

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



**PHILIPPINE TELEGRAPH AND 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**

(Fiscal Year Ending)  
(month & day)

**Form 17-Q**

Form Type

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

**September 30, 2017**

Period Ended Date

\_\_\_\_\_  
(Secondary License Type and File No.)

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION  
CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended September 30, 2017
2. Commission Identification Number 21817      3. BIR Tax Identification No. 470-000-530-631

4. Philippine Telegraph and Telephone Corp. (PT&T)

Exact name of registrant as specified in its charter:

5. Metro Manila, Philippines      6.  (SEC Use Only)  
Province, Country or other jurisdiction of      Industry Classification Code:  
incorporation or organization

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

Registrant's telephone number, including area code

N/A

9. Former name, former address, and former fiscal year, if changed since last report.

9. Securities registered pursuant to Sections 8 and 12 of the Code, or 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common stock	PhP1.00 par value 799,998,728 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:

PSE      Common stock

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 90 days.

Yes []      No [  ]

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION (PT&T)**  
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## PART I – FINANCIAL INFORMATION

### Item 1: Financial Statements.

The financial statements are filed as part of this SEC Form 17-Q.

#### BALANCE SHEET

(In Thousand Pesos)

	Sept. 30, 2017 (Interim-Unaudited)	June 30, 2017 AUDITED	Variance	%
<b>ASSETS</b>				
Current Assets				
Cash	6,321	4,887	1,434	29%
Accounts receivable, net of Allow. for Doubtful Accts.	55,100	51,259	3,841	7%
Other current assets	18,038	15,670	2,368	15%
<b>Total Current Assets</b>	<b>79,459</b>	<b>71,816</b>	<b>7,643</b>	<b>11%</b>
Property, Plant and Equipment - net				
Deferred Income Tax	442,345	447,865	(5,520)	-1%
Other Assets	235,795	235,795	-	0%
<b>Total Noncurrent Assets</b>	<b>686,106</b>	<b>687,645</b>	<b>(1,539)</b>	<b>-0.22%</b>
<b>TOTAL ASSETS</b>	<b>765,565</b>	<b>759,461</b>	<b>6,104</b>	<b>1%</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities</b>				
Trade and Other payables	381,086	357,126	(23,960)	-7%
Statutory Obligations	505,581	512,094	6,513	1%
Accrued Interest, expenses and other liabilities	239,203	243,920	4,717	2%
<b>Total Current Liabilities</b>	<b>1,125,870</b>	<b>1,113,140</b>	<b>(12,730)</b>	<b>-1%</b>
<b>Non Current Liabilities</b>				
Deposit for subscription in accordance with the court-approved rehabilitation plan	8,711,737	8,711,737	-	0%
Retirement benefits liability	118,940	133,610	14,670	11%
Deferred income tax liability	45,114	45,114	-	0%
<b>Total Non Current Liabilities</b>	<b>8,875,791</b>	<b>8,890,461</b>	<b>14,670</b>	<b>0.17%</b>
<b>Total Liabilities</b>	<b>10,001,661</b>	<b>10,003,601</b>	<b>1,940</b>	<b>0.02%</b>
<b>Equity</b>				
Capital Stock				
Common Stock	1,979,254	1,979,254	-	0%
Preferred Stock	75,000	75,000	-	0%
Revaluation Surplus	102,102	102,102	-	0%
Accumulated actuarial gain (loss) on retirement benefits	3,163	3,163	-	0%
Unrealized valuation loss on AFS investments	(192)	(192)	-	0%
Deficit	(11,395,423)	(11,403,467)	8,044	0%
<b>Total Equity</b>	<b>(9,236,096)</b>	<b>(9,244,140)</b>	<b>8,044</b>	<b>0%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>765,565</b>	<b>759,461</b>	<b>(4,686)</b>	<b>-1%</b>

**STATEMENT OF INCOME & RETAINED EARNINGS**

(In Php thousands, Except Loss Per Share)

	<b>For the Three (3 ) Months Ended</b>	
	<b>Sept. 30, 2017</b>	<b>Sept. 30, 2016</b>
<b>OPERATING REVENUES</b>	41,762	30,218
<b>COSTS AND EXPENSES</b>		
Operations	22,175	19,432
Provisions for doubtful accounts		
<b>EBITDA</b>	19,587	10,786
Depreciation and amortization	4,568	7,851
<b>INCOME (LOSS) FROM OPERATIONS</b>	15,019	2,935
<b>OTHER CHARGES</b>		
Others	6,975	7,128
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	8,044	(4,193)
PROVISION FOR INCOME TAX		
<b>NET INCOME (LOSS)</b>	8,044	(4,193)
Deficit, Beginning	11,403,467	11,376,561
<b>DEFICIT, ENDING</b>	<b>11,395,423</b>	<b>11,380,754</b>
Income (Loss) Per Share		
The loss per share amounts were computed as follows:		
Net Income (Loss)	8,044	(4,193)
Add: Cumulative dividends on preferred shares	-	-
	8,044	(4,193)
Divided by:		
Weighted average number of common shares issued and outstanding	1,329,999	1,329,999
<b>INCOME (LOSS) PER SHARE</b>		
Basic	0.0060	(0.0032)

STATEMENT OF CHANGES IN EQUITY  
(In Php thousands)

	Common Stock	Revaluation Surplus	Deficit	Total
Balance as of June 30, 2017	2,054,254	102,102	(11,400,496)	(9,244,140)
Net income for the month			3,173	3,173
Balance as of July 31, 2017	2,054,254	102,102	(11,397,323)	(9,240,967)
Net income for the month			1,364	1,364
Balance as of August 30, 2017	2,054,254	102,102	(11,395,959)	(9,239,603)
Net income for the month			3,507	3,507
Balance as of September 30, 2017	2,054,254	102,102	(11,392,452)	(9,236,096)

	Common Stock	Revaluation Surplus	Deficit	Total
Balance as of June 30, 2016	2,054,254	30,030	(11,376,981)	(9,292,697)
Net loss for the month			(772)	(772)
Balance as of July 31, 2016	2,054,254	30,030	(11,377,753)	(9,293,469)
Net loss for the month			(1,897)	(1,897)
Balance as of August 30, 2016	2,054,254	30,030	(11,379,650)	(9,295,366)
Net loss for the month			(1,524)	(1,524)
Balance as of September 30, 2016	2,054,254	30,030	(11,381,174)	(9,296,890)

\*Deficit includes Accumulated actuarial gain(loss) on retirement benefits of P3,163 and Unrealized valuation loss on AFS investments of (P192) on June 30, 2017.

**STATEMENT OF CASH FLOWS**  
AS OF SEPTEMBER 30, 2017 AND 2016  
(In Php thousands)

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>NET INCOME (LOSS)</b>	8,044	(4,193)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	4,568	7,852
Other Charges	6,975	7,128
<b>EBITDA</b>	<b>19,587</b>	<b>10,787</b>
<b>Changes in operating assets and liabilities:</b>		
Increase in current asset		
Accounts Receivable	(3,841)	(2,463)
Other Current Assets	(2,368)	(2,641)
Deposits and other assets	(3,981)	(230)
<b>Increase (Decrease) in current liabilities</b>		
Trade and Accounts Payable	16,986	(2,422)
Statutory obligations	(6,513)	39,695
Accrued Interest, expenses and other liabilities	(4,717)	(36,345)
Non current Liabilities	(14,671)	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>482</b>	<b>6,381</b>
<b>CASH FLOWS FROM OPERATING INVESTING ACTIVITIES:</b>		
(Increase) (decrease) in Property, Plant and Equipment & Others (net)	952	(1,841)
<b>NET INCREASE IN CASH</b>	<b>1,434</b>	<b>4,540</b>
CASH BALANCE, Beginning	4,887	2,461
<b>CASH BALANCE, Ending</b>	<b>6,321</b>	<b>7,001</b>

**AGING SCHEDULE OF ACCOUNTS RECEIVABLE - TRADE**

AS OF SEPTEMBER 30, 2017

(In Php thousands)

SERVICES	CURRENT TO 30 DAYS	31 TO 60 DAYS	61 TO 90 DAYS	OVER 91 DAYS	TOTAL
TRADE RECEIVABLES	958	383	15	447	1,803
LESS : PROVISIONS	125				125
<b>NET RECEIVABLES</b>					<b>1,678</b>
Other Receivables					53,422
<b>RECEIVABLES, net of Allow. For Doubtful Accounts</b>					<b>55,100</b>

**PHILIPPINE TELEGRAPH AND TELEPHONE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(UNAUDITED)**

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**1. General**

**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 30 September 2017, the Company is 72.85%-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 Philippine Telegraph & Telephone Corporation (PT&T) to Establish, Install, Maintain and Operate Wire and/or Wireless Telecommunications Systems, Lines, Circuits and Stations Throughout the Philippines for Public Domestic and International Communications under Republic Act No. 4161, as Amended.

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

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

CPCN to establish, operate and maintain international gateway facilities to/from foreign countries as authorized under NTC Case Nos. 93-144 and 94-022.

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

#### 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.

#### ***Status of Operations and Management Plans***

The economic slowdown resulting from the decline of the Philippine peso vis-à-vis the U.S. dollar beginning in 1997, the intra corporate litigation in the Company in 1998 which resulted in the non-realization of the planned capital infusion into the three operating companies, increasing competitive pressure among industry players, technology changes in particular the growing preference for short messaging services, and deregulation have all contributed to decreased margins in the fixed line telecommunications industry and market shift to mobile phones. These, in turn, severely affected the Group’s ability to settle their respective maturing obligations.

Consequently, 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 Petition). 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 Regional Trial Court (RTC) – Makati City, Branch 66 (the Rehab Court). Subsequently, the Rehab Court issued an order on August 24, 2009 (the Stay Order) staying claims against the Retelcom Group and appointing a rehabilitation receiver (the Rehab Receiver).

The Company received on April 06, 2011 the immediately executory Order dated April 01, 2011 of the Rehab Court (the Rehab Order) approving subject to certain modifications in accordance with Section 22 Rule 3 A.M. 00-08-10-SC, the proposed Rehab Plan (the Rehab Plan). However, certain creditors filed before the Court of Appeals (CA) a Petition for Review with Prayer for Temporary Restraining Order and/or Writ of Preliminary Injunction. The CA granted on May 19, 2017 the review of a consolidated Petitions of the aforesaid creditors and subsequently reversed, set-aside and dismissed the Rehab Order, whereupon the RETELCOM Group filed a Motion for Reconsideration (MR) of the aforesaid CA Decision. The case is now pending resolution by the CA.

Nevertheless, the RETELCOM Group is implementing the Rehab Order. At the start of the rehabilitation, the RETELCOM Group particularly, PT&T, operated at a significantly reduced level. For optimum cost-benefit impact, PT&T has ceased operations of its legacy business and instead concentrated on providing internet and data-related services in Metro-Manila and in selected major cities of Regions III and IV. The Company is currently focused on broadband internet access services as a result of the growth of wireless/systems and the rise of broadband internet demand and has seen a turn around toward positive EBITDA performance in fiscal year 2015.

PT&T has not been able to submit its audited financial statements to the SEC since fiscal year ending June 30, 2004 pending resolution of certain issues raised by the company's independent auditor to PT&T management.. In a letter dated October 28, 2004, its independent auditor informed PT&T management that the completion of its audit depends on the resolution of three pending items as follows: (i) ongoing negotiations with the creditors; (ii) ongoing with prospective investors for new funding; and (iii) manner of settlement of liabilities with government entities. As a result of the non-completion of the audit, PT&T was not able to submit to the SEC and the PSE the required reports based on the audited financial statements.

As a consequence, PT&T requested SEC for temporary exemptive relief in complying with the submission of annual reports, thereby precluding the holding of its annual stockholders' meeting, and the PSE for a voluntary suspension in the trading of its shares. As mentioned above, PT&T however, continues to file with the SEC-their prescribed quarterly and periodic informational reports and with the PSE their required disclosure statements, as well as the annual fiscal year income tax return based on interim un-audited financial statements with the Bureau of Internal Revenue (BIR). The abovesaid reports to the SEC and PSE are in addition to the quarterly rehabilitation report submitted to the Rehab Receiver and Rehab Court in compliance to the Rehab Order.

In the next 12 months, the Company will aggressively work towards exiting from rehabilitation. The Company is currently serving Metro Manila and the nearby CALABARZON area and will continue to expand in Region III and IV-A. In addition, the Company will implement its plans in building a nationwide backbone in the next 2 years. The Company will also participate in the bidding and selection for the New Major Player in the Public Telecommunications Market ("3<sup>rd</sup> Telco Bidding") of the Department of Information and Communications Technology which is in line with the Company's aspiration to be a nationwide mobile and digital services provider.

While current operations are sufficiently funded by internally-generated cash flows, capital expenditures and one-off expenses related to the approved Rehabilitation Plan and the resulting statutory obligations needs to be funded by advances from shareholders. Expansion into new areas, increasing capacity and new businesses to be undertaken in the next 12 months will also require raising capital through debts and equity.

The Company will also be offering additional services in line with its core Broadband/Fiber Business. These additional services will include information technology and telecommunications services. Broadband and corporate data products will be updated as may be necessary given market developments, availability of new technology or feedback from customers. Assuming plans on the fiber transmission backbone pushes through, the Company could potentially launch a wholesale bandwidth business.

The Company is considering the sale of some of its properties located in different areas in the Philippines. The proceeds of the sale of these selected properties will be used to settle the Company's statutory obligations and to fund the operational requirements of the Company.

Currently, the Company has a total of 89 employees and the Company projects that the said number will further increase by the end of fiscal year 2018.

## **2. Summary of Significant Accounting Policies**

### 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.

#### 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.

#### Changes in Accounting Policies and Disclosures

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 Interpretation s Committee (IFRIC) and improvements to PFRS which were adopted as at July 1, 2016. The adoption of these amendments did not have any significant impact on the Company's financial statements.

- 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'*

### 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, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRS - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendment is not applicable to the Company since it has no interest in other entity.

- Amendment to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 financial statements of the Company.

- Amendment to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the resources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

The amendment is not expected to have any impact to the Company.

#### *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*

*Deferred effectivity*

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

## Summary of Significant Accounting Policies

### 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).

### 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.

#### *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 September 30, 2017 and 2016, 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 September 30, 2017 and 2016.

### *Subsequent Measurement*

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

#### *Loans and Receivables*

These 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.

Loans and receivables are included in current assets if maturity is within 12 months from the end of the reporting period. Otherwise, these are classified as non-current assets.

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 September 30, 2017 and 2016.

#### *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. 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.

Loans and borrowings are classified as current when these are expected to be settled within 12 months after the end of the reporting period and if the Company has an unconditional right to defer settlement for at least 12 months from the end of the reporting period. Otherwise, these are classified as non-current liabilities.

The Company's loans and borrowings include trade and other payables, accrued expenses and other liabilities as at September 30, 2017 and 2016.

#### 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.

#### 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.

### 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.

### Fair Value Measurement

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.

#### 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 12 months and are classified as current assets.

#### 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.

### *Depreciation*

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

<b>Type of Asset</b>		<b>Estimated Useful Life in Years</b>
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 cease when the assets are fully depreciated, or at the earlier of the period that the item is classified as held for sale (or included in the disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the period the item is derecognized.

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

### Investment Properties

Investment properties of the Company pertains to various land held for lease or held for capital appreciation. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment properties at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at cost less any impairment in value.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the statements of 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.

#### 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 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.

#### Impairment of Nonfinancial Assets

##### *Other Current Assets*

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

#### Provisions

##### *General*

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.

##### *Retirement Benefits Costs*

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit 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.

Defined benefit costs comprise the following:

- service cost
- net interest on the net defined benefit liability or asset
- remeasurements of net defined benefit 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 defined benefit liability or asset is the change during the period in the net defined benefit 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 defined benefit liability or asset. Net interest on the net defined benefit 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 defined benefit liability) are recognized immediately in other comprehensive income in the period in which these arise. Remeasurements are not reclassified to

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

#### Equity (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.

#### 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.

#### Earnings (Loss) Per Share

##### *Basic*

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

##### *Diluted*

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

#### 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.

#### 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.

## 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.

## 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 of 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.

## 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.

### 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.

### **3. Other Matters**

#### **Key Performance Indicators**

The Company assessed its performance based on the following key performance indicators:

	<u>3 months ended</u>		
	<u>Sept. 2017</u>	<u>Sept. 2016</u>	<u>% CHANGE</u>
REVENUE (in PhP Thousands)	41,762	30,218	38%
EBITDA (In PhP Thousands) <sup>1</sup>	19,587	10,786	82%
EBITDA Margin <sup>1</sup>	47%	36%	
Net Income (Loss), In PhP Thousands	8,044	(4,193)	-292%
Earnings Per Share	0.0060	(0.0032)	-292%
Cash flow provided by operating activities (In PhP Thousands)	482	6,381	-92%

<sup>1</sup> EBITDA is defined as Earnings Before Interest, Taxes, Depreciation, Amortization and Other Income/Charges. EBITDA is computed by deducting costs and expenses (excluding Depreciation and Amortization) from net operating revenues. EBITDA Margin is calculated by dividing EBITDA over net operating revenues.

#### **Seasonality or cyclicity of interim operations**

The revenues of the Company that are received seasonally, cyclically or occasionally within financial year, if any were not anticipated or deferred as of an interim date, hence, such revenues are recognized when they occur.

#### **The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents**

The Company has no items considered unusual because of their nature, size, or incidents that will affect assets, liabilities, equity, net income or cash flows for the period except as already disclosed in Financial Position section of this report.

#### **Issuances, repurchases, and repayments of debt and equity securities**

The Company did not issue, repurchase and repay any debts and equity securities during the period under review.

#### **Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period**

There are no material events subsequent to the end of the interim period that has not been reflected in the financial statements for the interim period.

## **Item 2: Management's Discussion and Analysis of Financial condition and Results of Operation**

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, 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&2 and Notes to Financial Statements.

*The financial information appearing in this report and in the accompanying financial statements is stated in Philippine pesos. Translation into Philippine peso amounts into U.S. dollar in this report and in the accompanying financial statements were based on the exchange rate of P50.80 vis-à-vis U.S.\$1.00, the average exchange rate of the U.S. dollar at September 30, 2017.*

### Revenue Performance

The Company for its 1<sup>st</sup> quarter ending 30 September 2017, reported total operating revenues of PhP 41.8 million, or an improvement of 38% as compared to the previous year's same quarter revenue of PhP 30.2 million. The Company ended the quarter with 702 data services circuits, notably broadband connections which is a key performance indicator or an increase of 76% over the same quarter of the previous year. For the three (3) months ending 30 September 2017, broadband reached a 42% increase in sales performance as compared to the same period last year. Activities for the broadband group included street level saturations on major nodes and account management of existing subscribers. Additional sales personnel were hired during the period.

Another key performance indicator known as monthly recurring revenue (MRR) per each data service circuit was steady at about PhP 20,000 per circuit despite being diluted by the almost two-fold increase in the number of data circuits. The details of the revenue performance are shown below:

OPERATING REVENUES - Net  
(In Php thousands)

	FOR THE THREE (3) MONTHS ENDED SEPT 30			
	2017	2016	VAR	%
Broadband	38,464	27,069	11,395	42%
Rental Income/Others	3,298	3,149	149	5%
	41,762	30,218	11,544	38%

Cost and Expenses

Operating cost and expenses increased at a lower rate of 14%, from PhP 19.4 million to PhP 22.2 million compared to the revenue growth. The following table shows the Company's comparative total costs and expenses for the three (3) months ended 30 September 2017 and 30 September 2016:

**COSTS & EXPENSES**

(In Php thousands)

	FOR THE THREE (3) MONTHS ENDED SEPT 30			
	2017	2016	VAR	%
Operating Expenses				
Staff Related Expenses	11,963	10,170	(1,793)	-18%
Premises related Expenses	4,433	3,773	(660)	-17%
Other Operations Expenses	5,779	5,489	(290)	-5%
<b>TOTAL COST &amp; EXPENSES</b>	<b>22,175</b>	<b>19,432</b>	<b>(2,743)</b>	<b>-14%</b>
Depreciation & amortization	4,568	7,851	3,283	42%

EBITDA and Profitability Performance

As seen in the above tabulation, the Company's personnel related expense as of 30 September 2017 amounted to PhP 11.9 million compared to last year's level of PhP10.2 million for an increase of PhP1.8 million due to additional manpower. On the other hand, premises related expenses amounting to PhP 4.4 million is slightly higher by PhP660 thousand compared to the same period last year of PhP3.8 million. Finally, the Company's operations related expenses amounted to PhP5.8 million is slightly higher compared to the same period last year of PhP5.5 million principally brought about by increase in leased channel expenses.

Thus, with a higher revenue growth vis-à-vis a relatively lower increase in operating expenses, the Company was able to show a significant increase in EBITDA performance for the 1<sup>st</sup> quarter ending September 30, 2017 compared to the comparative previous quarter, from PhP10.8 million to PhP19.6 million, or a 82% improvement, another key performance indicator. The EBITDA margin is computed at a relatively healthy level of 47%.

**EBITDA PERFORMANCE**  
(In PhP Thousands)

	FOR THE THREE(3) MONTHS ENDED SEPT. 30			
	2017	2016	VAR	%
<b>Revenues</b>	41,762	30,218	11,544	38%
<b>Cost and Expenses</b>	22,175	19,432	(2,743)	-14%
<b>EBITDA</b>	<b>19,587</b>	<b>10,786</b>	<b>8,801</b>	<b>82%</b>
<b>EBITDA MARGIN</b>	<b>47%</b>	<b>36%</b>		

In terms of profitability as a key performance indicator, the Company had a complete turn-around towards net income from recorded losses of PhP4.2 million in the comparative previous quarter to a net income of PhP8.0 million as of 30 September 2017. The net income was attained despite additional expenses like the recognition of the legal interest rate of 6% p.a. on unsettled obligations as directed by the Rehabilitation Court. Moreover, the Company has accelerated already the depreciation of property, plant and equipment in the previous fiscal year thereby significantly reducing the current depreciation charges as shown in the quarterly financial statements as of 30 September 2017 which contributed to the positive profit performance.

Operating Cash Flows

Consequently, the healthy financial performance enabled the Company to continuously generate internal cash flows, ending with a cash balance of PhP 6.3 million cash as of 30 September 2017 which is 29% higher of the beginning cash balance for fiscal year 2018.

## Financial Condition - Balance Sheet Accounts

The highlights of the Company's Balance Sheet Accounts as of the interim period ending 30 September 2017 as compared to 2017 fiscal year's audited financial data (ending 30 June 2017) are shown below:

### BALANCE SHEET

(In Thousand Pesos)

	Sept. 30, 2017 (Interim-Unaudited)	June 30, 2017 AUDITED	Variance	%
<b>ASSETS</b>				
Current Assets				
Cash	6,321	4,887	1,434	29%
Accounts receivable, net of Allow. for Doubtful Accts.	55,100	51,259	3,841	7%
Other current assets	18,038	15,670	2,368	15%
<b>Total Current Assets</b>	<b>79,459</b>	<b>71,816</b>	<b>7,643</b>	<b>11%</b>
Property, Plant and Equipment - net				
Deferred Income Tax	442,345	447,865	(5,520)	-1%
Other Assets	235,795	235,795	-	0%
<b>Total Noncurrent Assets</b>	<b>686,106</b>	<b>687,645</b>	<b>(1,539)</b>	<b>-0.22%</b>
<b>TOTAL ASSETS</b>	<b>765,565</b>	<b>759,461</b>	<b>6,104</b>	<b>1%</b>
<b>LIABILITIES AND EQUITY</b>				
Current Liabilities				
Trade and Other payables	381,086	357,126	(23,960)	-7%
Statutory Obligations	505,581	512,094	6,513	1%
Accrued Interest, expenses and other liabilities	239,203	243,920	4,717	2%
<b>Total Current Liabilities</b>	<b>1,125,870</b>	<b>1,113,140</b>	<b>(12,730)</b>	<b>-1%</b>
Non Current Liabilities				
Deposit for subscription in accordance with the court-approved rehabilitation plan			-	
	8,711,737	8,711,737	-	0%
Retirement benefits liability	118,940	133,610	14,670	11%
Deferred income tax liability	45,114	45,114	-	0%
<b>Total Non Current Liabilities</b>	<b>8,875,791</b>	<b>8,890,461</b>	<b>14,670</b>	<b>0.17%</b>
<b>Total Liabilities</b>	<b>10,001,661</b>	<b>10,003,601</b>	<b>1,940</b>	<b>0.02%</b>
Equity				
Capital Stock				
Common Stock	1,979,254	1,979,254	-	0%
Preferred Stock	75,000	75,000	-	0%
Revaluation Surplus	102,102	102,102	-	0%
Accumulated actuarial gain (loss) on retirement benefits	3,163	3,163	-	0%
Unrealized valuation loss on AFS investments	(192)	(192)	-	0%
Deficit	(11,395,423)	(11,403,467)	8,044	-0.07%
<b>Total Equity</b>	<b>(9,236,096)</b>	<b>(9,244,140)</b>	<b>8,044</b>	<b>0%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>765,565</b>	<b>759,461</b>	<b>(4,686)</b>	<b>-1%</b>

In terms of financial condition, the Company's Total Assets amounted to PhP 765.5 million as of 30 September 2017. Cash of PhP 6.3 million as of 30 September 2017 increased by P1.4 million or 29% as compared to 30 June 2017. Accounts Receivable of PhP 55.1 million as of 30 September 2017 increased by PhP 3.8 million or 7% as compared to 30 June 2017 due to increase in revenue and other non-trade receivables.

Other current assets increased by PhP2.4 million or 15% as of 30 September 2017. A major component of other current assets are the creditable withholding taxes that can be claimed as credit against future tax liabilities. Other components include various prepayments such as prepaid rents, including usage of poles of other utility companies, deferred input tax and other prepayments like health maintenance, business permits and Philippine Stock Exchange listing fees all of which shall be expensed once consumed.

Property, plant and equipment of PhP 442.3 million as of 30 September 2017 decreased by P5.5 million or 1% as compared to 30 June 2017 essentially due to depreciation charges.

Trade and other payables increased by PhP23.9 million or 7% as of 30 September 2017, principally brought about by increase in trade transactions. Also included in this account are customer's deposits.

Non-current liabilities include retirement benefits which was established in the amount of PhP 133.6 million based on the latest actuarial valuation report as of 30 June 2017. As of 30 September 2017, the liability has decreased by PhP14.7 million as a result of payments to the retirement of certain executives when the new shareholders stepped in last August 2017 thereby having an ending retirement benefits liability amounting to PhP118.9 million.

Total deficit remained in the level of PhP 11.4 billion since the net income generation of PhP 8.0 million for the 1<sup>st</sup> quarter ending 30 September 2017 was relatively marginal. Thus, the total equity remained at the same level of negative PhP9.2 billion which can be reduced significantly upon the proper balance sheet treatment of the debt-to-equity conversion.

The debt-to-equity conversion is seen as the Deposit for Subscription of PhP 8.7 billion in accordance with the court-approved rehabilitation plan. However, the external auditors recommended that the appropriate presentation of this Deposit for Subscription is under non-current liabilities pending approval by the Securities and Exchange Commission on the increase in authorized capital stock.

Current ratio as of 30 September 2017 is at 0.07:1 as compared to 30 June 2017 of 0.06:1.

### Financial Risk Disclosure

The Company adopts an expanded corporate governance approach in managing its business risks. There is a systematic review of the risks and a better understanding of the different risks that could threaten the achievement of and to provide emphasis on how management and employee play a vital role in achieving the company's mission, vision, strategies and goals.

The policies are not intended to eliminate risk, but to manage it in such a way that opportunities to create value for the stakeholders are achieved. Risk management takes place in the context of the normal processes such as strategic planning, business planning, operational and support processes.

The risks are managed through the delegation of management and functional authority and individual accountability as documented in employment contracts, consultancy contracts, key result areas, terms of reference and other policies that provide guidelines for managing specific risks arising from the company's business operations and environment.

### Financial Risks

#### 1. Currency Risk

The company has no foreign denominated transactions/ accounts in the financial statements.

## 2. Interest Rate Risk

Under the approved rehabilitation program, the Rehabilitation Court ordered that the interest or unpaid principal obligations to the creditors as of August 2009 be fixed at 6% per annum.

## 3. Liquidity Risk

Under the rehabilitation program, except for the statutory obligations, all obligations are converted to redeemable preferred stock while statutory obligations shall be settled from the proceeds of the sale of the company's real estate assets.

## 4. Credit Risk

The Company assesses the business status of prospective customers before accepting post-paid arrangements. It also requires an adequate deposit and encourages substantial upfront payments in exchange for attractive discounts. Review of the adequacy of the provision is being made on a regular basis.

The aging of the receivables shows that the receivable as of 30 September 2017 of P55.1 million is adequately covered by the provisions.

## **OTHER EVENTS**

### **A.) Any known trends, demands, commitments, events, or uncertainties that will have a material impact on the issuer's liquidity**

The Management has no knowledge of any known trends, demands, commitments, events, or uncertainties that will have a material impact on the company's liquidity except as those disclosed in Tax Liabilities and Financial Position and other sections of this report and in SEC Form 17-A previously submitted.

### **B.) Any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures**

Other than the Clarification of News Reports submitted to PSE under Disclosure Form 4-13 and SEC Form 17-C dated October 12, 2017 wherein the company clarified its intention of regaining its status as a major telecommunications company, expanding its existing business across the country, and looking for strategic partnerships, the Management has no further knowledge of any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of the funds for such expenditures.

### **C.) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations**

Other than the explanation under item (B) above, the Management has no further knowledge of any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations, and except also as those further disclosed in Results of Operations section of this report and in SEC Form 17-A previously submitted.

### **D.) Any significant elements of income or loss that did not arise from the issuer's continuing operations**

The Management has no knowledge of any significant elements of income or loss that did not arise from the Company's continuing operations.

**E.) Any seasonal aspects that had a material effect on the financial condition or results of operations**

The Management has no knowledge of any seasonal aspect, events or uncertainties that will have a material impact on the Company's financial position or operation except as those disclosed in Financial Position and Results of Operations and other sections of this report and in SEC Form 17-A previously submitted.

**F.) Whether or not the Company is having or anticipates having within the next 12 months any cash flow or liquidity problem**

Please refer to Item G.

**G.) Whether or not the Company is in default or breach of any note, loan, lease or other indebtedness of financing arrangement requiring it to make payments**

Please refer to Part II – Other Information.

**H.) Whether or not a significant amount of the Company's trade payables have not been paid within the stated trade terms**

Please refer to Item G.

## **PART I – OTHER INFORMATION**

In accordance with the Rehab Order dated April 01, 2011, PT&T is undertaking the rehabilitation certain details of which are discussed below:

### **A. Full conversion to equity of all debts/liabilities not categorized as statutory obligations and DIP financing [item (i) of Order]:**

- (i) In accordance with the Rehab Order, the liabilities that have been settled by way of its conversion to serial redeemable preferred shares has been lodged as part of non-current liabilities representing “deposit for subscription in accordance with the court-approved rehabilitation” pending increase of the Company’s authorized capital stocks upon entry of the new investor. However, in instances wherein the amount of liabilities that were recognized in the rehabilitation are being challenged, the creditor-shareholders are being entertained for proper reconciliation of the numbers. Included in the ongoing review and reconciliation of obligations are the court-decided labor-related collection cases with judgment awards that differ from the liabilities presented and approved under the rehabilitation program.
- (ii) Pursuant to the Rehab Order, the statutory obligations may be settled out of proceeds of the liberated escrow accounts and/or recovered advances and deposits or garnished accounts or the sale of Petitioners’ properties [items (f) and (g) of the Rehab Order]: In this regard, the Rehab Court had an initial hearing on October 23, 2015 of the RETELCOM Group’s 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 file by the secured creditors, notably Asset Pool A.

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.

### **B. Disclosures and Clarifications submitted to SEC and PSE during the quarterly period covered by this Report**

The following are the disclosures and clarifications submitted to SEC and PSE using the required disclosures forms:

- (i) Disclosures under SEC Form 17-C and PSE Disclosures Form 4-8 – Change in Directors and/or Officers dated August 17, 2017 regarding Resignation and appointment of 3 incumbent Directors and Corporate Secretary;
- (ii) Disclosures under SEC Form 17-C and PSE Disclosure Form 4-30 – Material Information/Transactions dated August 25, 2017 regarding Sale and Transfer of Shares of PT&T Stocks in Favor of Menlo Capital Corporation;
- (iii) Disclosures under SEC Form 17-C dated August 29, regarding Election of the Chairman of the Board and Corporate Officers and Resignation and Replacement of Directors;
- (iv) Disclosures under SEC Form 17-C and PSE Disclosure Form 4-13 – Clarification of News Reports dated August 29, 2017 regarding Clarification of PTT news articles as follows; “PT&T wants to resume trading” posted in Manila Standard (Internet Edition) on August 28, 2017 and (Zamora-Bitanga Group acquires 70% of PT&T) posted in Philstar.com on August 27, 2017;

- (v) Disclosures under SEC Form 17-C and PSE Disclosure Form 4-5 dated August 30, 2017 regarding Sale of 559,995,728 PT&T Common Shares by Republic Telecommunications Holdings Inc. to Menlo Capital Corporation;
- (vi) Disclosures under SEC Form 17-C dated August 31, 2017 submitting PSE Disclosures Form 4-32 – Reply to Exchange’s Query regarding LIFTING OF SUSPENSION OF TRADING OF PT&T’S 800,000,000 SHARES attaching thereto copy of PT&T letter to the PSE dated August 29, 2017 with subject; Lifting of Suspension of Trading;
- (vii) Disclosures under SEC Form 17-C and PSE Form 4-32 – Reply to Exchange’s Query dated September 14, 2017 regarding REQUEST FOR LIFTING OF TRADING SUSPENSION AND COMPLIANCE WITH PSE REQUIREMENTS;
- (viii) Disclosures under SEC Form 17-C and PSE Form 4-32 – Reply to Exchange’s Query dated September 22, 2017 regarding CHANGE IN CONTROL OF OWNERSHIP with accompanying PT&T clarificatory letter to PSE dated September 21, 2017 with subjects; CHANGE IN CONTROL OF ISSUER.; and
- (ix) Disclosures under SEC Form 17-C dated September 20, 2017 regarding Postponement of PT&T’s Annual Stockholders’ meeting to be held on October 27, 2017.

## SIGNATURES

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

Signature and Title:



**KENNETH JOEY H. MACEREN**  
Corporate Secretary



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

Date: September 24, 2018