

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, 2013**  
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, 2013
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<br/>and Amount of Debt Outstanding</u> |
|----------------------------|--|
| Common stock               | Php1.00 par value 1,500,000,000 shares   |

11. Are any or all of these securities listed on a Philippine Stock Exchange?  
Yes [x] 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 [x]

(b) has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

**PHILIPPINE TELEGRAPH AND TELEPHONE CORP. (PT&T)**  
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## **PART I - FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
For the quarter ended: September 30, 2013  
**INTERIM CONDENSED FINANCIAL STATEMENTS**

**PHILIPPINE TELEGRAPH & TELEPHONE CORP.**  
**Statement of Financial Position**  
(In Thousand pesos)

|   | <u>Interim unaudited</u>  | <u>Audited</u>       |
|---|---------------------------|----------------------|
|   | <u>As of</u>              | <u>As of</u>         |
|   | <u>September 30, 2013</u> | <u>June 30, 2013</u> |
| <b>ASSETS</b>                                   |                           |                      |
| <b>Current Assets</b>                           |                           |                      |
| Cash  | 404                       | 1,195                |
| Accounts receivables - net                      | 8,203                     | 6,325                |
| Other current assets                            | 10,596                    | 10,567               |
| <b>Total Current Assets</b>                     | <b>19,203</b>             | <b>18,087</b>        |
| <b>Non-current Assets</b>                       |                           |                      |
| Property, plant and equipment - net             | 364,185                   | 368,828              |
| Investment Properties                           | 235,795                   | 235,795              |
| Other non-current assets                        | 3,095                     | 2,250                |
| <b>Total Non-current Assets</b>                 | <b>603,074</b>            | <b>606,873</b>       |
| <b>TOTAL ASSETS</b>                             | <b>622,278</b>            | <b>624,960</b>       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>     |                           |                      |
| <b>Current Liabilities</b>                      |                           |                      |
| Trade and other payables                        | 118,115                   | 123,689              |
| Statutory obligations                           | 483,919                   | 499,292              |
| Accrued expenses and other liabilities          | 173,310                   | 136,743              |
| Due to related parties                          | 203,863                   | 205,750              |
| <b>Total Current Liabilities</b>                | <b>979,206</b>            | <b>965,474</b>       |
| <b>Non-current Liabilities</b>                  |                           |                      |
| Deposit for future stock subscription           | 8,841,737                 | 8,841,737            |
| Retirement benefits liability                   | 80,320                    | 80,320               |
| <b>Total Non-current Liabilities</b>            | <b>8,922,057</b>          | <b>8,922,057</b>     |
| <b>Total Liabilities</b>                        | <b>9,901,263</b>          | <b>9,887,531</b>     |
| <b>Capital Deficiency</b>                       |                           |                      |
| Paid-up capital                                 | 2,224,255                 | 2,224,255            |
| Unrealized valuation loss on AFS investments    | 3                         | 3                    |
| Deficit   | (11,503,243)              | (11,486,829)         |
| <b>Total Capital Deficiency</b>                 | <b>(9,278,985)</b>        | <b>(9,262,571)</b>   |
| <b>TOTAL LIABILITIES AND CAPITAL DEFICIENCY</b> | <b>622,278</b>            | <b>624,960</b>       |

**PHILIPPINE TELEGRAPH & TELEPHONE CORP.**  
**STATEMENT OF INCOME (LOSS)**

(In thousand pesos except per share data)

|  | <u>Interim unaudited</u><br>For the three-month<br>period ending<br>September 2013 | <u>Interim unaudited</u><br>For the three-month<br>period ending<br>September 2012 |
|--|--|--|
| <b>REVENUES</b>                            | 10,024   | 5,164  |
| <b>COSTS AND EXPENSES</b>                  |  |  |
| Personnel costs                            | 6,084  | 6,045  |
| Depreciation and amortization              | 4,947  | 4,947  |
| Utilities and supplies                     | 1,325  | 1,163  |
| Rent                                       | 1,059  | 1,223  |
| Marketing and commission                   | 1,119  | 198  |
| Professional and other contracted services | 533  | 518  |
| Taxes and licenses                         | 2,101  | 3,717  |
| Outside services                           | 683  | 623  |
| Representation and entertainment           | 115  | 95   |
| Others                                     | 360  | 1,174  |
|  | <b>18,326</b>  | <b>19,703</b>  |
| <b>OTHER INCOME (CHARGES)</b>              |  |  |
| Interest expense, net of revenue           | (8,112)  | (6,941)  |
|  | <b>(8,112)</b>   | <b>(6,941)</b>   |
| <b>LOSS BEFORE INCOME TAX</b>              | <b>(16,414)</b>  | <b>(21,480)</b>  |
| <b>INCOME TAX</b>                          | -  | -  |
| <b>NET LOSS</b>                            | <b>(16,414)</b>  | <b>(21,480)</b>  |
| <b>WEIGHTED AVERAGE COMMON STOCK</b>       | 1,500,000  | 1,500,000  |
| <b>INCOME (LOSS) PER SHARE</b>             |  |  |
| Basic                                      | (0.01)   | (0.01)   |
| Diluted                                    | (0.01)   | (0.01)   |

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**Statement of Comprehensive Income**  
(In thousand pesos)

|  | <u>Interim unaudited</u><br>For the three-month<br>period ending<br>September 30, 2013 | <u>Interim unaudited</u><br>For the three-month<br>period ending<br>September 30, 2012 |
|--|--|--|
| <b>NET LOSS</b>                              | (16,414)   | (21,480)   |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>     |  |  |
| Unrealized valuation gain on AFS investments | -  | -  |
|  | -  | -  |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>     | <b>(16,414)</b>  | <b>(21,480)</b>  |

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**Statement of Changes in Equity**  
(In thousand pesos)

|   | <b>Common Stock</b> | <b>Unrealized<br/>Valuation Loss on<br/>AFS Investments</b> | <b>Deficit</b>      | <b>Total</b>       |
|---|---------------------|---|---------------------|--------------------|
| Balance as of June 30, 2013   | 2,224,255           | 3   | (11,486,829)        | (9,262,571)        |
| Net Loss for the three-month period   |                     |   | (16,414)            | (16,414)           |
| Comprehensive income (loss) for the three-month period ending<br>September 30, 2013 |                     |   | -                   | -                  |
| <b>Balance as of September 30, 2013</b>   | <b>2,224,255</b>    | <b>3</b>  | <b>(11,503,243)</b> | <b>(9,278,985)</b> |
| Balance as of June 30, 2012   | 2,224,255           | (46)  | (11,407,148)        | (9,182,939)        |
| Net Income for the three-month period   |                     |   | (21,480)            | (21,480)           |
| Comprehensive income (loss) for the three-month period ending<br>September 30, 2012 |                     |   | -                   | -                  |
| <b>Balance as of September 30, 2012</b>   | <b>2,224,255</b>    | <b>(46)</b>   | <b>(11,428,628)</b> | <b>(9,204,419)</b> |

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**  
**Statement of Cash Flows**  
(In thousand pesos)

|  | <u>Interim unaudited</u><br>For the three-month<br>period ending<br>September 30, 2013 | <u>Interim unaudited</u><br>For the three-month<br>period ending<br>September 30, 2012 |
|--|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                    |  |  |
| Loss before income tax   | (16,414)   | (21,480)   |
| Adjustments for:   |  |  |
| Depreciation and amortization                                  | 4,947  | 4,947  |
| Other charges  | 8,112  | 6,941  |
|  | <u>(3,355)</u>   | <u>(9,592)</u>   |
| Decrease (increase) in operating assets                        |  |  |
| Accounts receivables   | (1,878)  | 412  |
| Other current assets   | (30)   | 1,436  |
| Other non-current assets                                       | (845)  | (571)  |
| Increase (decrease) in current liabilities                     |  |  |
| Trade and accounts payable                                     | (5,574)  | (2,602)  |
| Statutory obligations  | (15,373)   | 326  |
| Accrued interest, expenses and other liabilities               | 28,455   | 9,145  |
| Other liabilities  | (1,887)  | 877  |
| <b>NET CASH PROVIDED (USED) FROM OPERATING ACTIVITIES</b>      | <u>(487)</u>   | <u>(569)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                    |  |  |
| Additions to property, plant and equipment & other fixed (net) | (304)  | (42)   |
| <b>NET CASH PROVIDED (USED) FROM INVESTING ACTIVITIES</b>      | <u>(304)</u>   | <u>(42)</u>  |
| <b>NET INCREASE IN CASH</b>                                    | (791)  | (611)  |
| <b>CASH BALANCE, Beginning</b>                                 | 1,195  | 2,564  |
| <b>CASH BALANCE, Ending</b>                                    | <u>404</u>   | <u>1,953</u>   |

**PHILIPPINE TELEGRAPH & TELEPHONE CORPORATION**

**Aging of Receivables**

(In thousand pesos)

| <b>SERVICES</b>   | <b>CURRENT TO<br/>30 DAYS</b> | <b>31 TO 60<br/>DAYS</b> | <b>61 TO 90<br/>DAYS</b> | <b>OVER 91<br/>DAYS</b> | <b>TOTAL</b> |
|---|-------------------------------|--------------------------|--------------------------|-------------------------|--------------|
| Trade Receivables   | 823                           | 408                      | 181                      | 1,154                   | 2,566        |
| Less: Allowance for doubtful accounts                         |                               |                          |                          |                         | 125          |
| <b>NET TRADE RECEIVABLES</b>                                  |                               |                          |                          |                         | <b>2,441</b> |
| Other Receivables   |                               |                          |                          |                         | 5,762        |
| <b>RECEIVABLES<br/>net of allowance for doubtful accounts</b> |                               |                          |                          |                         | <b>8,203</b> |

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

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**1. General**

**Incorporation:**

The Philippine Telegraph & Telephone Company (PT&T), is a diversified telecommunications entity catering to the corporate, small/medium business and residential segments across the nation. It was incorporated on November 14, 1962 and operates under the jurisdiction of National Telecommunications Commission (NTC).

The SEC on November 26, 2012, approved PT&T's amendment to Articles IV of its Amended Articles of Incorporation, thereby extending the company's corporate life for another 50 years.

**Legislative Franchise:**

On June 20, 1964, the Company was granted a 25-year national legislative franchise, Republic Act (R.A.) No. 4161 for telecommunications activities. An amendment to the franchise was made in 1967 under RA 5048 granting the Company, among others, equal privileges against any competing franchisee.

**Philippine Stock Exchange (PSE):**

PT&T is listed with PSE for the trading of the common shares but requested voluntary suspension of trading effective December 13, 2004.

As further discussed below, the Retelcom Group is undergoing rehabilitation under a court-appointed rehabilitation Receiver (the Rehab Receiver) pursuant to the Order dated April 01, 2011 (the Rehab Order) issued by the Regional Trial Court (RTC) Branch 66 of Makati City (the Rehab Court) under Case no. M-6853 entitled Petition for Rehabilitation and Suspension of Payments of the Retelcom Group of Companies.

**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 consisting of the Republic Telecommunications Holdings, Inc. (Parent Company) and its affiliates/subsidiaries PT&T, Philippine Wireless, Inc.(PWI) and Capitol Wireless, Inc. (CAPWIRE) and its 100%-owned subsidiary Wavenet Philippines, Inc. (WPI) 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 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).

The Retelcom Group continues to operate albeit 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. PWI has focused on its international short messaging service operations under the brand name "Textwise" with a lower manpower complement. CAPWIRE continues to maintain several clients for IP-based data services.

## 2. Summary of Significant Accounting Policies

### Basis of Preparation

The accompanying financial statements are prepared in conformity with the Philippine Financial Reporting Standards (PFRS) and under the historical cost convention, except for property and equipment as of June 30, 1998 which are carried at revalued amounts.

### Adoption of New and Revised Accounting Standards

The Company adopted the following new and revised accounting standards, which are based on revised IAS and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The new and revised accounting standards became effective for annual periods beginning on or after January 1, 2005. The Accounting Standards Council (ASC) has renamed the standards that it issues to correspond better to the issuances of IASB. Philippine Accounting Standard (PAS) correspond to adopted IAS, while PFRS correspond to adopted IFRS. Previously, standards issued by the ASC were designated as Statements of Financial Accounting Standards (SFAS).

- PAS 19/IAS 19, *Employees Benefits*, requires the use of the projected unit credit method in measuring retirement benefit expense and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It also requires a company to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity.
- PAS 21/IAS 21, *The Effects of Changes in Foreign Exchange Rates*, eliminates option to capitalize foreign exchange adjustments even under severe currency devaluation. It introduces the concept of functional currency and presentation currency; requires companies to determine their functional currency based on certain criteria, and to measure their results and financial position based on such functional currency. It also provides a simplified translation method (i.e., current rate method) for foreign operations, as well as translation of financial statements from functional currency into any presentation currency.
- PAS 32/IAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about an entity's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the entity, types of risks, associated with both recognized and unrecognized financial instruments (market risk, foreign exchange risk, price risk, credit risk, liquidity risk and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the entity's financial risk management policies and objectives. The standard also requires financial instruments to be classified as debt or equity in accordance with their substance and not their legal form.
- PAS 39/IAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for the recognition and measurement of the company's financial assets and financial liabilities. It requires a financial asset or a financial liability to be recognized initially at cost including related transaction costs. Subsequent to initial recognition, an entity should measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at amortized cost, except for liabilities designated as fair value through profit and loss and derivatives, which are subsequently measured at fair value.

PAS 39 also establishes the accounting and reporting standards requiring that every derivative instrument (including certain derivatives embedded in other contracts) be recorded in the balance sheets as either an asset or liability measured at its fair value. It requires that changes in the derivative's fair value be recognized currently in the statements of income unless specific hedges allow a derivative's gains and losses to offset related results on the hedged item in the statements of income, or deferred in the stockholders' equity as "Cumulative translation adjustment." It requires that an entity must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

Derivatives that are not designated and do not qualify as hedges are adjusted to fair value through income.

- PAS 40/IAS 40, *Investment Property*, establishes the accounting and reporting standards for investment property. Investment property is defined as property (land or a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. Under this standard, an entity is permitted to choose either the fair value model or cost model in the subsequent measurement of a qualifying investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires an investment property to be measured at cost less any accumulated depreciation and impairment losses.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party or by the end 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 sell.

### Revenue Recognition

Operating revenues consist of value of all services provided and are accounted for on the accrual basis. These are as follows:

#### Business Convergence (BCON)

PT&T has categorized its Business Convergence (BCON) into broadband service and the traditional bandwidth services, including local area network extension.

##### *Broadband Services:*

Broadband/Internet Based Services includes Internet Protocol-Virtual Private Network (IP-VPN), Digital Subscriber Lines (DSL) and wireless technology. These are designed to provide full high capacity connectivity solutions to specific wholesale market niche and the more expansive industry retail sector.

Broadband/Internet revenues are recognized based on contracted rates as the service is provided to the customers. Installation charges and other one-time fees associated with the installation are charged to capital expenditures.

##### *Traditional Bandwidth Services:*

Traditional Bandwidth Services include high speed point-to-point leased lines that are dedicated, on-line and protocol-transparent, communication links to facilitate service either voice, fax, data or video transmission. Revenues are recognized based on contracted rates as the service is provided to the customers.

### Cash

Cash includes cash on hand and in banks.

### Receivables and Allowance for Doubtful Accounts

Receivables are recognized and carried at billable amounts less allowance for doubtful accounts. An allowance for doubtful accounts is maintained at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is made by the Company on a continuous basis.

- Customers  
Substantially full allowance is provided for receivables from permanently and temporarily disconnected subscribers. Permanent and temporary disconnections are made after a series of

collection steps following nonpayment by subscribers. Such permanent and temporary disconnections generally occur within ninety days from due date. Additional provisions are made for other accounts specifically identified by the Company to be doubtful of collection.

### Inventories and Supplies

Inventories and supplies are valued at the lower of cost or net realizable value less allowance for inventory losses. Cost is determined using the first-in, first-out method. Net realizable value is the current replacement cost.

### Property and Equipment

Property and equipment are carried at revalued amounts as determined on June 30, 1998 by an independent firm of appraisers.

The net appraisal increment resulting from the revaluation was credited to the Revaluation Increment in Property account shown under stockholders' equity in the balance sheets. The amount of the revaluation increment absorbed through depreciation and impairment loss was transferred to the Deficit account in the balance sheets.

The initial cost of property and equipment comprises its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes interest, foreign exchange differentials and other financing charges on borrowed funds used to finance the acquisition of property and equipment to the extent incurred during the period of installation, provided the carrying amount of the related fixed asset does not exceed the lower of the replacement cost and the amount recoverable from the use or sale of the asset. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over their estimated useful lives or the term of the related lease, whichever is shorter. The average estimated useful lives of property and equipment are as follows:

| <u>Category</u>               | <u>Number of<br/>Years</u> |
|-------------------------------|----------------------------|
| Telecommunications equipment: |                            |
| Central office equipment      | 15-18                      |
| Cable and wire facilities     | 15                         |

The useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are sold or retired, their cost, accumulated depreciation and amortization and any impairment in value are eliminated from the accounts and any gain or loss resulting from their disposal is charged to current operations.

Projects under construction are transferred to the related property account when the construction or installation and related activities necessary to prepare the property for its intended use are complete and the property is ready for service.

Additional continuing disclosures on the Company's property and equipment are disclosed in SEC Form 17-A previously submitted.

### Impairment of Assets

Starting July 1, 2002, the carrying values of property and equipment and other non-current assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the assets is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are charged against the revaluation increment for revalued assets and in the statements of income for assets carried at cost.

### Investments

The Company's investment in its associate, Philippine Wireless, Inc. (PWI, 20% owned), is accounted for under the equity method. PWI is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company. The investment in PWI is carried in the balance sheets at cost plus post-acquisition changes in the Company's share in the net assets of PWI, less any impairment in value.

Other investments are carried at cost less allowance for any substantial and presumably permanent decline in their market value.

### Income Taxes

Deferred income tax is provided using the liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases. Deferred income tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which (a) those temporary differences are expected to be recovered or settled. A valuation allowance is provided for the portion of deferred income tax assets which is not expected to be realized in the future.

### Retirement Costs

Retirement costs are determined on an actuarial basis using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of covered employees.

### Foreign Currency Transactions

Foreign currency transactions are recorded in Philippine peso based on the exchange rates prevailing at the date of the transaction. Foreign currency-denominated assets and liabilities are translated into Philippine peso using the closing exchange rate prevailing at the balance sheet date. Exchange gains or losses arising from foreign currency transactions are credited or charged to current operations, except those considered as borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset which are capitalized as part of the cost of the related assets to the extent of their recoverable values.

### Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income or loss for the year attributable to common stockholders by the weighted average number of common shares issued during the year including fully paid but unissued shares as of the end of the year.

### Related Party Transactions

The Company, in its regular conduct of business, has engaged in transactions with affiliates, principally consisting of various telecommunication services.

### Tax Liabilities

On March 05, 2008, the Company filed for amnesty for non-withholding tax obligations covering the period until December 31, 2005.

### **3. Other Matters**

#### **Key Performance Indicators**

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

|                              | <u>Sep-13</u> | <u>Sep-12</u> | <u>% Change</u> |
|------------------------------|---------------|---------------|-----------------|
| REVENUES (in thousand pesos) | 10,024        | 5,164         | 94%             |
| EBITDA Margin                | -33%          | -186%         | 128%            |
| EBIT Margin                  | -432%         | -1007%        | 179%            |

- (1) 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.
- (2) EBIT is defined as Earnings Before Interest, Taxes and Other Income/Charges. EBIT is computed by deducting costs and expenses from net operating revenues. EBIT margin is calculated by dividing EBIT over net operating margin.

#### **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**

### **A. Management Discussion and Analysis**

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 except in the financial statement presentation of rental income and deferred income tax.

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 P43.86 vis-à-vis U.S.\$1.00, the average exchange rate of the U.S. dollar at September 30, 2013.

## FINANCIAL HIGHLIGHTS

| <b>Results of Operations</b><br><b>(In Philippine thousand pesos)</b>              | <b>Quarter ending</b><br><b>September 30, 2013</b> | <b>Quarter ending</b><br><b>September 30, 2012</b> |
|--|--|--|
| Revenues and income  | 10,024   | 5,164  |
| Operating expenses   | 13,379   | 14,756   |
| <b>Earnings before interest, taxes, depreciation<br/>and amortization (EBITDA)</b> | <b>(3,355)</b>                                     | <b>(9,592)</b>                                     |
| EBITDA Margin  | -33%   | -186%  |
| Depreciation   | 4,947  | 4,947  |
| Interest and other charges   | 8,112  | 6,941  |
| <b>Net Loss</b>  | <b>(16,414)</b>                                    | <b>(21,480)</b>                                    |

### **Revenue**

Net operating revenues of P10 million for three months ended September 30, 2013 increased by P4.8 million or 94% as compared to September 30, 2012 of P5.1 million substantially due to additional clients. The revenues consist of Broadband and Rental Services representing 81% and 19% respectively of the total revenue. Contributing to the increase in revenues were increase in circuit as well as ARPC (average revenue per circuit). Activities for the broadband group included street level saturations on major nodes and account management of existing subscribers. Sales force is focused mainly on the business market segment.

Rental Income/Other Income reached a 31% performance as compared to the same period last year

### **Costs and expenses**

Costs and expenses of P13.3 million for three months ended September 30, 2013 decreased by P1.3 million or 9% as compared to September 30, 2012 of P14.7 million because of the continuous cost reduction program.

### **Profitability Performance**

Despite the high revenue growth, the higher growth in expenses resulted in nearly an EBITDA neutral performance for the quarter ending September 30, 2013. Depreciation and amortization and other non-core expenses attributable to Court Rehabilitation Exit-related expenses accounted for P13 million versus a P12 million in the comparative quarter last year. The loss before taxes, depreciation and amortization margin is computed at 0%.

The Company's net loss for the quarter ending September 30, 2013 is at P16.4 million. Additional expenses such as recognition of the legal interest rate of 6% p.a. on unsettled obligations as directed by the Rehabilitation Court, the increases in operating expenses and increase in depreciation as the Company invests in more property and equipment to support the business affected the net income for the quarter.

## FINANCIAL CONDITION

| Financial Condition (In Philippine thousand pesos) | September 30, 2013 | June 30, 2013  |
|--|--------------------|----------------|
| Current Assets                                     | 19,203             | 18,087         |
| Non-current Assets                                 | 603,074            | 606,873        |
| <b>Total Assets</b>                                | <b>622,278</b>     | <b>624,960</b> |
| Current Liabilities                                | 979,206            | 965,474        |
| Non-current Liabilities                            | 8,922,057          | 8,922,057      |
| Total Liabilities                                  | 9,901,263          | 9,887,531      |
| Capital Deficiency                                 | (9,278,985)        | (9,262,571)    |
| <b>Total Liabilities and Capital</b>               | <b>622,278</b>     | <b>624,960</b> |

The Company's total assets amounted to ₱622 million as of September 30, 2013. Cash is at ₱404 thousand, a decreased by ₱791 thousand as compared to June 30, 2013. Accounts receivable of ₱8.2 million as of September 30, 2013 increased by ₱1.8 million or 29% as compared to June 30, 2013 due to increase in other non-trade receivables.

Trade and other payables increased by ₱13.7 million or 1% as of September 30, 2013. A major portion of this account is attributable to trade transactions with suppliers which resulting in a total trade payables of ₱118 million as of quarter end. Finally, the other payables are generally due to related parties which represent non-interest bearing, unsecured and short-term Philippine currency denominated financing and advances to support the Company's working capital requirements as part of the approved rehabilitation plan of the Company.

Total deficit is at ₱11.5 billion and the total capital stock deficiency is at ₱9.2 billion.

Current ratio as of 30 September 2013 is at 0.02:1 as compared to 30 June 2013 of 0.02:1.

### B.) Financial Risk Disclosure

#### General

Philippine Telegraph & Telephone Corp. (PT&T) 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 companies business operations and environment.

#### Financial Risk

1. Quarterly report submitted to the Rehab receiver. (Refer to Item 1 Other Events G)
2. Currency Risk  
The company has no foreign denominated transactions/ accounts in the financial statements.

3. Interest Rate Risk

Under the approved Rehabilitation program, the Rehab Court ordered that the interest with the creditors as of August 2009 be fixed at 6% per annum and subsequent obligations are at mutually agreed rate.

4. 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.

5. 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 (page 10) shows that the receivable as of September 30, 2013 of P2.4 million is adequately covered by provisions.

## C. 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***

The Management has no 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***

The Management has no 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 except as those 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 I- OTHER INFORMATION

### a) Disclosure made under SEC Form 17-C:

This is in compliance with SEC Form 17-C of the Securities Regulation Code and SRC Rule 17.2 c regarding current reporting. Other than the explanations presented in Items 1 & 2, Management has no knowledge of any current events, known facts, or existing uncertainties that will reasonably affect the decision of investors to buy or sell securities or will have a material impact on the Company's financial position and operation.

### b) Quarterly Rehabilitation Report:

Furthermore, In accordance with item (k) of the Order dated April 1, 2011 (the "Order") of Makati RTC Br. 66 (the "Rehab Court"), the Retelcom Group hereby submits to the rehabilitation receiver (the "Rehab Receiver") and the Rehab Court this quarterly report (three months ending June 30, 2013) regarding the implementation, execution and developments of the approved rehabilitation of the Retelcom Group of Companies:

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

As previously presented in its monthly reports to the Board of Directors, the Retelcom Group has held back any further releases of confirmation letters to the creditor-shareholders due to uncertainty of the addresses. Nevertheless, the review and reconciliation of obligations are ongoing. This is exemplified by a conclusion of a Compromise Agreement through the Mediation Office of the Court of Appeals pursuant to a contested judgment award issued by a lower court against Philippine Telegraph & Telephone Corp. (PT&T) under a 2004 collection case that was initiated by PNB General Insurance Company, Inc. (PNB-Gen).

Meanwhile, the Retelcom Group awaits the start of the litigation process at the Court of Appeals pursuant to the consolidated certiorari appeals from the rehabilitation Order by three (3) creditor-shareholders. Likewise, Capitol Wireless, Inc. (CWI) awaits the start of the procedural process for its liquidation pursuant to a lower court 2007 decision which has been sustained by the Court of Appeals and the Supreme Court despite the continuing opposition against said decision by the company.

#### **B. Settlement of statutory obligations out of proceeds of liberated escrow accounts and/or recovered advances and deposits or garnished accounts or sale of Petitioners' properties [items (f) and (g) of Order]:**

The Retelcom Group continues to entertain offers on the sale of real estate properties particularly its head office in Makati City (the Spirit of Communications Center also known as the SCC building). The group is aware of an apparent upswing in the real estate valuations within the vicinity. However, the offered prices by the potential buyers are below the group's expectation and that negotiations so far have not progressed to near acceptable levels that can be presented to the rehabilitation court already.

Pending conclusion of real estate sale transactions, the Retelcom Group continues to pursue the leasing or renting out of the unutilized or vacant premises in the ordinary course of business. In another coincident move, one of the lessees of the group's SCC property has provided financial support to enable PT&T, as the property owner, to comply with the updated provisions of the fire safety code which is also beneficial to the lessees/tenants of the SCC property.

#### **New Investor**

The Retelcom Group continues to entertain potential investors within the purview of the respective non-disclosure agreements. As previously reported, one of the negotiations has neared its end-stage but the Retelcom Group is still awaiting the potential investor's advice as to when the transaction can be concluded. Discussions with another investor group met a relatively tough obstacle and consequently has not progressed as of todate.

Nevertheless, the Retelcom Group continues to pursue business relationships at the operational level intended to restore viability with very minimal capital outlay by the Retelcom Group. PT&T concluded an agreement in the ordinary course of its business covering the lease of equipment that will upgrade the Metro Manila and selected Laguna nodes. This will significantly expand capacities thus enabling the Retelcom Group to generate more revenues.

As a creative approach to meet the financial obligations under the lease contract, the Retelcom Group has the option to settle the lease rentals through payment of its equivalent value, specifically the sharing of the new expanded capacity with the leasing company, without prejudice to the business operations of the Retelcom Group.

Furthermore, the Retelcom Group has entered into agreements with entities which can resell the group's telecom services in the ordinary course of business provided they support the financial requirements to connect the new clients/subscribers in terms of capital and/or incremental operational expenses. Under the agreement, the resellers' recovery are through preferential service rates and/or revenue sharing arrangements.

#### Other matters

This report is presented together with the Petitioner's interim-unaudited financial statements for the fiscal year ending June 30, 2013 (which is also the 4th quarter ending June 30, 2013), a copy of which is attached for reference.

On a consolidated basis, Retelcom and its Subsidiaries posted for the fiscal year ending June 30, 2013 total operating revenues from internet and data services of Php21million or an improvement of 17% compared to the previous fiscal year's operating revenues of Php18million.

Marketing and sales thrust for internet services continue to bear fruit. It has grown by 58% compared to the previous fiscal year's comparative period. However, revenues from datacom services dropped by 4%. Also, overall revenue growth are likewise pulled down by the legacy services.

Textwise continues to face strong competition from the major players while telegram services are being weaned out as a business. Revenues from these 2 legacy services dropped to Php3million or a reduction of 48% from previous level of Php6million.

Thus, total operating revenues as of June 30, 2013 finally showed a turnaround albeit at a minimal 17%, from Php19million in last fiscal year's comparative period to Php22million.

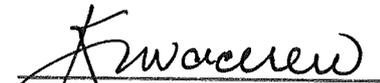
In a parallel effort of the revenue thrust, the Retelcom Group has continued its cost reduction programs notably staff related and bandwidth/gateway operational expenses. Thus, for the fiscal year ending June 30, 2013, the Retelcom Group's continuing negative EBITDA performance has improved by 24%, or from negative Php70million EBITDA last year to a lesser negative EBITDA of Php53million for fiscal year in review.

On a consolidated basis, the Retelcom Group's total assets, as well as total liabilities and stockholders' equity, remained relatively flat at Php1.5 billion as of June 30, 2013. Net loss as of the fiscal year ending June 30, 2013 amounted to Php73million, which is lower than the Php92million recorded in the same period of the previous fiscal year.

## 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.

By: **PHILIPPINE TELEGRAPH & TELEPHONE CORP.**  
Issuer

  
\_\_\_\_\_  
**KENNETH JOEY H. MACEREN**  
Corporate Secretary

  
\_\_\_\_\_  
**ALFREDO T. DIVINO JR.**  
Chief Finance Officer

May 22, 2019

May 22, 2019