Risk Factors

You should carefully consider all of the information in this annual report, including the risks and uncertainties described below. If any of the following risks actually occurs, it could have a material adverse effect on our business, financial condition or results of operations and the trading price of our ADSs could decline and you could lose all or part of your investment.

Risks Relating to Us

If we are not able to adapt to changes and disruptions in technology and by over-the-top, or OTT, services and address changing consumer demand on a timely basis, we may experience a decline in the demand for our services, be unable to implement our business strategy and experience a material adverse effect on our business, results of operations, financial condition and prospects.

The rapid change of technology as well as the proliferation of OTT services (such as *Facebook*, *Skype*, *Viber*, *WhatsApp* and other similar services) and video conferencing applications (such as *Zoom* and other similar services), and the ensuing change in customer behavior, have disrupted our traditional businesses. As a result, our traditional revenue sources, such as short messaging service, or SMS, voice and international calling services, have declined, and we expect this trend to continue with the rise in data revenue.

The growing use of mobile data in the Philippines, coupled with the prevalence of OTT services and video conferencing applications, have negatively impacted our domestic calling service in recent years. OTT services continue to increasingly compete with us in voice and data services and continue to affect our business model. We are also facing growing competition from providers offering services using alternative wireless technologies and IP-based networks, including efforts by the Philippine government to roll-out its free *WiFi* services to selected areas within various municipalities in the country. Moreover, net settlement payments between PLDT and other foreign telecommunications carriers for origination and termination of international call traffic between the Philippines and other countries, which have been our predominant source of foreign currency revenues, have been declining in recent years and have diminished in its contribution to total service revenues.

While the trend of increasing mobile data usage has resulted in, and is expected to continue to have, a positive impact on our data revenues, there is no guarantee that such increase will alleviate the decline in the revenue from our traditional businesses in full. We may not be able to maintain and attract customers more effectively than our competitors. We will also need to invest in new infrastructure, systems and personnel to provide high quality services for increasing mobile data usage. As a result, our capital costs could increase as we phase out outdated and unprofitable technologies and invest in new ones. We may not be able to accurately predict technological trends or the success of new services in the market. In addition, there could be legal or regulatory restraints on our introduction of new services. If our services fail to gain acceptance in the marketplace, or if costs associated with implementation and completion of the introduction of these services materially increase, our ability to retain and attract customers could be adversely affected. We can neither assure you that we would be able to adopt or successfully implement new technologies and services nor assure you that future technological changes will not adversely affect our business, results of operations, financial condition and prospects.

Our failure to keep pace with technological changes and evolving industry standards relating to the emergence of the 5G technology could harm our competitive position or negatively impact our results of operations.

Fifth-generation wireless, or 5G, is the latest iteration of cellular technology, engineered to greatly increase the speed and responsiveness of wireless networks. 5G is characterized by significantly higher speeds and low latency which will enable mobile users to download data at a much faster speed than the technology of previous generations. 5G is also expected to anchor the Internet of Things, or IoT, which will allow users to be connected not only to each other but to their homes, vehicles, public infrastructure, and more.

In order to introduce and implement the 5G technology to our customers, we may need to obtain additional licenses or upgrade our networks. If we are unable to acquire such licenses or upgrade such systems, on reasonable terms or at all, we may not be able to implement the 5G technology in a timely manner or at all, which in turn may negatively impact our ability to draw new customers and/or maintain our existing customer base.

Further, we may need to incur significant capital expenditures to acquire licenses or install infrastructure to enable the 5G technology. As new technologies relating to 5G systems are developed, our equipment and infrastructure may need to be replaced or upgraded or we may need to rebuild our network, in whole or in part.

We are currently deploying 5G pilot programs in anticipation of commercial rollouts in the near future. However, we are dependent on the availability of 5G-capable devices such as handsets and modems before we can roll out commercial services and generate revenues. A delay in the release of reasonably-priced 5G handsets could negatively impact the mass acceptance of 5G services among our customers and our ability to monetize these investments, which in turn could adversely affect our growth prospects.

The anticipated entry of a third major telecommunications player and/or increased competition from other telecommunications services providers may reduce our market share and decrease our profit margin, and we cannot assure you that any potential change in the competitive and regulatory landscape of the telecommunications industry in the Philippines would not have a material adverse effect on our business, results of operations, financial condition and prospects.

Increasing competition among existing telecommunications services providers, as well as competition from new competitors, could materially and adversely affect our business and prospects by, among other factors, forcing us to lower our tariffs, reducing or reversing the growth of our customer base and reducing usage of our services. Competition in the mobile telecommunications industry is particularly intense, with network coverage, quality of service, product offerings, and price dictating subscriber preference, while competition in the fixed line side is relatively more active as well. Vital capacity and coverage expansion may continue to increase our capital expenditures. Recently, the industry went through a period where both mobile operators have grown more aggressive in maintaining and growing market share, especially in light of a maturing market. Our principal mobile competitor, Globe Telecom, Inc., or Globe, has introduced aggressive marketing campaigns and promotions. It has also begun to compete more actively in the fixed line segment, especially with their introduction of a fixed wireless home broadband service which competes directly with our home broadband business.

In 2017, the Philippine government announced its intentions to encourage competition within the telecommunications industry through the introduction of a third major player. As part of this push, the government is proposing and has introduced certain measures that would facilitate and enable the operations of a new player. Some of these are: tower sharing policy, mobile number portability, removal of the mobile interconnect charges, and the lifting of foreign ownership restrictions for telecommunication companies.

In 2018, the Philippine government, through the DICT, declared as the third telecom player a consortium consisting of Udenna Corporation, Chelsea Logistics Corporation and China Telecom, or the New Mobile Player, or NMP, Consortium. The NMP Consortium indicated that they had reached an agreement with Mislatel Company, or Mislatel, for the use of Mislatel's telecommunications franchise. In February 2019, the Senate Committee on Public Services approved the transfer of the controlling interest in Mislatel to the NMP Consortium under certain conditions. On July 8, 2019, Mislatel was renamed as "Dito Telecommunity Corporation", or Dito. On the same date, Dito was granted its permit to operate after President Rodrigo Duterte awarded the CPCN by the NTC to its chairman Dennis Uy during a ceremony at the Presidential Palace, Malacañang. In October 2019, Dito entered into agreements with Sky Cable Corporation, or Sky Cable, and LCS Group. Under the agreement with LCS Group, Dito will lease the telecommunications towers that LCS has already built across different regions in the Philippines. With Sky Cable, Dito will utilize its unused fiber-optic cables in Metropolitan Manila. Dito is expected to begin its commercial operations by March 2021 with a plan to enable customers to use its telecommunications services by May 2020. Dito plans to set up 1,600 cell towers that will provide 37% coverage of the country, and plans to commence its internet service by July 18, 2020, with pre-commercial trial to be undertaken by September 2020. Dito plans to offer initially 4G LTE before moving to 5G technology in 2021.

A third major player will likely adversely threaten our market share. Furthermore, we believe that the third player, when it enters the market, may put forth aggressive offers to lure customers away from us and Globe. To maintain our competitive posture, we may need to match those offers and offer other incentives to prevent existing customers from switching. Furthermore, we may need to make additional investments in our network to further improve the customer experience in order to effectively compete with the third telecom player and Globe. A loss of market share and increased costs to maintain our competitive posture will adversely affect our business, financial condition and results of operations.

In addition to the entry of a third major player, we cannot assure you that the number of providers of telecommunications services will not increase in the future or that competition for customers will not cause our mobile and fixed line subscribers to switch to other operators, or otherwise cause us to increase our marketing and capital expenditures, lose customers or reduce our rates, resulting in a reduction in our profitability.

In the future, we may lose customers due to development in law, regulations and/or government initiatives. In 2019, Smart, Globe and Dito established a joint venture company, Telecommunications Connectivity Inc., or TCI, to enable number porting services in line with the new mobile number portability, or MNP, initiative of the government. TCI's function is to enable a customer to retain his mobile number when he moves from one mobile service provider to another, or changes the type of subscription from postpaid to prepaid or vice versa. See Item. 4 "Information on the Company – Recent Developments - Smart, Globe and Dito Joint Venture on Mobile Number Portability". The ability to retain his mobile number when switching to another telecommunications services provider may be an incentivizing factor for a customer to make a switch away from us. The loss of customers due to such development would adversely affect our business, financial condition and results of operations. Meanwhile, with customers who switch away from us retaining their mobile numbers, the mobile number prefixes which used to be exclusive to our subscribers will no longer be so. As such, we will lose exclusivity to our mobile number prefixes, and such loss may result in the dilution of any premium nature of our brand. We cannot guarantee you that in the future, there will not be similar changes in law, regulations and/or government initiatives that may incentivize customers to switch away from us.

Our ability to compete effectively will depend on, among other things, network coverage, quality of service, price, our development of new and enhanced products and services, the reach and quality of our sales and distribution channels and our capital resources. It will also depend on how successfully we anticipate and respond to various factors affecting our industry, including new technologies and business models, changes in consumer preferences and demand for existing services, demographic trends and economic conditions. If we are not able to respond successfully to these competitive challenges, it could have a material adverse effect on our business, results of operations, financial condition and prospects.

The success of our business depends on our ability to maintain and enhance our brands.

We believe that our reputation and brands in the industry are crucial to the success of our business. To maintain and enhance our reputation and brands, we need to successfully provide the best customer experience such that we not only maintain our current customer base but attract new subscribers as well. If we are not successful in maintaining and improving our brands, our business, financial position, and/or results of operations may be negatively affected.

Our reliance on outsourcing and strategic sourcing arrangements, technology vendor contracts, and other partnerships and/or joint ventures may prevent us from meeting organizational targets or impact our brand image.

We have entered into a number of outsourcing agreements with technology vendors covering key operations in order to improve efficiencies and maximize knowledge transfer. These arrangements may disrupt existing operations and result in resistance among employees. Furthermore, any delays in implementation or failure to bring about the desired results will hamper our ability to meet our medium-term targets.

In particular, as part of our extensive capital expenditures program to overhaul our fixed and wireless networks infrastructure and our IT systems, we have entered into agreements with Amdocs Philippines, Inc., or Amdocs, and Huawei Technologies Co. Ltd., or Huawei, to upgrade and modernize a significant portion of our IT infrastructure. We cannot guarantee that we will be able to accomplish this transformation in a timely fashion, or at all, or in the manner intended. Furthermore, we cannot guarantee that such transformation will not result in service disruptions, network outages or encounter other issues that may detrimentally affect consumer experience. This may adversely affect our business, financial condition and results of operations. We continue to monitor developments on Huawei's cooperation with other telecommunications service providers worldwide. For example, we note that some countries and telecommunications service providers have banned or limited the use of Huawei's technologies for different reasons. We have factored in such developments in our decision-making with respect to our operation with Huawei, and plan to continue to do so.

Our business relies heavily as well on third party vendors, some of whom may encounter financial difficulties or consolidate with other vendors. This may result in shrinking the already limited pool of qualified vendors which in turn may materially impact their ability to fulfill their obligations and thereby impact our operations. The limited number of vendors may also result on our dependence on a single vendor to provide critical services.

Our ability to earn revenues could be disrupted if our supplier(s) is no longer able or willing to provide us with our product or cannot provide us with our products due to extenuating territorial circumstances. In the event that either of our potential suppliers cannot or will not provide us with our products, we may be forced to find alternative supplies. We cannot guarantee that we will be able to obtain our products or products of similar quality from alternate suppliers, in part or at all. Failure to obtain alternative sources will disrupt our operations and hinder our ability to generate revenues.

The mobile telecommunications industry in the Philippines may not continue to grow.

The majority of our total revenues are currently derived from the provision of mobile services to customers in the Philippines. As a result, we depend on the continued development and growth of this industry in the Philippines. The mobile penetration rate in the country, however, has already reached approximately 159% as at December 31, 2019, and thus the industry may well be considered mature insofar as services such as SMS and domestic voice are concerned.

Data is emerging as the key driver for revenues. However, further growth of the market depends on many factors beyond our control, including the continued introduction of new and enhanced mobile devices, the price levels of mobile handsets, consumer tastes and preferences, and the amount of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for mobile services or otherwise causing the Philippine mobile telecommunications industry to stop growing or reducing the rate of its growth, could materially harm our business, results of operations, financial condition and prospects.

The licenses, franchises and regulatory approvals, upon which PLDT relies, may be subject to revocation or delay, which could result in the suspension of our services or abandonment of any planned expansions and could thereby have a material adverse effect on our business, results of operations, financial condition and prospects.

Failure to comply with the foreign ownership restrictions

Section 11, Article XII of the 1987 Philippine Constitution provides that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations of associations organized under the laws of the Philippines, at least 60% of whose capital is owned by such citizens. Exceeding the foreign ownership restrictions imposed under the Philippine Constitution may subject the Company to (1) sanctions set out in Section 14 of the Philippine Foreign Investments Act of 1991, as amended, comprising a fine not exceeding (a) the lower of (x) 0.5% of the total paid in capital of the Company and (y) Php5 million, in the case of a corporate entity, (b) Php200,000, in the case of the president of the Company or other responsible officers, and (c) Php100,000, in the case of other natural persons, which we refer to collectively as the Monetary Sanctions, and/or (2) the Philippine government commencing a *quo warranto* case in the name of the Republic of the Philippines against the Company to revoke the Company's franchise that permits the Company to engage in telecommunications activities.

We believe that as of the date of this report, PLDT is in compliance with the requirements of the Constitution, and this position was supported by the Supreme Court; however, we cannot assure you that subsequent changes in law or additional litigation would not result in a different conclusion. See Item 8. "Financial Information – Legal Proceedings" and *Note 27 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for further discussion.

On March 10, 2020, the House of Representative of the Philippine Congress approved the House Bill No. 78, which gives a distinction between how "public service" and "public utility" are defined under Commonwealth Act No. 146 or the Public Service Act. If the Bill is passed and becomes law, it will allow foreigners to fully own public utilities in the Philippines.

Failure to renew CPCNs

We operate our business under franchises, each of which is subject to amendment, termination or repeal by the Philippine Congress, and to various provisional authorities and CPCNs, which have been granted by the NTC and will expire between now and 2028. Some of our CPCNs and provisional authorities have already expired. Although we have filed applications for extension of these CPCNs and provisional authorities, we cannot assure you that the NTC will grant the applications for renewal. Failure to renew CPCNs can materially and adversely affect our ability to conduct the essential functions of our business, and therefore adversely affect our financial condition and results of operations. See Item 4. "Information on the Company – Licenses and Regulations" for more information.

Failure to comply with R.A. 7925

The Philippine Congress may revoke, or the Solicitor General of the Philippines may file a case against Smart and DMPI to revoke, the franchise of Smart and DMPI for their failure to comply with R.A. 7925, which requires making a public offering of at least 30% of the aggregate common shares of a telecommunications entity with regulated types of services. See Item 4. "Information on the Company – Material Effects of Regulation on our Business" for further discussion.

On May 19, 2017, R.A. No. 10926 took effect which extended the Legislative Franchise of Smart. The law contains a provision which exempts Smart from the requirement of listing of shares if a grantee is wholly owned by a publicly listed company with at least thirty *per centum* (30%) of whose authorized capital stock is publicly listed. Thus, Smart is in compliance with R.A. 7925.

We cannot assure you that any of our franchise, permits or licenses will not be revoked and any such revocation could have a material adverse effect on our business, financial conditions or prospects.

Our business is significantly affected by laws and regulations, including regulations in respect of rates and taxes and laws relating to anti-competitive practices and monopoly.

The NTC regulates the rates we are permitted to charge for services that have not yet been deregulated, such as local exchange services. We cannot assure you that the NTC will not impose additional obligations on us that could lead to the revocation of our licenses if not adhered to and/or to the reduction in our total revenues or profitability. The NTC could adopt changes to the regulations or implement additional guidelines governing our interconnection with other telecommunications companies or the rates and terms upon which we provide services to our customers. The occurrence of any of these changes could materially reduce our revenues and profitability.

The PLDT Group is also subject to a number of national and local taxes. We cannot assure you that the PLDT Group will not be subject to new, increased and/or additional taxes and that the PLDT Group would be able to impose or pass on additional charges or fees on its customers to compensate for the imposition of such taxes or charges, or for the loss of fees and/or charges.

Moreover, we are subject to laws and regulations relating to anti-competitive practices and anti-monopoly. The Philippine Competition Act came into effect on August 8, 2015 and prohibits practices that restrict market competition through anti-competitive agreements and abuse of a dominant position. It also requires parties to provide notification and obtain clearance for certain mergers and acquisitions. The Philippine Competition Act prescribes administrative and criminal penalties for violations of these prohibitions. While our business practices have not in the past been found to have violated any laws and regulations related to anti-competition and anti-monopoly, we cannot assure you that any new or existing governmental regulators will not, in the future, take the position that our business practices to have an anti-competitive effect on the Philippine telecommunications industry, nor can we assure you that such regulators will not take that position that we have violated the relevant laws and regulations relating to anti-competition and anti-monopoly in the future.

In particular, PLDT was engaged in litigation with the Philippine Competition Commission, or the PCC, relating to PLDT's investments in Vega Telecom Inc., or VTI, Bow Arken Holdings Company, or Bow Arken, and Brightshare Holdings, Inc., or Brightshare, or the SMC Transactions. Although the Court of Appeals, or CA, among other things, compelled the PCC to recognize that the SMC Transactions as deemed approved by operation of law, the CA did clarify that the deemed approved status of the SMC Transactions does not, however, remove the power of PCC to conduct post-acquisition review to ensure that no anti-competitive conduct is committed by the parties. Any future expansion in our services, particularly in our mobile services, could subject us to additional conditions in the granting of our provisional authorities by the NTC and to increased regulatory scrutiny, which could harm our reputation and business, and which could have a material adverse effect on our growth and prospects. In addition, the occurrence of any such event could impose substantial costs or cause interruptions or considerable delays in the provision, development or expansion of our services. See *Note 11 – Investments in Associates and Joint Ventures – Notice of Transaction filed with the Philippine Competition Commission, or PCC* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for further discussion.

Changes in regulations or user concerns regarding privacy and protection of user data, or any failure to comply with such laws, could adversely affect our business.

Legislation such as R.A. 10173 (Data Privacy Act of 2012) and its Implementing Rules and Regulations ("Data Privacy Act") aim to protect individual privacy. The rules apply to the processing of personal data in the public and private sectors, as well as to acts done or practices engaged in and outside of the Philippines under certain conditions. From 2018, the National Privacy Commission, or NPC, has gradually shifted its focus from campaigning for Data Privacy Act awareness to compliance checks on entities engaged in personal data processing. Personal data breaches and other controversies relating to the unauthorized processing of personal data both within the Philippines and abroad have also increased public scrutiny on the activities of entities engaged in personal data processing. Provisions in Data Privacy Act on the Rights of Data Subjects[2] and the

2 *The Rights of Data Subjects under the Data Privacy Act are as follows: right to be informed whether their personal data is being processed; right to object to the processing of their personal data; right to reasonable access to their personal data; right to rectification of inaccuracy or error; right to erasure or blocking of their personal data; the right to data portability; right to file a complaint; and right to damages due to inaccurate, incomplete, outdated, false, unlawfully obtained or unauthorized use of personal data.*

NTC issuances under MC 05-07-2016 and NTC MC No. 05-06-2007 on the rights of the subscriber on record to their data and Call Data Records highlight PLDT's statutory obligation to be able to furnish complete and correct data to its users upon their request. These developments lead to increased impetus on PLDT not only to ensure compliance with Data Privacy Act and similar laws, rules and regulations but also to meet industry best practices and customer expectations on data protection.

Any failure, or perceived failure, by us to make effective modifications to our policies, or to comply with any privacy, data-retention or data-protection-related laws, regulations, orders or industry self-regulatory principles, including the Data Privacy Act, could result in proceedings or actions against us by governmental entities or others, a loss of user confidence, damage to the PLDT brands, and loss of users or advertising partners, any of which could potentially have an adverse effect on our business.

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning privacy, data-retention and data-protection issues, including laws or regulations mandating disclosure to domestic or international law enforcement bodies, which could adversely impact our results of operations, businesses, brand or reputation with users. For instance, in May 2018, the General Data Protection Regulation (GDPR) came into force in the European Union and European Economic Area countries. In the United States, there is also increasing clamor for the enactment of a federal privacy law. In the Philippines, proposed amendments to the Data Privacy Act have been filed with the Congress of the Philippines. In general, the amendments focus on a review of the penalties for criminal offenses, as well as the authority of the NPC to levy fines for administrative offences. Since stakeholders, including telecommunications service providers, have significant interest in these amendments, it is likely that the amendments will only be approved by Congress after a lengthy period of solicitation of public opinion and discussion.

The interpretation and application of privacy, data protection and data retention laws and regulations are often uncertain as these are highly dependent on the local context and culture and they can also be impacted by changes in technology. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices, complicating long-range business planning decisions. If privacy, data protection or data retention laws are interpreted and applied in a manner that is inconsistent with our current policies and practices we may be fined or ordered to change our business practices in a manner that adversely impacts our operating results. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices or operating platforms in a manner adverse to our business.

Inadequate handling of confidential information, including personal customer information by our corporate group, contractors and others, may adversely affect our credibility or corporate image.

We possess a substantial amount of personal information of our customers. In the event an information leak occurs, whether at our end or on the part of our contractors and service providers, we might be subjected to penalties under the data privacy law, our credibility and corporate image may be significantly damaged, and we may experience an increase in cancellations of customer contracts and slower increase in additional subscriptions, any of which could have a material adverse effect on our business, results of operations, financial condition and prospects.

In 2019, the PLDT Group had ten personal data breaches that met the Data Privacy Act's requisites for mandatory reporting to the NPC and notice to affected data subjects. These reported incidents range from the physical, such as unauthorized access to a customer's call data records and inadvertent disclosure of customer information by a negligent employee, to the technical, such as glitches in the website and mobile applications access IDs that enabled certain customers to view information of other customers. We cannot guarantee that we will not encounter personal data breaches in the future. Such breaches could result in litigation and/or regulatory actions and penalties against us, and adversely impact on our business operations and financial conditions.

Legislation and regulation of online payment systems could create unexpected costs, subject us to enforcement actions for compliance failures, or cause us to change our digital technology platforms or business models.

Regulators have been increasing their focus on online and mobile payment services, and recent regulatory and other developments could reduce the convenience or utility of our payment services for users. Governmental regulation of certain aspects of mobile payments systems under which PLDT operates could result in obligations or restrictions with respect to the types of products that we may offer to consumers, the payment card systems that link to our mobile payments systems, the jurisdictions in which our payment services or apps may be used, and higher costs, such as fees charged by banks to process funds through our mobile payments systems. Such obligations and restrictions could be further increased as more jurisdictions regulate payment systems. Moreover, if this regulation is used to provide resources or preferential treatment or protection to selected payments and processing providers, it could displace us from, or prevent us from entering into, or substantially restrict us from participating in, particular geographies.

Limitations in the amount of frequency spectrum or facilities made available to us could negatively affect our ability to maintain and improve our service quality and level of customer satisfaction, could increase our costs and could reduce our competitiveness.

The available radio frequency spectrum is one of the principal limitations on a wireless network's capacity, and there are limitations in the spectrum and facilities available to us to provide our services. Our future wireless growth will increasingly depend on our ability to offer innovative video products and data services and a wireless network that has sufficient spectrum and capacity to support these innovations. Improvements in our service depend on many factors, including continued access to and deployment of adequate spectrum.

Our competitiveness may decline if we cannot obtain the necessary or optimal allocation of spectrum from the Philippine government. If the Philippine government does not fairly allocate spectrum to wireless providers in general, revoke spectrum previously granted to us, or if we cannot acquire needed spectrum or deploy the services customers desire on a timely basis without burdensome conditions or at adequate cost while maintaining network quality levels, then our ability to attract and retain customers, and therefore maintain and improve our operating margins, could be materially adversely affected.

***Other mobile service providers in the world may not adopt or use the technologies and the frequency bands that are compatible with ours, which could affect our ability to sufficiently offer international services*.**

If a sufficient number of mobile service providers do not adopt the technologies and the frequency bands that are compatible with ours, if mobile service providers switch to other technologies or frequency bands, or if there is a delay in the introduction and expansion of compatible technologies and frequency bands, we may not be able to offer international roaming or other international services as expected, which may adversely affect our business.

We may not be successful in our acquisitions of, and investments in, other companies and businesses, and may therefore be unable to fully implement our business strategy.

As growth slows or reverses in our traditional fixed line and mobile businesses, and as part of our strategy to grow other business segments, we make acquisitions and investments in companies or businesses to enter new businesses or defend our existing markets. The success of our acquisitions and investments depends on a number of factors, such as:

- our ability to identify suitable opportunities for investment or acquisition;
- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to influence or exercise control over the acquired company;
- the compatibility of the economic, business or other strategic objectives and goals of the acquired company with those of the PLDT Group, as well as the ability to execute the identified strategies in order to generate fair returns on the investment; and
- our ability to successfully integrate the acquired company or business with our existing businesses.

Any of our contemplated acquisitions and investments may not be consummated due to reasons or factors beyond our control. Even if any contemplated acquisitions and investments are consummated, we may not be able to realize any or all of the anticipated benefits of such acquisitions and investments and we cannot assure you that the consummation of such acquisitions and investments will not result in losses for a prolonged period of time. Moreover, if we are unsuccessful in our contemplated acquisitions and investments, we may not be able to fully implement our business strategy to maintain or grow certain of our businesses and our results of operations and financial position could be materially and adversely affected.

We are exposed to the fluctuations in the market values of our investments.

Given the nature of our business and our foray into the digital business, we have made investments in various start-up companies. For example, in 2014, we invested in Rocket Internet SE (formerly Rocket Internet AG), or Rocket, to drive the development of online and mobile payment solutions, the fair value of which has declined significantly since our investment. Due to the significant decline in fair value of our investment in Rocket Internet, we recognized a series of impairments that amount to, in the aggregate, Php11,045 million, since then. See *Note 12 – Financial Assets at FVPL – Investment of PLDT Online in Rocket Internet* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for more information. Credit ratings and market values of this investment and similar investments can be negatively impacted by liquidity, credit deterioration or losses, financial results, foreign exchange rates, or other factors. As a result, our investments could decline and result in a material impairment, which could have a material adverse effect on our financial condition and operating results.

The headquarters building of Smart, Smart Tower, is currently listed for sale. Our operations and financial conditions may be negatively affected if we fail to secure a permanent office building at the expiration of the lease-back agreement, which will form part of the agreement to sell Smart Tower.

We currently own Smart's headquarters building, Smart Tower, or the Smart Towers Property, which is located in Makati City, Metropolitan Manila. On January 28, 2020, PLDT was authorized by the Board of Directors to negotiate and enter into a contract for the sale of Smart Towers Property. See Item 4. "Properties". The sale will be subject to a lease-back agreement with the eventual buyer, in order for us to keep occupying the building until we find a suitable alternative office building. If at the expiration of such lease-back agreement, we fail to find a suitable office building on favorable terms or at all, we may need to negotiate to extend the lease-back, or find an alternative within a short period of time. On the one hand, we cannot guarantee you that we will be able to extend the lease-back agreement, or extend it on terms favorable to us. On the other hand, any relocation could cause disruption to our operations.

If we are unable to install and maintain telecommunications facilities and equipment in a timely manner, we may not be able to maintain our current market share and the quality of our services, which could have a material adverse effect on our results of operations and financial condition.

Our business requires the regular installation of new, and the maintenance of existing, telecommunications transmission and other facilities and equipment, which are being undertaken. The installation and maintenance of these facilities and equipment are subject to a number of risks and uncertainties, such as:

- shortages of equipment, materials and labor;
- delays in issuance of national and local government building permits;
- work stoppages and labor disputes;
- interruptions resulting from man-made events (e.g., sabotage), outbreak of epidemics, pandemics or other public health crises, inclement weather and other natural disasters;
- rapid technological obsolescence;
- inability of vendors to deliver on commitments;
- unforeseen engineering, environmental and geological problems; and
- unanticipated cost increases.

Any of these factors could give rise to delays or cost overruns in the installation of new facilities or equipment or could prevent us from deploying our networks and properly maintaining the equipment used in our networks, and hence could affect our ability to maintain existing services and roll-out new services, for example, which could have a material adverse effect on our results of operations and financial condition.

Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.

The effects of, and any damage caused by, exposure to an electromagnetic field remain the subject of careful evaluations by the international scientific community. We cannot rule out that exposure to electromagnetic fields or other emissions originating from mobile handsets will not be identified as a health risk in the future. Our mobile business may be harmed as a result of any future alleged, or actual, health risk or the perception of any health risk, which could result in a lower number of customers, reduced usage per customer or even potential consumer liability.

Our business relies on secure network infrastructure and computer systems, and any cyber-attacks against them, or the perception of such attacks, may materially adversely affect our operations, financial condition and results of operations.

We need to constantly upgrade our cyber capabilities to support our business needs. We depend on information and digital services to run our business and deliver value. Our Company faces the following challenges in the era of connectivity, digital identity, decentralized decisions, information monetization, transparency, and variable trust:

- The increase in the variety of products and services that we provide to our customers (e.g. customer premise equipment, systems, devices, IoT, data and their dynamic relationships) exposes relevance as well as scalability issues in our existing security control solutions;
- Our existing deterrence measures against cyber security breaches are becoming less effective. For instance, defensible gates and impermeable walls that are designed to secure our service and information infrastructure have become less effective. While such tools and measures make it difficult to breach into our system, these tools do not stop breaches altogether;
- The infrastructure underlying digitalization of consumer and enterprise services, has become more complex. In order to enhance work efficiency, we allow our employees to work away from the office. This means giving employees access to the core parts of our internal network on their mobile devices, such as mobile phones and notebook computers. Given the large number of points of access to our internal network, we need to constantly make improvements to our cyber infrastructure, and utilize more sophisticated tools to protect it from attacks;
- The consequences of cyber security breach could be severe. On the one hand, breaches resulting in leakage of our Company's confidential commercial and/or personal information may result in irreparable damage to our reputation and brand. Moreover, leakage of sensitive personal information could, in some cases, result in the threat to personal safety;
- Perpetrators are adopting more sophisticated technologies in their attempts to breach our defensive security measures. We see a growing number of automated computer programs being used in initiating attacks; and
- While encrypted internet traffic protects private information, it inadvertently hampers cyber protection efforts. Perpetrators could abuse encrypted communication tools and use them in their efforts to breach into our systems, with less risk of such efforts being discovered by cyber security measures.

In 2019, the PLDT Group's Cyber Security Operations Group detected close to 3,000 cyber security-related incidents. These incidents involve the following: (1) malware attacks; (2) use of unauthorized applications; (3) Distributed Denial of Service, or DDoS, attacks, (4) network intrusion attempts; (5) unauthorized access (6) failed log in attempts of corporate credentials; and (7) spam emails. On their own and taken as a whole, these incidents did not cause any material financial, legal, or regulatory impact to the Company, neither did they cause any material disruptions to our business operations. Please see Item 4. "Information on the Company – Recent Developments - PLDT Group's Cyber Security Strategy" for measures we have implemented to manage cyber security related risks. We continue to expect attacks on our cyber system in the future. We cannot guarantee you that we will be able to protect our cyber system against each and every attack. Any successful attack on our cyber system could result in legal and/or regulatory liability, disruption to our business operations, damage to our reputation, and financial losses.

Cable and equipment theft, equipment failures, natural disasters, man-made events, terrorist acts and territorial disputes may materially adversely affect our operations.

Theft of telecommunication cables, major equipment failures or natural disasters, including severe weather, terrorist acts or other similar or related contingencies could adversely affect our wireline and wireless networks, including telephone switching offices, microwave links, third-party-owned local and long-distance networks on which we rely, our cell sites or other equipment, our customer account support and information systems, or employee and business records, and could have a material adverse effect on our operations.

Natural disasters, terrorist acts or acts of war could cause damage to our infrastructure and/or result in significant disruptions to our operations.

Our business operations are subject to interruption by natural disasters, power outages, terrorist attacks, cyber-attacks and other events beyond our control. Such events could cause significant damage to our infrastructure upon which our business operations rely, resulting in degradation or disruption of service to our customers. While we maintain insurance coverage for some of these events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Our system redundancy may be ineffective or inadequate, and our disaster recovery planning may be insufficient for all eventualities. These events could also damage the infrastructure of the suppliers that provide us with the equipment and services that we need to operate our business and provide products to our customers. A natural disaster or other event causing significant physical damage could cause us to experience substantial losses resulting in significant recovery time and expenditures to resume operations. In addition, these occurrences could result in lost revenues from business interruption as well as damage to our reputation.

Our business may be materially and adversely affected by the coronavirus outbreak.

In December 2019, an outbreak of Coronavirus Disease 2019, or COVID-19, virus was first reported to have surfaced in Wuhan, the People’s Republic of China, or PRC, later resulting in tens of thousands of confirmed cases and thousands of fatalities globally, with hundreds of confirmed cases in the Philippines. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. In a move to contain the COVID-19 outbreak, on March 12,2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months from March 17, 2020 (at midnight) and imposed an enhanced community quarantine, or ECQ, throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended as circumstances may warrant. On March 25, 2020, Republic Act No. 11469, otherwise known as the “Bayanihan to Heal As One Act”, was signed into law declaring a state of national emergency over the entire country, and the President of the Philippines is authorized to exercise certain powers necessary to address the COVID-19 pandemic. On April 7, 2020, the Office of the President of the Philippines released a memorandum extending the ECQ over the entire Luzon island until April 30, 2020. These measures have caused disruption to businesses and economic activities, and their impacts on businesses continue to evolve.

The outbreak of the COVID-19 and other adverse public health developments, such as the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, Zika virus and Ebola virus could materially and adversely affect our business, financial condition and results of operations. These may include, temporary closures of our facilities or premises, hospitalization or quarantine of our employees, delay or suspension of supplies from our suppliers, especially those located in the PRC, disruptions or suspension of our operational activities, labor shortage due to restrictions on our employees’ ability to travel. We have taken certain measures to try and minimize the negative effect that the COVID-19 has on our operations. See Item 4. “Information on the Company – Recent Developments – Measures We Have Taken in Light of the COVID-19 Outbreak”.

In addition, the continued spread of COVID-19 has led to disruption and volatility in the global capital markets. It is possible that the continued spread of COVID-19 could cause a global economic slowdown or recession. The deterioration of the regional economy and financial markets in general will have a material adverse effect on our business, financial condition and results of operations. Furthermore, there is significant uncertainty relating to future developments of the outbreak of the COVID-19 and what actions the Philippine government will take. The impacts of the outbreak of the COVID-19 on our results of operations are highly uncertain.

Climate change could increase the impact of natural disasters and environmental legislation and regulations on our operations.

Climate change poses a number of potential risks for telecommunications operators like us, from both a physical and regulatory perspective. The ongoing global climate change may exacerbate the severity and frequency of natural disasters. The rising intensity and frequency of occurrence of storms, heatwaves and earthquakes could increase the damage to our infrastructure and failures of our wireline and wireless networks caused by such natural disasters. Should severe natural disasters occur in quick succession, we may not have sufficient resources to repair and restore our infrastructure in a timely and cost-effective manner. The increase in likelihood of our infrastructure being damaged by natural disasters could have a material adverse impact on our operations.

In light of the heightened awareness seen across the globe on climate change, the Philippine government could introduce further and more stringent environmental legislation and regulations. If such legislation or regulations are enacted, we could incur increased energy, environmental and other costs and capital expenditures to comply with the limitations. We cannot guarantee that we will at all times be in compliance with any new environmental legislation and regulations. The failure to comply with new environmental legislation and regulations could have a material adverse impact on our operations and financial conditions.

Our businesses require substantial capital investment, which we may not be able to finance.

Our projects under development and the continued maintenance and improvement of our networks and services, including Smart's projects, networks, platforms and services, require substantial ongoing capital investment. Our consolidated capital expenditures totaled Php72,871 million, Php58,490 million and Php40,299 million for the years ended December 31, 2019, 2018 and 2017, respectively. We currently estimate that our consolidated capital expenditures in 2020 will be approximately Php83 billion.

Future strategic initiatives could require us to incur significant additional capital expenditures. For example, as part of our environmental protection initiative, we plan to conduct inspection of our submarine cables in the next few years. Depending on the results of inspection, we may need to undertake maintenance work for our submarine cables, which may involve a significant sum of capital expenditures. We may be required to finance a portion of our future capital expenditures from external financing sources, some of which have not yet been fully arranged. There can be no assurance that financing for new projects will be available on terms acceptable to us, or at all. If we cannot complete our development programs or other capital projects on time due to our failure to obtain the required financing, our growth, results of operations, financial condition and prospects could be materially and adversely affected. Furthermore, if we are unable to monetize our investments and generate the expected revenues, our cash flows and gearing may be negatively impacted.

Our results of operations and our financial position could be materially and adversely affected if the Philippine peso significantly fluctuates against the U.S. dollar.

A substantial portion of our capital expenditures, a portion of our indebtedness and related interest expense and a portion of our operating expenses are denominated in U.S. dollars and other foreign currencies, whereas most of our revenues are denominated in Philippine pesos.   See *Note 21 – Interest-bearing Financial Liabilities* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

A depreciation of the Philippine peso against the U.S. dollar would increase the amount of our U.S. dollar-denominated debt obligations, capital expenditures, and operating and interest expenses in Philippine peso terms. In the event that the Philippine peso depreciates against the U.S. dollar, we may be unable to generate enough funds through operations and other means to offset the resulting increase in our obligations in Philippine peso terms. Moreover, a depreciation of the Philippine peso against the U.S. dollar may result in our recognition of significant foreign exchange losses, which could materially and adversely affect our results of operations. A depreciation of the Philippine peso could also cause us not to be in compliance with the financial covenants imposed on us by our lenders under certain loan agreements and other indebtedness. Further, fluctuations in the Philippine peso value and of interest rates impact the mark-to-market gains/losses of certain of our financial debt instruments, which were designated as non-hedged items.

The Philippine peso has been subject to significant depreciation in recent years with the Philippine peso depreciated by approximately 24% from a high of Php41.08 for year end 2012 to Php50.80 as at December 31, 2019 and further depreciated to Php51.04 as at March 30, 2020. We cannot assure you that the Philippine peso will not depreciate further and be subject to significant fluctuations going forward, due to a range of factors, including:

- political and economic developments affecting the Philippines, including the level of remittances from overseas Filipino workers, or OFWs;
- global economic and financial trends;
- the volatility of emerging market currencies;
- any interest rate increases by the Federal Reserve Bank of the United States and/or the BSP; and
- higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations or foreign exchange traders including banks covering their short U.S. dollar positions, among others.

Our debt instruments contain restrictive covenants which require us to maintain certain financial tests and our indebtedness could impair our ability to fulfill our financial obligations and service our other debt.

Our existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios and other financial tests, calculated on the basis of IFRS at relevant measurement dates, principally at the end of each quarter period. For a description of some of these covenants, see *Note 21 – Interest-bearing Financial Liabilities* to the accompanying audited consolidated financial statements in Item 18. “Financial Statements”.

Our indebtedness and the requirements and limitations imposed by our debt covenants could have important consequences. For example, we may be required to dedicate a substantial portion of our cash flow to payments on our indebtedness, which could reduce the availability of our cash flow to fund working capital, capital expenditures and other general corporate requirements.

The principal factors that could negatively affect our ability to comply with these financial ratio covenants and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso relative to the U.S. dollar, the lowering of PLDT’s credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Of our total consolidated debts, approximately 9% and 13% were denominated in U.S. dollars as at December 31, 2019 and 2018, respectively. Considering our consolidated hedges and U.S. dollar cash balances allocated for debt, the unhedged portion of our consolidated debt amounts were approximately 8% and 12% as at December 31, 2019 and 2018, respectively, therefore, the financial ratio and other tests are expected to be negatively affected by any weakening of the Philippine peso relative to the U.S. dollar.

If we are unable to meet our debt service obligations or comply with our debt covenants, we may need to restructure or refinance our indebtedness, seek additional equity capital or sell assets. An inability to effect these measures successfully could result in a declaration of default and an acceleration of maturities of some or all of our indebtedness, which could have a material adverse effect on our business, results of operations and financial condition.

Our subsidiaries could be limited in their ability to pay dividends to us due to internal cash requirements and their creditors having superior claims over their assets and cash flows, which could materially and adversely affect our financial condition.

A significant part of our total revenues and cash flows from operating activities are derived from our subsidiaries, particularly Smart. Smart has significant internal cash requirements for debt service, capital expenditures and operating expenses and as a result, may be financially unable to pay any dividends to PLDT. Although Smart has been making dividend payments to PLDT regularly since December 2002, there can be no assurance that PLDT will continue to receive these dividends or other distributions, or otherwise be able to derive liquidity from Smart or any other subsidiary or investee in the future.

Creditors of our subsidiaries generally have priority claims over our subsidiaries’ assets and cash flows. We and our creditors will effectively be subordinated to the existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries, except that we may be recognized as a creditor with respect to loans we have made to subsidiaries. If we are recognized as a creditor of a subsidiary, our claim will still be subordinated to any indebtedness secured by assets of the subsidiary and any indebtedness of the subsidiary otherwise deemed superior to the indebtedness we hold.

We may have difficulty meeting our debt payment obligations if we do not continue to receive cash dividends from our subsidiaries and our financial condition could be materially and adversely affected as a result.

A significant number of shares of PLDT's voting stock are held by four shareholders, which may not act in the interests of other shareholders or stakeholders in PLDT.

As at February 29, 2020, the First Pacific Group and its Philippine affiliates, NTT Communications and NTT DOCOMO, and JG Summit Holdings, Inc. and its affiliates, or JG Summit Group, collectively, beneficially own approximately 57.2% in PLDT's outstanding common stock (representing 33.8% of our overall voting stock). See Item 7. "Major Shareholders and Related Party Transactions" for further details regarding the shareholdings of NTT Communications and NTT DOCOMO in PLDT, and the rights granted pursuant to the Cooperation Agreement, Strategic Agreement and the Shareholders Agreement.

Additionally, all of PLDT's shares of voting preferred stock, which represent approximately 41% of PLDT's total outstanding shares of voting stock are owned by a single stockholder, BTF Holdings, Inc., or BTFHI.

The FP Parties and/or NTT Communications and/or NTT DOCOMO and/or JG Summit Group and/or BTFHI may exercise their respective voting rights over certain decisions and transactions in a manner that could be contrary to the interests of other shareholders or stakeholders in PLDT.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could adversely impact investor confidence and the market price of our common shares and ADSs, and have a material adverse effect on our business, our reputation, financial condition and results of operations.

We are required to comply with various Philippine and U.S. laws and regulations on internal control. However, internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal control over financial reporting, including our failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on our business, our reputation, financial condition and results of operations, and the market prices of our common shares and ADSs could decline significantly.

We are unionized and are vulnerable to work stoppages, slowdowns or increased labor costs.

As at December 31, 2019, PLDT has three employee unions, representing in the aggregate 9,099, or 48%, of the employees of the PLDT Group. This unionized workforce could result in demands that may increase our operating expenses and adversely affect our profitability. For instance, PLDT experienced significant charges from its manpower rightsizing program in 2019, 2018 and 2017, mainly incurred in the fixed-line business. See *Note 5 – Income and Expenses – Compensation and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements". Each of our different employee groups require separate collective bargaining agreements. If PLDT and any of its unions are unable to reach an agreement on the terms of their collective bargaining agreement or if we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. Any of these events would be disruptive to our operations and could harm our business.

Additionally, on July 3, 2017, PLDT received a Compliance Order from the Department of Labor and Employment of the Philippines, or DOLE, in connection with the non-payment of statutorily required monetary benefits, including the 13^{th} month pay, to certain contractor employees. On July 31, 2018, the Court of Appeals promulgated a decision granting PLDT's prayer for an injunction against the Compliance Order and remanded back to the DOLE for further proceedings the computation of the monetary awards, which in the regularization orders amounted to Php51.8 million. We cannot guarantee that PLDT or its subsidiaries will not be subject to similar proceedings or other labor-related regulatory activities, the results of which may have an adverse reputational and/or financial impact. See *Note 27 – Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

The loss of key personnel or the failure to attract and retain highly qualified personnel could compromise our ability to effectively manage our business and pursue our growth strategy.

Our future performance depends on our ability to attract and retain highly qualified key technical, development, sales, services and management personnel. The loss of key employees could result in significant disruptions to our business, and the integration of replacement personnel could be costly and time consuming, could cause additional disruptions to our business, and could be unsuccessful. We cannot guarantee the continued employment of any of the members of our senior leadership team, who may depart our Company for any number of reasons, such as other business opportunities, differing views on our strategic direction or other personal reasons. Any inability to attract, retain or motivate our personnel could have a material adverse effect on our results of operations and prospects.

Adverse results of any pending or future litigation, internal or external investigations and/or disputes may impact PLDT's cash flows, results of operations and financial condition.

We are currently involved in various legal proceedings. Our estimate of the probable costs for the resolution of these claims have been developed in consultation with our counsel handling the defense in these matters and is based upon our analysis of potential results. Our future financial performance could be materially affected by an adverse outcome or by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments.

For more information on PLDT's legal proceedings, see Item 8. "Legal Proceedings" and *Note 27 – Provisions and Contingencies* to the accompanying consolidated financial statements in Item 18. "Financial Statements." While PLDT believes the positions it has taken in these cases are legally valid, the final results of these cases may prove to be different from its expectations. In addition, there is no assurance that PLDT will not be involved in future litigation or other disputes, the results of which may materially and adversely impact its business and financial conditions.

Our financial condition and operating results will be impaired if we experience high fraud rates related to device financing, credit cards, dealers, or subscriptions.

Our operating costs could increase substantially as a result of fraud, including device financing, customer credit card, subscription, or dealer fraud. If our fraud detection strategies and processes are not successful in detecting and controlling fraud, whether directly or by way of the systems, processes, and operations of third parties such as customers, national retailers, dealers, and others, the resulting loss of revenue or increased expenses could have a material adverse effect on our financial condition and operating results.

Risks Relating to the Philippines

PLDT's business may be adversely affected by political or social or economic instability in the Philippines.

The Philippines is subject to political, social and economic volatility that, directly or indirectly, could have a material adverse impact on our ability to sustain our business and growth.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and our operations could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect our business, financial position and financial performance.

We cannot assure you that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies that are conducive to sustained economic growth or which do not materially and adversely impact the current regulatory environment for the telecommunications and other companies.

If foreign exchange controls were to be imposed, our ability to meet our foreign currency payment obligations could be adversely affected.

The Philippine government has, in the past, instituted restrictions on the conversion of the Philippine peso into foreign currencies and the use of foreign exchange received by Philippine companies to pay foreign currency-denominated obligations. The Monetary Board of the BSP has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to:

- suspend temporarily or restrict sales of foreign exchange;
- require licensing of foreign exchange transactions; or
- require the delivery of foreign exchange to the BSP or its designee banks.