452,582,770</b>   | 1,450,929,240   |
| Less: Allowance for doubtful accounts and impairment losses | <b>(1,450,708,121)</b> | (1,449,023,123) |
|   | <b>1,874,649</b>       | 1,906,117       |

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 not expected to be received anytime within the 12-month succeeding period and are fully provided with allowance for doubtful accounts as at June 30, 2015 and 2014.

Plant supplies pertain to telephone assets which are fully provided with allowance for impairment losses as at June 30, 2015 and 2014.

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

AFS investments pertain to shares of a listed telecommunications entity.

Movement of AFS investment account are as follows:

|   | 2015           | 2014           |
|---|----------------|----------------|
| Balances at beginning of year                 | 510,948        | 502,740        |
| Unrealized valuation gain (loss) for the year | (31,464)       | 8,208          |
| <b>Balances at end of year</b>                | <b>479,484</b> | <b>510,948</b> |

The cumulative net unrealized valuation loss on changes in fair values of AFS investments account is recognized under "Unrealized valuation loss on AFS investments" account which is a separate component under the equity section in the statements of financial position.

Movements of unrealized valuation gain (loss) on AFS financial assets follows:

|   | 2015            | 2014          |
|---|-----------------|---------------|
| Balances at beginning of year                 | 11,628          | 3,420         |
| Changes in fair value of AFS financial assets | (31,464)        | 8,208         |
| <b>Balances at end of year</b>                | <b>(19,836)</b> | <b>11,628</b> |

In 2015, 2014 and 2013, the Company recognized dividend income pertaining to the AFS financial assets amounting to ₱26,676, ₱30,609 and ₱29,412, respectively.

Movements in allowance for doubtful accounts and impairment losses as follow:

|                                     | Long-outstanding<br>trade receivables | Plant<br>supplies | Total                |
|-------------------------------------|---------------------------------------|-------------------|----------------------|
| Balances as at June 30, 2013        | 1,381,525,501                         | 65,699,016        | 1,447,224,517        |
| Provision for the year              | -                                     | 1,798,606         | 1,798,606            |
| Balances as at June 30, 2014        | 1,381,525,501                         | 67,497,622        | 1,449,023,123        |
| Provision for the year              | -                                     | 1,684,998         | 1,684,998            |
| <b>Balances as at June 30, 2015</b> | <b>1,381,525,501</b>                  | <b>69,182,620</b> | <b>1,450,708,121</b> |

## 12. TRADE AND OTHER PAYABLES

|                     | 2015               | 2014               |
|---------------------|--------------------|--------------------|
| Trade               | 94,681,493         | 101,756,931        |
| Customers' deposits | 22,586,190         | 18,771,404         |
| Others              | 1,335,232          | 1,056,675          |
|                     | <b>118,602,915</b> | <b>121,585,010</b> |

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 amounting to ₱15,726,642 as at June 30, 2015 and 2014.

Customers' deposits pertain to 2 months advance and 1 month deposit of internet broadband monthly subscription fee from customers. These customers' deposits are refundable and/or to be applied to unpaid receivables of the customers.

Other payables represent advance rental payments from lessees. These are refundable and/or to be applied to unpaid rent of the lessees upon expiration and/or termination of the lease.

### 13. STATUTORY OBLIGATIONS

The statutory obligations consist of liabilities to the Philippine government agencies and labor-related liabilities summarized as follows:

|   | 2015               | 2014        |
|---|--------------------|-------------|
| <i>Covered by Corporate Rehabilitation (Note 2)</i> |                    |             |
| Labor-related                                       | <b>185,749,667</b> | 185,749,667 |
| BIR   | <b>138,514,480</b> | 138,514,480 |
| NTC   | <b>86,286,597</b>  | 86,286,597  |
| Home Development Mutual Fund (HDMF)                 | <b>28,448,186</b>  | 28,448,186  |
| SSS   | <b>16,940,916</b>  | 16,940,916  |
| Philippine Health Insurance Corporation (PHIC)      | <b>12,145,658</b>  | 12,145,658  |
| National Home Mortgage Finance Corp. (NHFMC)        | <b>1,132,874</b>   | 1,132,874   |
| Other government agencies                           | <b>7,231,637</b>   | 7,231,637   |
|   | <b>476,450,015</b> | 476,450,015 |
| <i>Outside Corporate Rehabilitation:</i>            |                    |             |
| BIR   | <b>2,691,423</b>   | 2,600,355   |
| Labor-related                                       | <b>510,827</b>     | 519,452     |
| SSS   | <b>106,163</b>     | 76,352      |
| HDMF  | <b>36,325</b>      | 34,821      |
| PHIC  | <b>22,400</b>      | 20,425      |
| Other government agencies                           | <b>21,784,445</b>  | 20,806,238  |
|   | <b>25,151,583</b>  | 24,057,643  |
|   | <b>501,601,598</b> | 500,507,658 |

#### 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 24).

#### BIR

This includes liabilities with BIR for the various unpaid taxes such as output VAT, expanded and compensation withholding tax, overseas communication tax, and final taxes payable.

#### NTC

This pertains to unpaid Supervision and Regulation Fees (SRF) and Spectrum User Fees. SRF is billed for the LEC operations of the Company. On August 3, 2008, the Company has ceased its LEC operations along with its domestic long distance toll telephone services in Rizal and Laguna, but continue to function offering VAS for internet connectivity for its internet subscribers, and NTC was formally informed of the cessation of these services (see Notes 1 and 25). The Company's management believes that NTC should not continue charging SRF from August 3, 2008 and onwards.

#### 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 (see Notes 1 and 2). In November 2010, the Company paid ₱32,466,271 out of the escrow fund.

#### HDMF and PHIC

These pertain to unremitted employer and employees' contributions.

#### NHFMC

This pertains to unremitted employees housing loan deducted from their salaries.

Other government agencies

These include liabilities with 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.

**14. ACCRUED INTERESTS, EXPENSES AND OTHER LIABILITIES**

|                   | 2015               | 2014               |
|-------------------|--------------------|--------------------|
| Accrued interests | 121,171,968        | 92,660,917         |
| Accrued expenses  | 75,000,705         | 74,495,606         |
| Others            | 432,015            | 2,160,241          |
|                   | <b>196,604,688</b> | <b>169,316,764</b> |

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 in 2015, 2014 and 2013 amounted to ₱28,511,051 for each year.

Accrued expenses pertain to utilities, professional fees and outside services which were incurred subsequent to the approval of the Rehab Plan.

**15. 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 of which balance of ₱130,000,000 pertains to the subscribed common shares of RETELCOM previously lodged under paid up capital, was lodged in the Company's books as "Deposit for subscription". No oppositions were made by the creditors except as discussed in Note 1.

On October 9, 2018, the Company has filed with the SEC the increase in authorized capital stock of which the SEC approved on October 31, 2018, pending 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. The Company has yet to issue the share certificates to the creditors (see Note 1).

## 16. 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 June 30, 2015 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.

In 2014 and 2013, the Company recognized estimated retirement benefits liability required under R.A. No. 7641 for its qualified employees. The retirement benefits costs accrued is based on the number of years in service and the current monthly salary rate of qualified employees. Because of impracticality of measuring retirement obligations under defined benefit plan using the projected unit credit method, the Company elected to measure its retirement benefits liability using the following assumptions:

- 1) current salaries continue until current employees are expected to begin receiving post-employment benefits;
- 2) closure of the plan for existing as well as any new employees;
- 3) all current employees will receive the post-employment benefits.

At the reporting date, the Company measured its retirement benefits liability under defined benefit plans at the net total of its defined benefit obligation minus fair value of plan assets. The Company recognizes the net change in the retirement benefits liability as the retirement benefits costs for the years ended June 30, 2014 and 2013.

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 loss for the retirement plan:

Retirement benefits costs recognized in the statements of loss:

|  | Note | 2015             | 2014       | 2013      |
|--|------|------------------|------------|-----------|
| Current service cost                     |      | <b>6,844,533</b> | 28,005,546 | 3,723,469 |
| Interest expense on defined benefit plan |      | <b>2,932,645</b> | —          | —         |
|  | 21   | <b>9,777,178</b> | 28,005,546 | 3,723,469 |

Retirement benefits costs attributable to key management personnel amounted to ₱3,001,532 and ₱14,140,791, in 2015 and 2014, respectively (see Note 19).

Other comprehensive loss in the statements of financial position pertains to the cumulative actuarial losses on contributory defined benefit plan:

|  | 2015             | 2014 |
|--|------------------|------|
| Beginning balances                                   | —                | —    |
| Actuarial losses due to:                             |                  |      |
| Experience adjustments                               | <b>40,054</b>    | —    |
| Changes in financial assumptions                     | <b>(230,701)</b> | —    |
| Actuarial losses recognized for the year             | <b>(190,647)</b> | —    |
| Tax effect   | <b>57,194</b>    | —    |
| Actuarial losses recognized for the year, net of tax | <b>(133,453)</b> | —    |
| Ending balances                                      | <b>(133,453)</b> | —    |

Changes in the present value of the retirement benefits liability are as follows:

|   | 2015               | 2014               |
|---|--------------------|--------------------|
| Retirement benefits liability at beginning of year  | 108,325,781        | 80,320,235         |
| Current service cost                                | 6,844,533          | 28,005,546         |
| Interest expense on retirement benefits liability   | 2,932,645          | -                  |
| Actuarial loss (gains) due to:                      |                    |                    |
| Experience adjustments                              | (40,054)           | -                  |
| Changes in financial assumptions                    | 230,701            | -                  |
| <b>Retirement benefits liability at end of year</b> | <b>118,293,606</b> | <b>108,325,781</b> |

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 June 30, 2015 and 2014, the Company has retirement benefits liability attributable to separated employees amounting to ₱8,363,598 and ₱7,984,490, respectively.

The principal actuarial assumptions used to determine pension for the Company are as follows:

|                      | 2015   | 2014  |
|----------------------|--|-------|
| Discount rate        | 4.26%  | 4.33% |
| Salary increase rate | 5.00%  | 5.00% |
| Mortality rate       | 2017 Philippine Intercompany<br>Mortality Table      |       |
| Disability rate      | 1925 Disability Study,<br>Period 2, Benefit 5        |       |
| Turnover rate        | A scale ranging from<br>9% at age 18 to 0% at age 60 |       |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at June 30, 2015, assuming all other assumptions were held constant:

|                      | Increase<br>(decrease) | Active     | Deferred   | Total       |
|----------------------|------------------------|------------|------------|-------------|
| Discount rates       | 5.26% (Actual + 1.00%) | 60,072,288 | 56,055,974 | 116,128,262 |
|                      | 4.26% (Actual)         | 61,866,378 | 56,427,228 | 118,293,606 |
| Salary increase rate | 3.26% (Actual - 1.00%) | 63,858,329 | 56,813,902 | 120,672,231 |
|                      | 6.00% (Actual + 1.00%) | 64,060,093 | 56,427,228 | 120,487,321 |
|                      | 5.00% (Actual)         | 61,866,378 | 56,427,228 | 118,293,606 |
|                      | 4.00% (Actual - 1.00%) | 59,848,354 | 56,427,228 | 116,275,582 |

The average duration of retirement benefits liability as at June 30, 2015 and 2014 are 20 years and 21 years, respectively, covering 52 and 48 employees, respectively.

**17. PAID-UP CAPITAL**

As at June 30, 2015 and 2014, the Company has authorized capital stock of ₱3,800,000,000 which consist of the following:

|                                    |                      |
|------------------------------------|----------------------|
| Common shares - ₱1 par value       |                      |
| Authorized - 1,500,000,000 shares  |                      |
| Issued - 1,156,665,417 shares      | <b>1,156,665,417</b> |
| Subscribed - 343,334,583 shares    | <b>343,334,583</b>   |
| APIC                               | <b>724,255,313</b>   |
|                                    | <b>2,224,255,313</b> |
| Preferred shares - ₱10 par value   |                      |
| Authorized - 230,000,000 shares    |                      |
| Issued and subscribed - nil shares | -                    |
|                                    | <b>2,224,255,313</b> |

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.

As at June 30, 2015 and 2014, no preferred shares were subscribed and/or issued.

As discussed in Note 2 in 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 (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 share 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, pending issuance of corresponding share certificates to the creditors amounting to ₱8,711,736,581 (see Notes 1 and 15).

## 18. BASIC/DILUTED LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss attributable to stockholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

Loss per share in 2015 and 2014 are as follows:

|   | 2015                 | 2014          | 2013          |
|---|----------------------|---------------|---------------|
| Net loss shown in the statements of comprehensive income (loss)               | <b>(58,630,463)</b>  | (83,537,882)  | (79,681,515)  |
| Weighted average number of common shares for basic and diluted loss per share | <b>1,156,665,417</b> | 1,156,665,417 | 1,156,665,417 |
| Basic and diluted loss per share  | <b>(0.05)</b>        | (0.07)        | (0.07)        |

## 19. RELATED PARTY TRANSACTIONS

### 19.01 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.

The related parties in these financial statements are as follows:

| Related party | Relationship        | Nature of Transaction      |
|---------------|---------------------|----------------------------|
| TSI           | Ultimate parent     | Sale of Services, Advances |
| RETELCOM      | Parent company      | Advances                   |
| CWI           | Affiliate           | Advances                   |
| PWI           | Affiliate           | Advances                   |
| TIMCO         | Affiliate           | Advances                   |
| Stockholders  | Other related party | Advances                   |

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.

## 19.02 Related Party Transactions

Transactions and outstanding balances with related parties as at June 30, 2015 and 2014 which consist mainly of advances intended for working capital requirements are as follows:

| Category                        | Year | Volume/<br>amount | Outstanding<br>balance | Terms               | Conditions   |
|---------------------------------|------|-------------------|------------------------|---------------------|--------------|
| <u>Ultimate parent</u>          |      |                   |                        |                     |              |
| TSI                             |      |                   |                        |                     |              |
| <i>Revenues/Receivables</i>     | 2015 | 6,460,215         | 547,223                | 30-60 days term     | Unimpaired   |
|                                 | 2014 | 3,394,390         | 561,592                | cash settled        |              |
| <i>Due to related parties</i>   | 2015 | 513,183           | 40,806,245             | Due and demandable, | Unsecured    |
|                                 | 2014 | 126,198           | 40,293,062             | cash settled        | Unguaranteed |
| <u>Parent Company</u>           |      |                   |                        |                     |              |
| RETELCOM                        |      |                   |                        |                     |              |
| <i>Due from related parties</i> | 2015 | 820,002           | 820,002                | Due and demandable, | Unimpaired   |
|                                 | 2014 | –                 | –                      | cash settled        |              |
| <i>Due to related parties</i>   | 2015 | (2,799,810)       | –                      | Due and demandable, | Unsecured    |
|                                 | 2014 | 1,256,893         | 2,799,810              | cash settled        | Unguaranteed |
| <u>Affiliates</u>               |      |                   |                        |                     |              |
| CWI                             |      |                   |                        |                     |              |
| <i>Due from related parties</i> | 2015 | 757,192           | 6,453,547              | Due and demandable, | Unimpaired   |
|                                 | 2014 | 3,143,428         | 5,696,355              | cash settled        |              |
| <i>Due to related parties</i>   | 2015 | –                 | 440,000                | Due and demandable, | Unsecured    |
|                                 | 2014 | –                 | 440,000                | cash settled        | Unguaranteed |
| PWI                             |      |                   |                        |                     |              |
| <i>Due from related parties</i> | 2015 | 106,349           | 1,448,693              | Due and demandable, | Unimpaired   |
|                                 | 2014 | 87,065            | 1,342,344              | cash settled        |              |
| TIMCO                           |      |                   |                        |                     |              |
| <i>Due to related parties</i>   | 2015 | –                 | 39,855,000             | Due and demandable, | Unsecured    |
|                                 | 2014 | –                 | 39,855,000             | cash settled        | Unguaranteed |
| <u>Other related parties</u>    |      |                   |                        |                     |              |
| Other individual stockholders   |      |                   |                        |                     |              |
| <i>Due from related parties</i> | 2015 | (75,231)          | –                      | Due and demandable, | Unimpaired   |
|                                 | 2014 | –                 | 75,231                 | cash settled        |              |
| <i>Due to related parties</i>   | 2015 | 3,719,009         | 127,585,868            | Due and demandable, | Unsecured    |
|                                 | 2014 | 4,759,596         | 128,505,067            | cash settled        | Unguaranteed |
| Revenues (Note 20)              | 2015 | 6,460,215         |                        |                     |              |
|                                 | 2014 | 3,394,390         |                        |                     |              |
| Receivables (Note 6)            | 2015 |                   | 547,223                |                     |              |
|                                 | 2014 |                   | 561,592                |                     |              |
| Due from related parties        | 2015 |                   | 8,722,242              |                     |              |
|                                 | 2014 |                   | 7,113,930              |                     |              |
| Due to related parties          | 2015 |                   | 208,687,113            |                     |              |
|                                 | 2014 |                   | 211,892,939            |                     |              |

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).

### 19.03 Key Management Remuneration

Compensation of key management personnel of the Company are as follows:

|                              | Note | 2015              | 2014       |
|------------------------------|------|-------------------|------------|
| Short-term employee benefits |      | 20,576,331        | 13,369,683 |
| Retirement benefits costs    | 16   | 3,001,532         | 14,140,791 |
|                              |      | <b>23,577,863</b> | 27,510,474 |

### 20. REVENUES

|                                     | 2015              | 2014       | 2013       |
|-------------------------------------|-------------------|------------|------------|
| Broadband internet access services: |                   |            |            |
| Direct customers                    | 53,666,114        | 35,447,312 | 18,108,731 |
| Resellers                           | 1,368,393         | 862,875    | –          |
| Other services                      | 2,463,412         | 1,906,826  | 579,434    |
|                                     | <b>57,497,919</b> | 38,217,013 | 18,688,165 |

#### 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.

In 2015, 2014 and 2013, revenues recognized from this agreement amounted to ₱5,458,139, ₱2,616,640 and nil, respectively. The Company's revenue-share from resell of data transport amounted to ₱1,002,076, ₱777,750 and nil in 2015, 2014 and 2013, respectively.

#### Revenue Sharing Agreement with IPS, Inc. (IPS)

In August 3, 2012, 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.

In 2015, 2014 and 2013, revenues recognized from this agreement amounted to ₱1,248,585, ₱1,242,257 and ₱517,533, respectively.

#### Collection Agent Agreement with IPS

In 2014, 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.

In 2015, 2014 and 2013, revenues recognized from this agreement amounted to ₱502,655, ₱303,599 and nil, respectively.

#### 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.

In 2015, 2014 and 2013, revenues recognized from this agreement amounted to ₱19,200, ₱24,000 and nil respectively. The Company's revenue-share from resell of DSL amounted to ₱366,317, ₱85,125 and nil in 2015, 2014 and 2013, respectively.

## 21. PERSONNEL COSTS

|                           | Note | 2015              | 2014       | 2013       |
|---------------------------|------|-------------------|------------|------------|
| Salaries and wages        |      | <b>14,358,242</b> | 12,810,750 | 19,570,326 |
| Retirement benefits costs | 16   | <b>9,777,178</b>  | 28,005,546 | 3,723,469  |
| Other benefits            |      | <b>4,962,180</b>  | 4,628,240  | 3,401,985  |
|                           |      | <b>29,097,600</b> | 45,444,536 | 26,695,780 |

## 22. INCOME TAX

### 22.01 Income Tax Recognized in Profit or Loss

Provision for income tax representing regular corporate income tax and minimum corporate income tax is nil for 2015, 2014 and 2013.

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:

|   | 2015                | 2014         | 2013         |
|---|---------------------|--------------|--------------|
| Loss at statutory income tax rate                 | <b>(17,589,139)</b> | (25,061,365) | (23,904,455) |
| Income tax effects of:                            |                     |              |              |
| Expired NOLCO                                     | <b>17,631,483</b>   | 21,493,740   | 20,887,926   |
| Change in unrecognized deferred income tax assets | <b>(155,978)</b>    | 3,504,521    | 2,923,984    |
| Non-deductible expenses                           | <b>123,606</b>      | 76,058       | 101,369      |
| Dividend income                                   | <b>(8,003)</b>      | (9,183)      | (8,824)      |
| Interest income subjected to final tax            | <b>(1,969)</b>      | (3,771)      | —            |
|   | —                   | —            | —            |

As at June 30, 2015 and 2014, net deferred income tax recognized in the statements of financial position are as follows:

|                                       | 2015             | 2014 |
|---------------------------------------|------------------|------|
| <i>Deferred income tax asset</i>      |                  |      |
| Actuarial loss on retirement benefits | <b>(57,194)</b>  | —    |
| <i>Deferred income tax liability</i>  |                  |      |
| Revaluation surplus                   | <b>2,574,000</b> | —    |

As at June 30, 2015 and 2014, no deferred income tax assets have been recognized on the following 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.

|   | Notes | 2015                 | 2014          |
|---|-------|----------------------|---------------|
| NOLCO   |       | <b>88,263,092</b>    | 128,841,905   |
| Allowance for doubtful accounts on receivables                        | 6     | <b>991,315</b>       | 905,656       |
| Allowance for doubtful accounts on long outstanding trade receivables | 11    | <b>1,381,525,501</b> | 1,381,525,501 |
| Allowance for impairment losses on plant supplies                     | 11    | <b>69,182,620</b>    | 67,497,622    |
| Accrued interests   | 14    | <b>121,171,968</b>   | 92,660,917    |
| Retirement benefits liability   | 16    | <b>118,102,959</b>   | 108,325,781   |
|   |       | <b>1,779,237,455</b> | 1,779,757,382 |

Unrecognized deferred tax assets are as follows:

|   | 2015               | 2014        |
|---|--------------------|-------------|
| NOLCO   | <b>26,478,928</b>  | 38,652,572  |
| Allowance for doubtful accounts on receivables                        | <b>297,395</b>     | 271,697     |
| Allowance for doubtful accounts on long outstanding trade receivables | <b>414,457,650</b> | 414,457,650 |
| Allowance for impairment losses on plant supplies                     | <b>20,754,786</b>  | 20,249,287  |
| Accrued interests   | <b>36,351,590</b>  | 27,798,275  |
| Retirement benefits liability   | <b>35,430,888</b>  | 32,497,734  |
|   | <b>533,771,237</b> | 533,927,215 |

As at June 30, 2015, 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           |
|-----------------------|------------------|--------------------|---------|---------------------|-------------------|
| 2012                  | 2013-2015        | 58,771,611         | —       | (58,771,611)        | —                 |
| 2013                  | 2014-2016        | 45,225,284         | —       | —                   | 45,225,284        |
| 2014                  | 2015-2017        | 24,845,010         | —       | —                   | 24,845,010        |
| 2015                  | 2016-2018        | 18,192,798         | —       | —                   | 18,192,798        |
|                       |                  | <b>147,034,703</b> | —       | <b>(58,771,611)</b> | <b>88,263,092</b> |

## 23. LEASES

The Company has entered into various lease agreements on office space, cell sites telecommunications equipment locations and car rentals. The operating lease agreements are for periods ranging from 1 to 5 years from the date of contracts. Total rent charged to operations amounted to ₱5,898,556, ₱5,022,062 and ₱5,526,025 in 2015, 2014 and 2013, respectively.

The minimum lease payments due as at June 30, 2015 and 2014 are as follows:

|   | 2015             | 2014             |
|---|------------------|------------------|
| Within one year                             | 952,652          | 2,684,178        |
| More than one year but less than five years | 496,125          | 1,379,794        |
|   | <b>1,448,777</b> | <b>4,063,972</b> |

On June 30, 2015, 2014, and 2013, total rental income earned by the Company from its leased spaces in Makati and Regions 3 and 4 amounted to ₱8,121,650, ₱7,261,678, and ₱8,265,958, respectively (see Note 10).

In 2015, the Company entered into various short-term lease agreements for rack rentals. Total income earned for rack rentals during the year amounted to ₱2,916,472.

The minimum lease receivables as at June 30, 2015 and 2014 are as follows:

|   | 2015             | 2014             |
|---|------------------|------------------|
| Within one year                             | 1,036,755        | 962,476          |
| More than one year but less than five years | 477,746          | 496,553          |
|   | <b>1,514,501</b> | <b>1,459,029</b> |

#### 24. 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.

#### 25. 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's LEC business which represent landline-based telephone and long distance (incoming and outgoing domestic and international calls) service already ceased operations in 2008 (see Notes 1 and 13). All assets related to this segment are either fully provided with allowance for impairment losses or written off.

The Company monitors the operating results based on earnings before interest, taxes and depreciation and amortization (EBITDA).

The Company's EBITDA in 2015, 2014 and 2013 are as follows:

|                               | 2015             | 2014                | 2013                |
|-------------------------------|------------------|---------------------|---------------------|
| Net loss                      | (58,630,463)     | (83,537,882)        | (79,681,515)        |
| Interest                      | 28,511,051       | 28,511,051          | 28,511,051          |
| Depreciation and amortization | 32,679,846       | 24,316,658          | 26,277,847          |
|                               | <b>2,560,434</b> | <b>(30,710,173)</b> | <b>(24,892,617)</b> |

## 26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### 26.01 General Risk Management Principles

The Company's principal financial instruments comprise of cash, 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 and liquidity 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:

|   | 2015               | 2014               |
|---|--------------------|--------------------|
| Financial assets:                                 |                    |                    |
| Cash  | 1,969,374          | 2,635,006          |
| Receivables – net                                 | 649,374            | 755,740            |
| Due from related parties                          | 8,722,242          | 7,113,930          |
| Refundable security deposits                      | 1,395,165          | 1,395,169          |
| AFS investments                                   | 479,484            | 510,948            |
|   | <b>13,215,639</b>  | <b>12,410,793</b>  |
| Financial liabilities:                            |                    |                    |
| Trade and other payables*                         | 117,163,121        | 120,253,176        |
| Due to related parties                            | 208,687,113        | 211,892,939        |
| Accrued interests, expenses and other liabilities | 196,604,688        | 169,316,764        |
|   | <b>522,454,922</b> | <b>501,462,879</b> |

\*Excluding non-refundable deposits and advance rentals of ₱1,439,794 and ₱1,331,834 as at June 30, 2015 and 2014, respectively.

### 26.02 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.

Concentration of credit risk relating to customer receivables is limited due to the large number of customers.

The Company trade 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 allow it 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 have 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.

26.02.01 Credit Quality of Financial Assets

The following tables provide the credit information and maximum exposure of the Company's financial assets as at June 30, 2015 and 2014:

| 2015                               | Neither past due nor impaired |                |                    | Past due         |                      | Total                |
|------------------------------------|-------------------------------|----------------|--------------------|------------------|----------------------|----------------------|
|                                    | High Grade                    | Standard Grade | Sub standard Grade | Not impaired     | Impaired             |                      |
| Cash in banks                      | 1,899,374                     | -              | -                  | -                | -                    | 1,899,374            |
| Receivables                        | 649,374                       | -              | -                  | -                | 991,315              | 1,640,689            |
| Due from related parties           | -                             | -              | -                  | 8,722,242        | -                    | 8,722,242            |
| Long-outstanding trade Receivables | -                             | -              | -                  | -                | 1,381,525,501        | 1,381,525,501        |
| Refundable security Deposits       | 1,395,165                     | -              | -                  | -                | -                    | 1,395,165            |
| AFS investments                    | 479,484                       | -              | -                  | -                | -                    | 479,484              |
|                                    | <b>4,423,397</b>              | <b>-</b>       | <b>-</b>           | <b>8,722,242</b> | <b>1,382,516,816</b> | <b>1,395,662,455</b> |

| 2014                               | Neither past due nor impaired |                |                    | Past due         |                      | Total                |
|------------------------------------|-------------------------------|----------------|--------------------|------------------|----------------------|----------------------|
|                                    | High Grade                    | Standard Grade | Sub standard Grade | Not impaired     | Impaired             |                      |
| Cash in banks                      | 2,565,006                     | -              | -                  | -                | -                    | 2,565,006            |
| Receivables                        | 688,303                       | -              | -                  | 67,437           | 905,656              | 1,661,396            |
| Due from related parties           | -                             | -              | -                  | 7,113,930        | -                    | 7,113,930            |
| Long-outstanding trade receivables | -                             | -              | -                  | -                | 1,381,525,501        | 1,381,525,501        |
| Refundable security Deposits       | 1,395,169                     | -              | -                  | -                | -                    | 1,395,169            |
| AFS investments                    | 510,948                       | -              | -                  | -                | -                    | 510,948              |
|                                    | <b>5,159,426</b>              | <b>-</b>       | <b>-</b>           | <b>7,181,367</b> | <b>1,382,431,157</b> | <b>1,394,771,950</b> |

High grade cash in banks and working capital cash fund placed, invested, or deposited in foreign and local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability. Other high grade accounts are accounts considered to be high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have a probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up and extended payment terms.

As at June 30, 2015 and 2014, the aging analyses of receivables are as follows:

|               |                  | 30 Days        | 60 Days       | 90 Days     | Above          |
|---------------|------------------|----------------|---------------|-------------|----------------|
|               | Total            | outstanding    | outstanding   | outstanding | 90 Days        |
| 2015          |                  |                |               |             | outstanding    |
| Trade         |                  |                |               |             |                |
| Related party | 547,223          | 547,223        | —             | —           | —              |
| Third parties | 388,280          | 67,223         | —             | —           | 321,057        |
| Others        | 705,186          | —              | 34,928        | —           | 670,258        |
|               | <b>1,640,689</b> | <b>614,446</b> | <b>34,928</b> | <b>—</b>    | <b>991,315</b> |

|               |                  | 30 Days        | 60 Days        | 90 Days       | Above          |
|---------------|------------------|----------------|----------------|---------------|----------------|
|               | Total            | outstanding    | outstanding    | outstanding   | 90 Days        |
| 2014          |                  |                |                |               | outstanding    |
| Trade         |                  |                |                |               |                |
| Related party | 153,491          | 41,003         | 40,986         | 67,437        | 4,065          |
| Third parties | 561,592          | 310,490        | 19,769         | —             | 231,333        |
| Others        | 946,313          | 186,055        | 90,000         | —             | 670,258        |
|               | <b>1,661,396</b> | <b>537,548</b> | <b>150,755</b> | <b>67,437</b> | <b>905,656</b> |

### 26.03 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 June 30, 2016 and 2015 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.

| 2015  | Due                |                    |                      | Total                |
|---|--------------------|--------------------|----------------------|----------------------|
|   | On-demand          | Within 1 Year      | 1 – 5 Years          |                      |
| Financial liabilities:                            |                    |                    |                      |                      |
| Trade and other payables*                         | 39,927,444         | 77,235,677         | –                    | 117,163,121          |
| Due to related parties                            | 208,687,113        | –                  | –                    | 208,687,113          |
| Accrued interests, expenses and other liabilities | –                  | 196,604,688        | –                    | 196,604,688          |
|   | <b>248,614,557</b> | <b>273,840,365</b> | <b>–</b>             | <b>522,454,922</b>   |
| Financial assets:                                 |                    |                    |                      |                      |
| Cash  | 1,969,374          | –                  | –                    | 1,969,374            |
| Receivables                                       | 991,315            | 649,374            | –                    | 1,640,689            |
| Due from related parties                          | 8,722,242          | –                  | –                    | 8,722,242            |
| Long-outstanding trade receivables                | –                  | –                  | 1,381,525,501        | 1,381,525,501        |
| Refundable security deposits                      | –                  | –                  | 1,395,165            | 1,395,165            |
| AFS investments                                   | –                  | –                  | 479,484              | 479,484              |
|   | <b>11,682,931</b>  | <b>649,374</b>     | <b>1,383,400,150</b> | <b>1,395,732,455</b> |
| 2014  | Due                |                    |                      | Total                |
|   | On-demand          | Within 1 Year      | 1 – 5 Years          |                      |
| Financial liabilities:                            |                    |                    |                      |                      |
| Trade and other payables*                         | 82,126,148         | 38,127,028         | –                    | 120,253,176          |
| Due to related parties                            | 211,892,939        | –                  | –                    | 211,892,939          |
| Accrued interests, expenses and other liabilities | –                  | 169,316,764        | –                    | 169,316,764          |
|   | <b>294,019,087</b> | <b>207,443,792</b> | <b>–</b>             | <b>501,462,879</b>   |
| Financial assets:                                 |                    |                    |                      |                      |
| Cash  | 2,635,006          | –                  | –                    | 2,635,006            |
| Receivables                                       | 973,093            | 688,303            | –                    | 1,661,396            |
| Due from related parties                          | 7,113,930          | –                  | –                    | 7,113,930            |
| Long-outstanding trade receivables                | –                  | –                  | 1,381,525,501        | 1,381,525,501        |
| Refundable security deposits                      | –                  | –                  | 1,395,169            | 1,395,169            |
| AFS investments                                   | –                  | –                  | 510,948              | 510,948              |
|   | <b>10,722,029</b>  | <b>688,303</b>     | <b>1,383,431,618</b> | <b>1,394,841,950</b> |

\*Excluding non-refundable deposits and advance rentals of P1,439,794 and P1,331,834 as at June 30, 2015 and 2014, respectively.

## 26.04 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.

As at June 30, 2015 and 2014, the capital structure of the Company consists of the following:

|  | 2015                 | 2014                 |
|--|----------------------|----------------------|
| Paid-up capital  | 2,224,255,313        | 2,224,255,313        |
| Revaluation surplus  | 6,006,000            | -                    |
| Due to related parties   | 208,687,113          | 211,892,939          |
| Deposit for subscription in accordance with the court-approved rehabilitation plan | 8,841,736,581        | 8,841,736,581        |
| Deficit  | (11,628,997,734)     | (11,570,367,271)     |
|  | <b>(348,312,727)</b> | <b>(292,482,438)</b> |

## 27. FAIR VALUE MEASUREMENTS

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:

|   | Carrying Value     | Fair Value   |   |   | Total              |
|---|--------------------|--|---|---|--------------------|
|   |                    | Quoted (Unadjusted) Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |                    |
| <b>2015</b>                                       |                    |  |   |   |                    |
| <i>Financial Assets</i>                           |                    |  |   |   |                    |
| Cash  | 1,969,374          | -  | -                                       | 1,969,374                                 | 1,969,374          |
| Receivables - net                                 | 649,374            | -  | -                                       | 649,374                                   | 649,374            |
| Due from related parties                          | 8,722,242          | -  | -                                       | 8,722,242                                 | 8,722,242          |
| Refundable security deposits                      | 1,395,165          | -  | -                                       | 1,395,165                                 | 1,395,165          |
| AFS investments                                   | 479,484            | 479,484  | -                                       | -   | 479,484            |
|   | <b>13,215,639</b>  | <b>479,484</b>   | <b>-</b>                                | <b>12,736,155</b>                         | <b>13,215,639</b>  |
| <i>Financial Liabilities</i>                      |                    |  |   |   |                    |
| Trade and other payables*                         | 117,163,121        | -  | -                                       | 117,163,121                               | 117,163,121        |
| Due to related parties                            | 208,687,113        | -  | -                                       | 208,687,113                               | 208,687,113        |
| Accrued interests, expenses and other liabilities | 196,604,688        | -  | -                                       | 196,604,688                               | 196,604,688        |
|   | <b>522,454,922</b> | <b>-</b>   | <b>-</b>                                | <b>522,454,922</b>                        | <b>522,454,922</b> |

|   | Carrying Value     | Fair Value   |   |   | Total              |
|---|--------------------|--|---|---|--------------------|
|   |                    | Quoted (Unadjusted) Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |                    |
| <b>2014</b>                                       |                    |  |   |   |                    |
| <i>Financial Assets</i>                           |                    |  |   |   |                    |
| Cash  | 2,635,006          | –  | –                                       | 2,635,006                                 | 2,635,006          |
| Receivables - net                                 | 755,740            | –  | –                                       | 755,740                                   | 755,740            |
| Due from related parties                          | 7,113,930          | –  | –                                       | 7,113,930                                 | 7,113,930          |
| Refundable security deposits                      | 1,395,169          | –  | –                                       | 1,395,169                                 | 1,395,169          |
| AFS investments                                   | 510,948            | 510,948  | –                                       | –   | 510,948            |
|   | <b>12,410,793</b>  | <b>510,948</b>   | <b>–</b>                                | <b>11,899,845</b>                         | <b>12,410,793</b>  |
| <i>Financial Liabilities</i>                      |                    |  |   |   |                    |
| Trade and other payables*                         | 120,253,176        | –  | –                                       | 120,253,176                               | 120,253,176        |
| Due to related parties                            | 211,892,939        | –  | –                                       | 211,892,939                               | 211,892,939        |
| Accrued interests, expenses and other liabilities | 169,316,764        | –  | –                                       | 169,316,764                               | 169,316,764        |
|   | <b>501,462,879</b> | <b>–</b>   | <b>–</b>                                | <b>501,462,879</b>                        | <b>501,462,879</b> |

\*Excluding non-refundable deposits and advance rentals of P1,439,794 and P1,331,834 as at June 30, 2015 and 2014, respectively.

The Company has no financial liabilities measured at fair value as at June 30, 2015 and 2014. There are no transfers between fair value measurements in 2015 and 2014.

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:

#### Cash, Receivables and Trade and Other Payables

The carrying values of these financial assets and liabilities approximate their fair values due to the relatively short-term maturities of these financial assets and liabilities.

#### Refundable Security Deposits

The difference between the fair value of refundable security deposit and its carrying amount is insignificant thus this is carried at its carrying amount.

#### AFS Investments

The fair values of quoted AFS investments is determined by reference to quoted market bid prices at the close of business on the reporting date.

## 28. EVENTS AFTER THE REPORTING PERIOD

As discussed in Note 1 in the financial statements, the following are the material events after June 30, 2015:

- July 21, 2016, the Company was granted an extension of its franchise for another 25 years.
- 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.
- June 13, 2017, the RETELCOM Group filed a Motion for Reconsideration in relation to the CA Decision dated May 19, 2017.
- August 25, 2017, Sale and transfer agreement entered into by RETELCOM and MENLO
- August 29, 2017, the Company requested for the lifting of the voluntary suspension of the trading of its shares with the PSE.
- September 7, 2017, the PSE responded to the Company's request dated August 29, 2017.

- October 10, 2017, the RETELCOM Group filed a consolidated reply on their Motion for Reconsideration dated June 13, 2017.
- October 11, 2017, the CA denied the Motion for Reconsideration.
- December 4, 2017, the RETELCOM Group filed petition for certiorari before the Supreme Court (SC) requesting the SC to review the CA Decision.
- February 20, 2018, the 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.
- 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. June 4, 2018, the Company filed a Motion for Reconsideration arguing that the SC erred in dismissing for the same was actually filed on December 4, 2017.
- 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. The Company replied to show cause letters on April 26, 2018.
- 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 SRC, as amended. The Company's registration statement was suspended and shall be lifted only upon full compliance with necessary requirements.
- June 14, 2018, the Company paid the monetary penalties assessed by the MSRD.
- June 20, 2018, one of the creditors who filed the petition before the CA served a Manifestation with Motion to Suspend.
- July 11, 2018, the SC granted the Company's Motion for Reconsideration and reinstated the Company's appeal assailing the decision of the CA.
- 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.
- 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.
- 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.
- October 3, 2018, the Company submitted the required documents and reports in full compliance of the Order dated June 5, 2018.
- October 9, 2018, the Company has filed the amendment of Article 7 of the Amended Articles of Incorporation with the SEC.
- October 31, 2018, the SEC approved the increase in authorized capital stock, pending issuance of share certificates to the creditors, Amended Articles of Incorporation and Amended By-laws.

- November 7, 2018, the Selection Committee disqualified the Company in the third Telco Bidding. 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.
- 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 Company's Motion for Reconsideration.
- November 16, 2018, the Company filed a Petition for Certiorari with the SC to assail the decision of the Selection Committee in disqualifying the Company in the selection for the New Major Player in the Philippine Telecommunications Market.
- December 12, 2018, the Amended Petition for Certiorari was filed with the SC. The amendments intend to supplement and further strengthen the arguments previously raised in the Petition for Certiorari filed last November 16, 2018.
- December 21, 2018, the Company received an Order from Rehab Court denying the opposition and motions for reconsideration filed by the creditors of the Company.

In the same Order, the Rehab Court confirmed that the Company substantially complied with the conditions and declared that the Company is now out of rehabilitation and its exit is no longer conditional.

As of May 6, 2019, there are no other significant events that may require adjustments or disclosure in the financial statements.

## 29. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS 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 paid or accrued during the year. The Company also reported and/or paid the following types of taxes for the year:

### 29.01 Output Value-Added Tax (VAT)

The Company is a VAT-registered company with output VAT declaration of ₱5,345,242 for the year based on the amount reflected in the Revenues Account of ₱44,543,684.

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.

### 29.02 Input VAT

The amount of VAT input taxes claimed are broken down into:

|  | <b>2015</b>        |
|--|--------------------|
| Beginning of the year                                | —                  |
| Current year's purchases:                            |                    |
| Domestic purchases of goods other than capital goods | <b>2,418,992</b>   |
| Claims for tax credit/refund and other adjustments   | <b>(2,418,992)</b> |
| Balance at the end of the year                       | —                  |

### 29.03 Documentary Stamp Tax

The Company do not have any documentary stamp tax for the year ended June 30, 2015.

29.04 Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees.

Details consist of the following:

|                     | <u>2015</u>      |
|---------------------|------------------|
| Operating expenses: |                  |
| Real property tax   | 1,294,702        |
| License and permits | 804,227          |
| Others              | 422,654          |
|                     | <u>2,521,583</u> |

Others includes payments to PSE for listing fee, LTO licenses and clearance, insurance and other clearances from barangay and municipalities.

29.05 Withholding Taxes

Details of withholding taxes for the year are as follows:

|                                   | <u>2015</u>      |
|-----------------------------------|------------------|
| Withholding taxes on compensation | 1,200,087        |
| Expanded withholding taxes        | 2,128,646        |
|                                   | <u>3,328,733</u> |

29.06 Others

There were no deficiency tax assessment and cases nor litigation and/or prosecution in courts or bodies outside the BIR as at June 30, 2015.

# Alas Oplas & Co., CPAs

## REPORT ON THE ADDITIONAL COMPONENTS OF FINANCIAL STATEMENTS UNDER SECURITIES REGULATION CODE RULE 68, AS AMENDED (2011)

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 years ended June 30, 2015 and 2014, in accordance with Philippine Standards on Auditing, on which we have rendered the attached report dated May 6, 2019.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The following schedules are presented for purposes of compliance with the requirements under Securities Regulation Code Rule 68, As Amended (2011), and are not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards:

1. Schedule showing financial soundness;
2. A map showing the relationship between and among the Company and its ultimate parent company, middle parent and its co-subsidiaries.
3. Schedule of effective standards and interpretations under the PFRS as at June 30, 2015; and
4. Supplementary Schedules Required by Annex 68-E

Such supplementary information are the responsibility of the management of **PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

### **ALAS, OPLAS & CO., CPAs**

BOA Registration No. 0190, valid from January 1, 2017 to December 31, 2019  
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:



**DANILO T. ALAS**

Partner

CPA License No. 0027120

SEC A.N. (Individual) 1529-AR-1, issued on February 7, 2019; effective until February 6, 2022

TIN 132-466-021-000

BIR A.N. 08-001026-001-2018, issued on January 25, 2018; effective until January 24, 2021

PTR No. 7333597, issued on January 3, 2019, Makati City

May 6, 2019  
Makati City, Philippines

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION  
INDEX TO FINANCIAL STATEMENTS AND  
SUPPLEMENTARY SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2015**

Financial Statements:

- Statement of Management's Responsibility for Financial Statements
- Independent Auditor's Report
- Statements of Financial Position
- Statements of Loss
- Statements of Comprehensive Income (Loss)
- Statements of Changes in Capital Deficiency
- Statements of Cash Flows
- Notes to Financial Statements

Supplementary Schedules:

- Independent Auditor's Report on Supplementary Schedules
- Schedule I - Reconciliation of Retained Earnings Available for Declaration\*
- Schedule II - Schedule Showing Financial Soundness
- Schedule III - A Map Showing the Relationship Between and Among the Company and its Ultimate Parent Company, Middle Parent and its co-Subsidiaries
- Schedule IV - Schedule of Effective Standards and Interpretations
- Schedule V - Supplementary Schedules Required under Annex 68-E
  - Schedule A: Financial Assets\*
  - Schedule B: Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)\*
  - Schedule C: Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
  - Schedule D: Intangible Assets - Other Assets\*
  - Schedule E: Long-term debt\*
  - Schedule F: Indebtedness to Related Parties (Long-Term Loans from Related Companies)\*
  - Schedule G: Guarantees of Securities of Other Issuers\*
  - Schedule H: Capital Stock

\*These schedules, which are required by 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.

**SCHEDULE I**  
**RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**

**As of June 30, 2015**

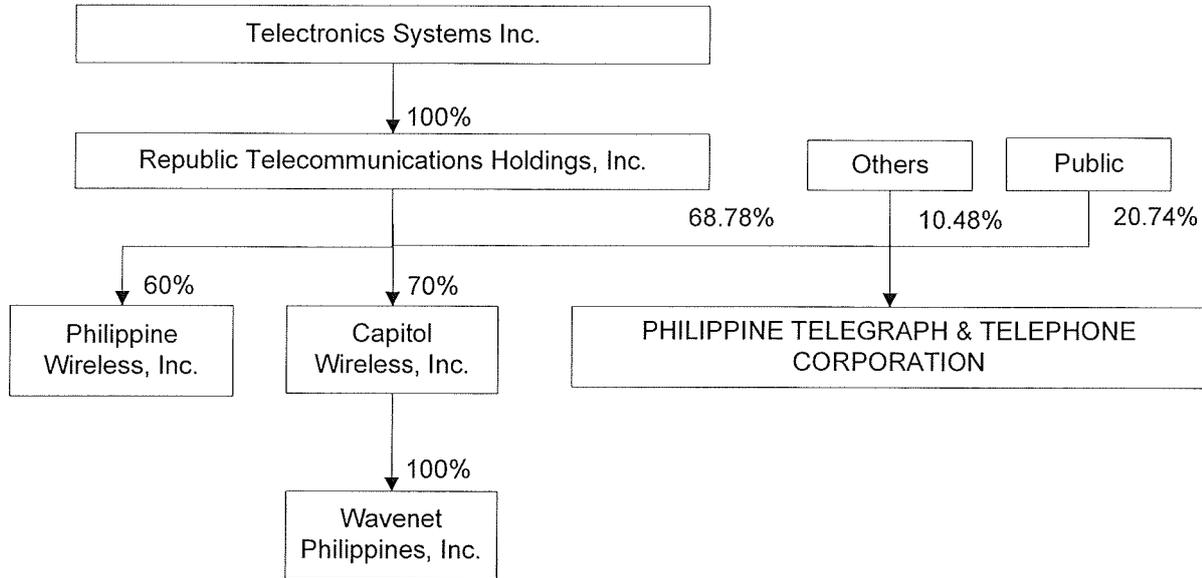
**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**Spirit of Communications Center, 106 C. Palanca Street, Legaspi Village, Makati**  
**City**

|                       |
|-----------------------|
| <b>NOT APPLICABLE</b> |
|-----------------------|

**SCHEDULE II**  
**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**SCHEDULE SHOWING FINANCIAL SOUNDNESS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**

|                                  | As at June 30 |           |
|----------------------------------|---------------|-----------|
|                                  | 2015          | 2014      |
| <b>Liquidity Ratio:</b>          |               |           |
| Current ratio                    | 0.02:1        | 0.02:1    |
| Quick ratio                      | 0.002:1       | 0.003:1   |
| <b>Solvency Ratio:</b>           |               |           |
| Debt ratio / Debt to asset ratio | 16.95:1       | 16.39:1   |
| Debt to equity ratio             | (1.06):1      | (1.06):1  |
| Asset to equity ratio            | (0.06):1      | (0.06):1  |
| <b>Interest Coverage Ratio:</b>  | (2.06):1      | (2.93):1  |
| <b>Profitability Ratios:</b>     |               |           |
| Return on assets                 | (9.95%)       | (13.76%)  |
| Return on equity                 | 0.62%         | 0.89%     |
| Gross profit margin              | (70.92%)      | (163.13%) |
| <b>Activity Ratio:</b>           |               |           |
| Asset turnover                   | 0.010:1       | 0.06:1    |

**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 SRC RULE 68, AS AMENDED**  
**As at June 30, 2015**



**SCHEDULE IV**  
**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**TABULAR SCHEDULE OF ALL EFFECTIVE STANDARDS AND**  
**INTERPRETATIONS PURSUANT TO SRC RULE 68, AS AMENDED**  
**JUNE 30, 2015**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at June 30, 2015   |   | Adopted | Not Adopted | Not Applicable |
|---|---|---------|-------------|----------------|
| <b>Framework for the Preparation and Presentation of Financial Statements</b><br>Conceptual Framework Phase A: Objectives and qualitative characteristics |   | ✓       |             |                |
| <b>PFRSs Practice Statement Management Commentary</b>   |   | ✓       |             |                |
| <b>Philippine Financial Reporting Standards</b>   |   |         |             |                |
| <b>PFRS 1 (Revised)</b>   | First-time Adoption of Philippine Financial Reporting Standards | ✓       |             |                |
| <b>PFRS 2</b>   | Share-based Payment   |         |             | ✓              |
| <b>PFRS 3 (Revised)</b>   | Business Combinations   |         |             | ✓              |
| <b>PFRS 4</b>   | Insurance Contracts   |         |             | ✓              |
| <b>PFRS 5</b>   | Non-current Assets Held for Sale and Discontinued Operations    |         |             | ✓              |
| <b>PFRS 6</b>   | Exploration for and Evaluation of Mineral Resources             |         |             | ✓              |
| <b>PFRS 7</b>   | Financial Instruments: Disclosures                              | ✓       |             |                |
| <b>PFRS 8</b>   | Operating Segments  | ✓       |             |                |
| <b>PFRS 10</b>  | Financial Statements  | ✓       |             |                |
| <b>PFRS 11</b>  | Joint Arrangements  |         |             | ✓              |
| <b>PFRS 12</b>  | Disclosure of Interests in Other Entities                       |         |             | ✓              |
| <b>PFRS 13</b>  | Fair Value Measurement  | ✓       |             |                |
| <b>PFRS 14</b>  | Regulatory Deferral Accounts                                    |         |             | ✓              |
| <b>Philippine Accounting Standards</b>  |   |         |             |                |
| <b>PAS 1 (Revised)</b>  | Presentation of Financial Statements                            | ✓       |             |                |
| <b>PAS 2</b>  | Inventories   |         |             | ✓              |
| <b>PAS 7</b>  | Statement of Cash Flows   | ✓       |             |                |
| <b>PAS 8</b>  | Accounting Policies, Changes in Accounting Estimates and Errors | ✓       |             |                |
| <b>PAS 10</b>   | Events after the Reporting Period                               | ✓       |             |                |
| <b>PAS 11</b>   | Construction Contracts  |         |             | ✓              |
| <b>PAS 12</b>   | Income Taxes  | ✓       |             |                |
| <b>PAS 16</b>   | Property, Plant and Equipment                                   | ✓       |             |                |
| <b>PAS 17</b>   | Leases  | ✓       |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS<br>AND INTERPRETATIONS<br>Effective as at June 30, 2015 |  | Adopted | Not<br>Adopted | Not<br>Applicable |
|--|--|---------|----------------|-------------------|
| PAS 18   | Revenue  | ✓       |                |                   |
| PAS 19<br>(Amended)  | Employee Benefits  | ✓       |                |                   |
| PAS 20   | Accounting for Government Grants and<br>Disclosure of Government Assistance                                |         |                | ✓                 |
| PAS 21   | The Effects of Changes in Foreign Exchange<br>Rates  | ✓       |                |                   |
| PAS 23<br>(Revised)  | Borrowing Costs  |         |                | ✓                 |
| PAS 24<br>(Revised)  | Related Party Disclosures  | ✓       |                |                   |
| PAS 26   | Accounting and Reporting by Retirement Benefit<br>Plans  |         |                | ✓                 |
| PAS 27<br>(Revised)  | Consolidated and Separate Financial Statements   |         |                | ✓                 |
| PAS 28<br>(Amended)  | Investments in Associates and Joint Ventures   |         |                | ✓                 |
| PAS 29   | Financial Reporting in Hyperinflationary<br>Economies  |         |                | ✓                 |
| PAS 32   | Financial Instruments: Disclosure and<br>Presentation  | ✓       |                |                   |
| PAS 33   | Earnings per Share   | ✓       |                |                   |
| PAS 34   | Interim Financial Reporting  |         |                | ✓                 |
| PAS 36   | Impairment of Assets   | ✓       |                |                   |
| PAS 37   | Provisions, Contingent Liabilities and Contingent<br>Assets  | ✓       |                |                   |
| PAS 38   | Intangible Assets  |         |                | ✓                 |
| PAS 39   | Financial Instruments: Recognition and<br>Measurement  | ✓       |                |                   |
| PAS 40   | Investment Property  | ✓       |                |                   |
| PAS 41   | Agriculture  |         |                | ✓                 |
| <b>Philippine Interpretations</b>  |  |         |                |                   |
| IFRIC 1  | Changes in Existing Decommissioning,<br>Restoration and Similar Liabilities                                |         |                | ✓                 |
| IFRIC 2  | Members' Share in Co-operative Entities and<br>Similar Instruments   |         |                | ✓                 |
| IFRIC 4  | <i>Determining Whether an Arrangement Contains<br/>a Lease</i>   | ✓       |                |                   |
| IFRIC 5  | Rights to Interests arising from<br>Decommissioning, Restoration and<br>Environmental Rehabilitation Funds |         |                | ✓                 |
| IFRIC 6  | <i>Liabilities arising from Participating in a Specific<br/>Market - Waste Electrical and Electronic</i>   |         |                | ✓                 |

| PHILIPPINE FINANCIAL REPORTING STANDARDS<br>AND INTERPRETATIONS<br>Effective as at June 30, 2015 |  | Adopted | Not<br>Adopted | Not<br>Applicable |
|--|--|---------|----------------|-------------------|
|  | <i>Equipment</i>   |         |                |                   |
| <b>IFRIC 7</b>   | <i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i> |         |                | ✓                 |
| <b>IFRIC 9</b>   | Reassessment of Embedded Derivatives   |         |                | ✓                 |
| <b>IFRIC 10</b>  | <i>Interim Financial Reporting and Impairment</i>  |         |                | ✓                 |
| <b>IFRIC 12</b>  | Service Concession Arrangements  |         |                | ✓                 |
| <b>IFRIC 13</b>  | Customer Loyalty Programmes  |         |                | ✓                 |
| <b>IFRIC 14<br/>(Amended)</b>  | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction                 | ✓       |                |                   |
| <b>IFRIC 15</b>  | Agreements for the Construction of Real Estate   |         |                | ✓                 |
| <b>IFRIC 16</b>  | Hedges of a Net Investment in a Foreign Operation  |         |                | ✓                 |
| <b>IFRIC 17</b>  | Distributions of Non-cash Assets to Owners   |         |                | ✓                 |
| <b>IFRIC 18</b>  | Transfers of Assets from Customers   |         |                | ✓                 |
| <b>IFRIC 19</b>  | Extinguishing Financial Liabilities with Equity Instruments  | ✓       |                |                   |
| <b>IFRIC 20</b>  | Stripping Costs in the Production Phase of a Surface Mine  |         |                | ✓                 |
| <b>IFRIC 21</b>  | Levies   |         |                | ✓                 |
| <b>SIC-7</b>   | Introduction of the Euro   |         |                | ✓                 |
| <b>SIC-10</b>  | Government Assistance - No Specific Relation to Operating Activities                                     |         |                | ✓                 |
| <b>SIC-15</b>  | Operating Leases – Incentives  |         |                | ✓                 |
| <b>SIC-25</b>  | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders                                |         |                | ✓                 |
| <b>SIC-27</b>  | Evaluating the Substance of Transactions Involving the Legal Form of a Lease                             |         |                | ✓                 |
| <b>SIC-29</b>  | Service Concession Arrangements: Disclosures   |         |                | ✓                 |
| <b>SIC-31</b>  | Revenue - Barter Transactions Involving Advertising Services   |         |                | ✓                 |
| <b>SIC-32</b>  | Intangible Assets - Web Site Costs   |         |                | ✓                 |

**SCHEDULE V**  
**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**SCHEDULE A**  
**FINANCIAL ASSETS**  
**JUNE 30, 2015**

| 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)

JUNE 30, 2015

| Name and Designation<br>of debtor | Balance at beginning<br>of period | Additions | Amounts collected | Amounts written off | Current | Not Current | Balance at end<br>of period |
|-----------------------------------|-----------------------------------|-----------|-------------------|---------------------|---------|-------------|-----------------------------|
|-----------------------------------|-----------------------------------|-----------|-------------------|---------------------|---------|-------------|-----------------------------|

**NOT APPLICABLE**

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**SCHEDULE C**  
**AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING CONSOLIDATION**  
**JUNE 30, 2015**

| Name and Designation of Debtor | Balance at<br>beginning of<br>period | Additions | Amounts<br>collected | Amounts<br>written off | Current | Not Current | Balance at<br>end of period |
|--------------------------------|--------------------------------------|-----------|----------------------|------------------------|---------|-------------|-----------------------------|
|--------------------------------|--------------------------------------|-----------|----------------------|------------------------|---------|-------------|-----------------------------|

**NOT APPLICABLE**

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**SCHEDULE D**  
**INTANGIBLE ASSETS - OTHER ASSETS**  
**JUNE 30, 2015**

| Description | Beginning<br>balance | Additions<br>at Cost | Charged to<br>cost and<br>expenses | Charged to<br>other accounts | Other changes<br>additions<br>(deductions) | Ending<br>balance |
|-------------|----------------------|----------------------|------------------------------------|------------------------------|--|-------------------|
|-------------|----------------------|----------------------|------------------------------------|------------------------------|--|-------------------|

**NOT APPLICABLE**

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**SCHEDULE E**  
**LONG TERM DEBT**  
**JUNE 30, 2015**

| Title of Issue and type of obligation | Amount authorized by indenture | Amount shown under caption "Current portion of long-term debt" | Amount shown caption "Long-term Debt" |
|---------------------------------------|--------------------------------|--|---------------------------------------|
|---------------------------------------|--------------------------------|--|---------------------------------------|

**NOT APPLICABLE**

PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION  
SCHEDULE F  
INDEBTEDNESS TO RELATED PARTIES (LONG - TERM LOANS FROM RELATED COMPANIES)  
JUNE 30, 2015

| Name of the Related Party | Balance at beginning of period | Balance at end of period |
|---------------------------|--------------------------------|--------------------------|
|---------------------------|--------------------------------|--------------------------|

**NOT APPLICABLE**

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**SCHEDULE G**  
**GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
**JUNE 30, 2015**

| Name of the issuing entity of securities guaranteed<br>by the company for which the statement is filed | Title of issue of each class of<br>securities guaranteed | Total amount guaranteed<br>and outstanding | Amount owned by person for<br>which statement is lifted | Nature of guarantee |
|--|--|--|---|---------------------|
|--|--|--|---|---------------------|

**NOT APPLICABLE**

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**SCHEDULE H**  
**CAPITAL STOCK**  
**JUNE 30, 2015**

| 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               | 1,156,665,417   | -  | 916,665,607                              | 139,118                           | 239,860,692 |

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION (PT&T)**  
**INDEX TO EXHIBITS**  
**FORM 17-A**

| <u>No.</u>  |  | <u>Page No.</u> |
|-------------|--|-----------------|
| <b>(3)</b>  | Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession          | *               |
| <b>(5)</b>  | Instruments Defining the Rights of Security Holders, including Indentures            | *               |
| <b>(8)</b>  | Voting Trust Agreement   | *               |
| <b>(9)</b>  | Material Contracts   | *               |
| <b>(10)</b> | Annual Report to Security Holders, Form 17-Q or Quarterly Report to Security Holders | *               |
| <b>(13)</b> | Letter re: Change in Certifying Accountant   | *               |
| <b>(16)</b> | Report Furnished to Security Holders   | *               |
| <b>(18)</b> | Subsidiaries of the Registrant   | *               |
| <b>(19)</b> | Published Report Regarding Matters submitted to Vote of Security Holders             | *               |
| <b>(20)</b> | Consent of Experts and Independent Counsel   | *               |
| <b>(21)</b> | Power of Attorney  | *               |
| <b>(29)</b> | Additional Exhibits  | *               |

\* These Exhibits are either not applicable to the Company or require no answer.