UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 – For the fiscal year ended December 31, 2017**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 – For the transition period from _________ to _________**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 — Date of event requiring this shell company report __________**

Commission file number 1-03006

PLDT Inc.

(Exact name of Registrant as specified in its charter)

Republic of the Philippines
(Jurisdiction of incorporation or organization)

Ramon Cojuangco Building
Makati Avenue
Makati City, Philippines
(Address of principal executive offices)

Atty. Ma. Lourdes C. Rausa-Chan, telephone: +(632) 816-8556; lrchan@pldt.com.ph;
Ramon Cojuangco Bldg., Makati Avenue, Makati City, Philippines
(Name, telephone, e-mail and/or facsimile number and address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Capital Stock, Par Value Five Philippine Pesos Per Share	New York Stock Exchange*
American Depositary Shares, evidenced by American Depositary Receipts, each representing one share of Common Capital Stock	New York Stock Exchange

* *Registered on the New York Stock Exchange not for trading but only in connection with the registration of American Depositary Shares, or ADSs, pursuant to the requirements of such stock exchange.*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as at the close of the period covered by the annual report.

As at December 31, 2017:

216,055,775 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share

300,000,870 shares of Non-voting Preferred Stock, Par Value Ten Philippine Pesos Per Share

150,000,000 shares of Voting Preferred Stock, Par Value One Philippine Peso Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☒ No☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (of for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[1] provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

[1] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT

Unless the context indicates or otherwise requires, references to "we," "us," "our" or "PLDT Group" mean PLDT Inc. (formerly Philippine Long Distance Telephone Company) and its consolidated subsidiaries, and references to "PLDT" or "the Company" mean PLDT Inc., excluding its consolidated subsidiaries (see *Note 2 – Summary of Significant Accounting Policies* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for a list of these subsidiaries, including a description of their respective principal business activities).

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

All references to the "Philippines" contained in this report mean the Republic of the Philippines and all references to the "U.S." or the "United States" are to the United States of America.

In this report, unless otherwise specified or the context otherwise requires, all references to "pesos," "Philippine pesos" or "Php" are to the lawful currency of the Philippines, all references to "dollars," "U.S. dollars" or "US$" are to the lawful currency of the United States and all references to "Japanese yen," "JP¥" or "¥" are to the lawful currency of Japan. Unless otherwise indicated, conversion of peso amounts into U.S. dollars in this report were made based on the volume weighted average exchange rate quoted through the Philippine Dealing System, which was Php49.96 to US$1.00 on December 31, 2017. On March 26, 2018, the volume weighted average exchange rate quoted was Php52.29 to US$1.00.

In this annual report, each reference to:

- ARPU means average revenue per user;
- BIR means Bureau of Internal Revenue;
- BSP means Bangko Sentral ng Pilipinas;
- CMTS means cellular mobile telephone system;
- CPCN means Certificate of Public Convenience and Necessity;
- DFON means domestic fiber optic network;
- Digitel means Digital Telecommunications Phils., Inc.;
- DMPI means Digitel Mobile Philippines, Inc.;
- DSL means digital subscriber line;
- First Pacific means First Pacific Company Limited;
- First Pacific Group means First Pacific and its Philippine affiliates;
- FP Parties means First Pacific and certain Philippine affiliates and wholly-owned non-Philippine subsidiary;
- FTTH means Fiber-to-the-HOME;
- GSM means global system for mobile communications;
- HSPA means high-speed packet access;
- IFRS means International Financial Reporting Standards, as issued by the International Accounting Standards Board;
- IGF means international gateway facility;
- IP means internet protocol;
- IT means information technology;
- LEC means local exchange carrier;
- LTE means long-term evolution;
- MVNO means mobile virtual network operations;
- NGN means Next Generation Network;
- NTC means the National Telecommunications Commission of the Philippines;
- NTT means Nippon Telegraph and Telephone Corporation;

- NTT Communications means NTT Communications Corporation, a wholly-owned subsidiary of NTT;
- NTT DOCOMO means NTT DOCOMO, Inc., a majority-owned and publicly traded subsidiary of NTT;
- PAPTELCO means Philippine Association of Private Telephone Companies, Inc.;
- PCEV means PLDT Communications and Energy Ventures, Inc.;
- PDRs means Philippine Depositary Receipts;
- Philippine SEC means the Philippine Securities and Exchange Commission;
- PLDT Beneficial Trust Fund means the beneficial trust fund created by PLDT to pay the benefits under the PLDT Employees' Benefit Plan;
- PLP means PLDT Landline Plus;
- PSE means the Philippine Stock Exchange, Inc.;
- R.A. means Republic Act of the Philippines;
- SIM means Subscriber Identification Module;
- Smart means Smart Communications, Inc.;
- U.S. SEC means the United States Securities and Exchange Commission;
- VAS means Value-Added Service;
- VoIP means Voice over Internet Protocol;
- VPN means virtual private network;
- W-CDMA means Wideband-Code Division Multiple Access; and
- WiMAX means Worldwide Interoperability for Microwave Access.

FORWARD-LOOKING STATEMENTS

Some information in this report may contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current beliefs, expectations and intentions as to facts, actions and events that will or may occur in the future. Such statements are generally identified by forward-looking words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," "will" or other similar words.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith. These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in Item 3. "Key Information – Risk Factors." When considering forward-looking statements, you should keep in mind the description of risks and other cautionary statements in this report.

You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the statements in this report after the date hereof. In light of these risks and uncertainties, you should keep in mind that actual results may differ materially from any forward-looking statement made in this report or elsewhere.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as at December 31, 2017 and 2016 and for the three years in the period ended December 31, 2017 included in Item 18. "Financial Statements" of this annual report on Form 20-F have been prepared in conformity with IFRS.

As at December 31, 2017, our business activities were categorized into three business units: Wireless, Fixed Line and Others.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Performance Indicators

We use a number of non-GAAP performance indicators to monitor financial performance. These are summarized below and discussed later in this report.

Adjusted EBITDA

Adjusted EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) – net. Adjusted EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Adjusted EBITDA is presented because our management believes that it is widely used by investors in their analysis of the performance of PLDT and can assist them in their comparison of PLDT's performance with those of other companies in the technology, media and telecommunications sector. We also present Adjusted EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Companies in the technology, media and telecommunications sector have historically reported Adjusted EBITDA as a supplement to financial measures in accordance with IFRS. Adjusted EBITDA should not be considered as an alternative to net income as an indicator of our performance, nor should Adjusted EBITDA be considered as an alternative to cash flows from operating activities as a measure of liquidity or as an alternative to any other measure determined in accordance with IFRS. Unlike net income, Adjusted EBITDA does not include depreciation and amortization or financing costs and, therefore, does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using Adjusted EBITDA as only one of several comparative tools, together with IFRS-based measurements, to assist in the evaluation of operating performance. Such IFRS-based measurements include income before income tax, net income, and operating, investing and financing cash flows. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in Adjusted EBITDA. Our calculation of Adjusted EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated Adjusted EBITDA to our consolidated net income for the years ended December 31, 2017, 2016 and 2015 is presented in Item 5. "Operating and Financial Review and Prospects — Management's Financial Review" and *Note 4 — Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Core Income

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. Core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis for determining the level of dividend payouts to shareholders and a basis for granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with IFRS as an indicator of our performance. Unlike income before income tax, core income does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and nonrecurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with IFRS-based measurements, to assist in the evaluation of operating performance. Such IFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited. A reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2017, 2016 and 2015 is presented in Item 5. "Operating and Financial Review and Prospects – Management's Financial Review" and *Note 4 – Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Selected Financial Data

The selected consolidated financial information below as at December 31, 2017, 2016 and 2015 and for the financial years ended December 31, 2017, 2016 and 2015, should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements, and the accompanying notes, included elsewhere in Item 18. "Financial Statements" of this annual report on Form 20-F. As disclosed under "Presentation of Financial Information," our consolidated financial statements as at and for the years ended December 31, 2017, 2016 and 2015 have been prepared and presented in conformity with IFRS. The selected consolidated financial information as at December 31, 2014 and 2013 have been derived from our audited financial statements not included in this annual report.

	2017[1]	2017	2016	2015	2014	2013
	(in millions, except earnings per common share amounts, weighted average number of common shares, ratio of earnings to fixed charges and dividends declared per common share amounts)					
Statements of Operations Data:						
Revenues	US$ 3,201	Php 159,926	Php 165,262	Php 171,103	Php 170,835	Php 168,211
Service revenues	3,026	151,165	157,210	162,930	164,943	163,932
Non-service revenues	175	8,761	8,052	8,173	5,892	4,279
Expenses	3,011	150,415	140,559	139,268	130,457	125,514
Net income for the year	270	13,466	20,162	22,075	34,090	35,453
Continuing operations	270	13,466	20,162	22,075	34,090	33,384
Discontinued operations	—	—	—	—	—	2,069
Earnings per common share for the year attributable to equity holders of PLDT						
Basic	1.23	61.61	92.33	101.85	157.51	163.67
Diluted	1.23	61.61	92.33	101.85	157.51	163.67
Earnings per common share from continuing operations for the year attributable to equity holders of PLDT						
Basic	1.23	61.61	92.33	101.85	157.51	154.09
Diluted	1.23	61.61	92.33	101.85	157.51	154.09
Balance Sheets Data						
Cash and cash equivalents	659	32,905	38,722	46,455	26,659	31,905
Total assets	9,196	459,444	475,119	455,095	436,295	399,638
Net assets	2,225	111,183	108,537	113,898	134,668	137,326
Total long-term debt - net of current portion	3,156	157,654	151,759	143,982	115,399	88,924
Total debt[2]	3,455	172,611	185,032	160,892	130,123	104,090
Total liabilities	6,971	348,261	366,582	341,197	301,627	262,312
Total equity attributable to equity holders of PLDT	2,139	106,842	108,175	113,608	134,364	137,147
Weighted average number of common shares for the year (in thousands)	216,056	216,056	216,056	216,056	216,056	216,056
Other Data:						
Depreciation and amortization	1,039	51,915	34,455	31,519	31,379	30,304
Ratio of earnings to fixed charges[3]	2.3x	2.3x	3.1x	4.0x	6.4x	5.7x
Net cash provided by operating activities	1,123	56,114	48,976	69,744	66,015	73,763
Net cash used in investing activities	(422)	(21,060)	(41,982)	(39,238)	(51,686)	(21,045)
Net cash used in financing activities	(807)	(40,319)	(15,341)	(11,385)	(19,897)	(59,813)
Dividends declared to common shareholders	329	16,421	22,902	32,841	39,970	37,809
Dividends declared per common share	1.52	76.00	106.00	152.00	185.00	175.00

(1) *We maintain our accounts in Philippine pesos, the functional and presentation currency under IFRS. For convenience, the Philippine peso financial information as at and for the year ended December 31, 2017, has been converted into U.S. dollars at the exchange rate of Php49.96 to US$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2017. This conversion should not be construed as a representation that the Philippine peso amounts represent, or have been or could be converted into, U.S. dollars at that rate or any other rate.*

(2) *Total debt represents the sum of (i) current portion of long-term debt; (ii) long-term debt – net of current portion.*

(3) *Please refer to Exhibit 7 for detailed information and computation of ratio of earnings to fixed charges.*

Capital Stock

The following table summarizes PLDT's capital stock issued and outstanding as at December 31, 2017 and 2016:

	No. of shares		December 31,	
	2017	2016	2017	2016
	(in millions)		(Pesos in millions)	
Non-Voting Preferred Stock				
10% Cumulative Convertible Preferred Stock II and JJ*	—	—	—	—
Series IV Cumulative Non-convertible Redeemable Preferred Stock**	300	300	360	360
Voting Preferred Stock	150	150	150	150
	450	450	510	510
Common Stock	216	216	1,093	1,093
Total	666	666	1,603	1,603

* *On June 8, 2015, the Company issued 870 shares of Series JJ 10% Cumulative Convertible Preferred Stock, which are currently outstanding. In April 2011, the Company issued 370 shares of Series II 10% Cumulative Convertible Preferred Stock, all of which were redeemed by May 11, 2016.*

** *Includes 300,000,000 shares subscribed for Php3,000,000,000, of which Php360,000,000 has been paid.*

Dividends Declared

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2015, 2016 and 2017:

	Date			Amount	
Earnings	Approved	Record	Payable	Per share	Total Declared
				(in Pesos)	(Pesos in millions)
2015	August 4, 2015	August 27, 2015	September 25, 2015[1]	65	14,044
2015	February 29, 2016	March 14, 2016	April 1, 2016	57	12,315
				122	26,359
2016	August 2, 2016	August 16, 2016	September 1, 2016	49	10,587
2016	March 7, 2017	March 21, 2017	April 6, 2017	28	6,050
				77	16,637
2017	August 10, 2017	August 25, 2017	September 8, 2017	48	10,371
2017	March 27, 2018	April 13, 2018	April 27, 2018	28	6,050
				76	16,421

(1) *Payment was moved to September 28, 2015 in view of Proclamation No. 1128, Series of 2015, dated September 15, 2015 declaring September 25, 2015 as a regular holiday.*

Dividends Paid

The following table shows a summary of dividends paid per share of PLDT's common stock stated in both Philippine peso and U.S. dollars:

	In Philippine Peso	In U.S. Dollars
2013	175.00	4.16
Regular Dividend – April 18, 2013	60.00	1.45
Regular Dividend – September 27, 2013	63.00	1.45
Special Dividend – April 18, 2013	52.00	1.26
2014	185.00	4.14
Regular Dividend – April 16, 2014	62.00	1.39
Regular Dividend – September 26, 2014	69.00	1.54
Special Dividend – April 16, 2014	54.00	1.21
2015	152.00	3.35
Regular Dividend – April 16, 2015	61.00	1.37
Regular Dividend – September 25, 2015[1]	65.00	1.39
Special Dividend – April 16, 2015	26.00	0.59
2016	106.00	2.29
Regular Dividend – April 1, 2016	57.00	1.24
Regular Dividend – September 1, 2016	49.00	1.05
2017	76.00	1.51
Regular Dividend – April 6, 2017	28.00	0.56
Regular Dividend – September 8, 2017	48.00	0.95

(1) *Payment was moved to September 28, 2015 in view of Proclamation No. 1128, Series of 2015, dated September 15, 2015 declaring September 25, 2015 as a regular holiday.*

Dividends on PLDT's common stock were declared and paid in Philippine pesos. For the convenience of the reader, the Philippine peso dividends have been converted into U.S. dollars based on the Philippine Dealing System Reference Rate on the respective dates of dividend payments. See *Note 20 – Equity* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for further information on our dividend payments.

Exchange Rates

The Philippine government does not administratively fix the exchange rate between the Philippine peso and the U.S. dollar. Since August 1, 1992, a market average rate, known as the Philippine Dealing System Reference Rate, has been determined daily in inter-bank trading using the Philippine Dealing System. The Philippine Dealing System is a specialized off-floor direct dealing service for the trading of Philippine pesos-U.S. dollars by member banks of the Bankers Association of the Philippines, or the BAP, and BSP, the central bank of the Philippines. All members of the BAP are required to make their Philippine peso-U.S. dollar trades through this system, which was established by Telerate Financial Information Network of Hong Kong.

The following table shows the exchange rates between the Philippine peso and the U.S. dollar, expressed in Philippine pesos per U.S. dollar, for the periods indicated, based on the volume-weighted average exchange rate for each business day in each of the periods presented:

	Year Ended December 31,			
	Period End	**Average[1]**	**High[2]**	**Low[3]**
2013	Php 44.40	Php 42.66	Php 40.57	Php 44.66
2014	44.74	44.45	43.64	44.87
2015	47.12	45.62	44.08	47.44
2016	49.77	47.67	45.92	49.98
2017	49.96	50.41	49.40	51.80
2018 (through March 26, 2018)	52.29	51.42	49.77	52.34

Source: Philippine Dealing System Reference Rate

(1) *Calculated by using the average of the exchange rates on the last day of each month during the period.*

(2) *Highest exchange rate for the period.*

(3) *Lowest exchange rate for the period.*

	Month			
	Period End	**Average[1]**	**High[2]**	**Low[3]**
2017				
September	Php 50.83	Php 50.99	Php 50.63	Php 51.24
October	51.69	51.39	50.95	51.80
November	50.35	50.97	50.35	51.49
December	49.96	50.37	49.92	50.74
2018				
January	51.34	50.57	49.77	51.42
February	52.07	51.82	51.21	52.35
March (through March 26, 2018)	52.29	52.06	51.86	52.34

Source: Philippine Dealing System Reference Rate

(1) *Calculated by using the average of the exchange rates during the month.*

(2) *Highest exchange rate for the month.*

(3) *Lowest exchange rate for the month.*

This report contains conversions of Philippine peso amounts into U.S. dollars for your convenience. Unless otherwise specified, these conversions were made at the Philippine Dealing System Reference Rate as at December 31, 2017 of Php49.96 to US$1.00. You should not assume that such Philippine peso amounts represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rate indicated, or at any particular rate. As at March 26, 2018, the exchange rate quoted through the Philippine Dealing System was Php52.29 to US$1.00. Unless otherwise specified, the weighted average exchange rate of the Philippine peso to the U.S. dollar for a given year used in the following discussions in this report was calculated using the average of the daily exchange rates quoted through the Philippine Dealing System during the year.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

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 and proliferation of OTT services, also known as VoIP services (such as *Facebook*, *Skype*, *Viber*, *WhatsApp* and other similar services), have disrupted our business. Due to the adoption of new technologies, changing customer habits, and the growing popularity of these new OTT services, 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.

Growing mobile data usage in the Philippines, coupled with the prevalence of OTT services 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 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.

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.

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 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 beginning to escalate as well. Vital capacity and coverage expansion may continue to increase our capital expenditures. Recently, operators have grown more aggressive in maintaining and growing market share, especially in light of a maturing market. Our principal mobile competitor, Globe, has introduced aggressive marketing campaigns and promotions, such as unlimited voice, SMS, and data offers. It has also expressed interest to compete more actively in the fixed line segment, and has started to offer fixed line products and services.

In 2017, the Philippine government announced its intentions to introduce in the Philippines telecommunications market a third major company. The process for the establishment of this third major player is currently underway, and is heavily supported by the Philippine government. Media reports indicate that established international telecommunications companies are part of the shortlist. 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. 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 expenditures, lose customers or reduce our rates, resulting in a reduction in our profitability.

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, this could have a material adverse effect on our business, results of operations, financial condition and prospects.

***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 and 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.

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 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 118% as at December 31, 2017, and thus the industry may well be considered mature. 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 recently 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.

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, Republic Act 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 RA 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, find our business practices to have an anti-competitive effect on the Philippine telecommunications industry, nor can we assure you that we will not be found to 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 VTI, Bow Arken and 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 the 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 10 – 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 or the Philippine Data Privacy Act of 2012, or the Privacy Act, its Implementing Rules and Regulations and other related issuances of the Philippine SEC recognizes as a policy of the Philippine government the protection of the fundamental human right of privacy, while ensuring the free flow of information to promote innovation and growth. The Privacy Act provides for the protection of personal data of Philippine data subjects, which are subjected to processing conducted by any natural and juridical person in the government or private sector. The Philippine SEC has been actively enforcing the implementation and compliance of entities covered by the Privacy Act since the release of its Rules in 2016.

We began the design and implementation of a Personal Data Privacy Policy (the "Policy") in 2016. This Policy requires the regular conduct of privacy impact assessments against business processes, products, and systems that involve any form of processing of personal data. Such assessments have resulted in major process overhauls and adjustments to contractual obligations of third-party business partners.

Failure to adhere to this Policy may result in penalties and sanctions against erring or negligent employees and third-party business partners. We have employed measures to ensure the protection of related data, so as to avoid the loss of customer confidence and damage to the PLDT brands, any of which could potentially have an adverse effect to business. We cannot, however, guarantee these measures will be successful.

Similar foreign regulatory bodies have likewise introduced data protection standards and regulations concerning cross border data processing. Some countries have achieved a more mature state of implementation, while other countries have yet to define or implement them. While the Philippines may generally be considered to be in the early stages of adoption, our exposure to international markets and partners which require cross border data processing may become a challenge in our operations. International laws need to be interpreted and considered in our policies and practices, which may consequently require material changes to internal business operations and practices. Complying with these varying international requirements may lead to substantial implementation costs or penalties in the case of non-compliance.

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, 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.

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 Item 5. "Operating and Financial Review and Prospects – Critical Accounting Policies" and *Note 11 – Available-for-Sale Financial Investments – 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.

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), 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.

Our business operations rely on us securely maintaining our network infrastructure and computer systems. A cyber-attack on our systems could cause service disruptions, damage to our systems and infrastructure, including damage to our physical assets, malfunction of our technology or services, accidental and/or deliberate misuse of our systems and other assets, alteration of our technology, publication of our proprietary technologies, methods, processes, business strategies and other confidential information, as well as unauthorized access to confidential information about our customers, including their financial information, any of which may lead to reputational harm, loss of confidence in our brand, litigation, regulatory actions and loss in customers, each of which, individually or in the aggregate may materially adversely affect our business, financial condition and results of operations.

During 2017, Smart subscribers reported cases of not being able to access popular websites or common mobile applications as well as frequent prompts for captcha verification (end-user validation which requires the user to input certain information or complete certain task to access the desired webpage). Upon investigation, it was revealed that spam emails and malware network activities were emanating from our subscribers' devices. Our IP ranges were consequently black-listed and tagged with poor reputation. To resolve the issue, we implemented several measures to prevent spam activity on our network.

In order to minimize our exposure to cyber security risks, we have deployed a multi-layered defense mechanism from the network to the host and up to the application level. However, we can neither assure you that any of such defenses will be effective against or neutralize the effects of any cyber incidents resulting from unintentional cyber security breaches or deliberate attacks on our network infrastructure or computer systems, nor assure you that our business will not be significantly disrupted in the event of such security breach or attack. If we fail to timely and effectively prevent the occurrence of any new or existing cyber security incidents, or fail to promptly rectify any such incidents, our business could be significantly disrupted, our results of operations could be materially and adversely affected, and the confidence of our stakeholders could be lost.

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.

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 Php40,299 million, Php42,825 million and Php43,175 million for the years ended December 31, 2017, 2016 and 2015, respectively. We currently estimate that our consolidated capital expenditures in 2018 will be approximately Php58 billion.

Future strategic initiatives could require us to incur significant additional 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.

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 21% from a high of Php41.08 for year end 2012 to Php49.96 as at December 31, 2017 and further depreciated to Php52.29 as at March 26, 2018. 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;
- 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 the financial ratio covenants and other financial tests under our debt instruments are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and our consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expenses. Of our total consolidated debts, approximately 20% and 31% were denominated in U.S. dollars as at December 31, 2017 and 2016, respectively. Considering our consolidated hedges and U.S. dollar cash balances allocated for debt, the unhedged portion of the consolidated debt amounts were approximately 8% in each of December 31, 2017 and 2016, and therefore these financial ratios 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 operations 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 January 31, 2018, 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 53.93% in PLDT's outstanding common stock (representing 31.83% 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, 2017, PLDT has three employee unions, representing in the aggregate 5,328, or 30%, 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 a significant charge from its manpower rightsizing program in 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 may require separate collective bargaining agreements. If any group of our employees and PLDT are unable to reach agreement on the terms of their collective bargaining agreement or 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, in 2017, PLDT received a Compliance Order from the Department of Labor and Employment of the Philippines, or DOLE, on July 3, 2017 in connection with the non-payment of statutorily required monetary benefits, including the 13th month salary, to certain contract workers. The Compliance Order held the PLDT Group liable for Php78.6 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. "Financial Information – 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.

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.

We cannot assure you that foreign exchange controls will not be imposed in the future. If imposed, these restrictions could materially and adversely affect our ability to obtain foreign currency to service our foreign currency obligations.

As a foreign private issuer, we follow certain home country corporate governance practices which may afford less protection to holders of our ADSs.

As a foreign private issuer incorporated in the Philippines and listed on the PSE, we are permitted under applicable NYSE rules to follow certain home country corporate governance practices. The corporate governance practice and requirements in the Philippines do not require us to have a majority of the members of our board of directors to be independent, and do not require regularly scheduled executive sessions of non-management directors or regularly scheduled executive sessions where only independent directors are present. Further, the criteria for independence of directors and audit committee members applicable in the Philippines differ from those applicable under the NYSE rules. These Philippine home country corporate governance practices may afford less protection to holders of our ADSs.

The credit ratings of the Philippines may restrict the access to capital of Philippine companies, including PLDT.

Historically, the Philippines' sovereign debt has been rated non-investment grade by international credit rating agencies. In December 2017, the Philippines' long-term foreign currency-denominated debt was affirmed by Fitch Ratings, or Fitch, as investment-grade with a rating of BBB+ with a stable outlook, and Standard and Poor's, or S&P, and Moody's Investor Service, or Moody's, affirmed the Philippines' long-term foreign currency-denominated debt to the investment-grade rating of BBB+ and Baa2, respectively, with a stable outlook. Though investment grade, the relatively low sovereign rating of the Philippine Government will directly and adversely affect companies domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Fitch, Moody's, S&P, or any other international credit rating agency will not downgrade the credit ratings of the Philippine Government in the future and, therefore, Philippine companies, including PLDT. Any such downgrade could have a material adverse impact on the liquidity in the Philippine financial markets, the ability of the Philippine Government and Philippine companies, including PLDT, to raise additional financing, and the interest rates and other commercial terms at which such additional financing is available.

Item 4. Information on the Company

Overview

We are one of the leading telecommunications service providers in the fixed line, wireless and broadband markets in the Philippines, in terms of both subscribers and revenues. Through our three principal business segments (Wireless, Fixed Line and Others), we offer a large and diverse range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless and fixed line networks.

We are the leading fixed line service provider in the Philippines accounting for approximately 64% of the total reported fixed line subscribers nationwide as at December 31, 2017. Smart and DMPI, the PLDT Group's mobile service providers, collectively, account for approximately 49% of the total reported mobile subscribers nationwide as at December 31, 2017.

Our common shares are listed and traded on the PSE and our ADSs are listed and traded on the NYSE in the United States.

We had a market capitalization of approximately Php319,763 million, or US$6,400 million, as at December 31, 2017, representing one of the largest market capitalizations among Philippine-listed companies. We had total revenues of Php159,926 million, or US$3,201 million, and net income attributable to equity holders of PLDT of Php13,371 million, or US$268 million, for the year ended December 31, 2017.

Historical Background and Development

PLDT was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928 as Philippine Long Distance Telephone Company, following the merger of four telephone companies under common U.S. ownership. Under its Amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028.

PLDT's original franchise was granted in 1928 and was last amended in 1991, extending its effectiveness until 2028 and broadening PLDT's franchise to permit PLDT to provide virtually every type of telecommunications service. PLDT's franchise covers the business of providing basic and enhanced telecommunications services in and between the provinces, cities and municipalities in the Philippines and between the Philippines and other countries and territories including mobile, wired or wireless telecommunications systems; fiber optics; multi-channel transmission distribution systems and their VAS (including but not limited to transmission of voice, data, facsimile, control signals, audio and video); information services bureau and all other telecommunications systems technologies presently available or that can be made available through technical advances or innovations in the future. Our subsidiaries, including Smart and DMPI, also maintain their own franchises with a different range of services and periods of legal effectiveness for their licenses.

Our principal executive offices are located at the Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines and our telephone number is +(632) 816-8534. Our website address is *www.pldt.com*. The contents of our website are not a part of this annual report.

Recent Developments

PCEV's Sale of Receivables from Metro Pacific Investments Corporation, or MPIC

On March 2, 2018, PCEV entered into a Receivables Purchase Agreement, or RPA, with various financial institutions, or Purchasers, to sell a portion of its receivables from MPIC due in 2019 to 2021 amounting to Php5,550 million for a total consideration of Php4,852 million. The receivables consist of the partial proceeds from the sale of PCEV's shares in Beacon to MPIC done in 2016 and 2017.

Under the terms of the RPA, the Purchasers will have exclusive ownership of the purchased receivables and all of its rights, title, and interest.

Agreement between PLDT and Smart and Amdocs

On January 24, 2018, PLDT and Smart entered into a seven-year, US$300 million Managed Transformation Agreement with Amdocs, a leading provider of software and services to communications and media companies, to upgrade PLDT's business IT systems and improve its business processes and services, aimed at enhancing consumer satisfaction, reducing costs and generating increased revenues.

Transfer of Hastings PDRs to PLDT Beneficial Trust Fund

On January 22, 2018, ePLDT's Board of Directors approved the assignment of the Hastings PDRs, representing 70% economic interest in Hastings Holdings, Inc., to the PLDT Beneficial Trust Fund for a total consideration of Php1,664 million. The assignment was completed on February 15, 2018 and ePLDT subsequently ceased to have any economic interest in Hastings.

PLDT's subscription to Vega Telecom, Inc., VTI's, new preferred shares

On December 15, 2017, PLDT and Globe each subscribed to 600,000 new preferred shares of the authorized capital stock of VTI, at a subscription price of Php5,000 per subscribed share (inclusive of a premium over par of Php4,000 per subscribed share), for a total subscription price of Php3,000 million (inclusive of a premium over par of Php2,400 million). PLDT and Globe each paid Php10 million in cash for the subscribed shares upon execution of the agreement. The remaining balance of the subscription price was paid via conversion of advances amounting to Php2,990 million as at December 31, 2017.

Transfer of iCommerce to PLDT Online

On December 14, 2017, Voyager Innovations Holdings, Pte. Ltd., or VIH, and PLDT Online entered into a sale and purchase agreement wherein VIH sold all its 10,000 ordinary shares in iCommerce to PLDT Online for a total purchase price of SGD1.00. On the same date, VIH assigned its loans receivables from iCommerce to PLDT Online amounting to US$8.6 million. In consideration, PLDT Online paid VIH US$8.9 million inclusive of interest as at November 30, 2017.

Divestment of CURE

On October 26, 2011, PLDT received the Order issued by the NTC approving the application jointly filed by PLDT and Digitel for the sale and transfer of approximately 51.6% of the outstanding common stock of Digitel to PLDT. The approval of the application was subject to conditions which included the divestment by PLDT of CURE, in accordance with the Divestment Plan.

In a letter dated July 26, 2012, Smart informed the NTC that it has complied with the terms and conditions of the divestment plan as CURE had rearranged its assets, such that, except for assets necessary to pay off obligations due after June 30, 2012 and certain tax assets, CURE's only remaining assets as at June 30, 2012 were its congressional franchise, the 10MHz of 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum Cost Recovery Amount, or CRA, to enable PLDT to recover its investment in CURE includes, among others, the total cost of equity investments in CURE, advances from Smart for operating requirements, advances from stockholders and associated funding costs. In a letter dated January 21, 2013, the NTC referred the computation of the CRA to the Commissioners of the NTC.

In a letter dated March 5, 2018, PLDT informed the NTC that it is waiving its right to recover any and all cost related to the 10MHz of 3G radio frequency previously assigned to CURE. Accordingly, CURE will not claim any cost associated with it in the event of subsequent assignment by the NTC to another qualified telecommunication company. With the foregoing, PLDT is deemed to have fully complied with its obligation to divest in CURE as a condition to the sale and transfer of DTPI shares to PLDT.

See *Note 2 – Summary of Significant Accounting Policies – Divestment of CURE* to the accompanying audited consolidated financial statements in Item 18 "Financial Statements" for further details.

PLDT's investment in Trans-Pacific cable system

On October 30, 2017, PLDT announced that it is investing approximately Php7,000 million in the new Trans-Pacific cable system Jupiter to improve PLDT's international cabling capacity and reinforce the resiliency of its undersea fiber links to the U.S. and Japan. This investment will include purchases by PLDT of complementary terminal equipment and other related facilities in the Philippines, Japan and the U.S.

Transformation Incentive Plan

On September 26, 2017, the Board of Directors of PLDT approved the Transformation Incentive Plan, or the TIP, which intends to provide incentive compensation to key officers, executives and other eligible participants who are consistent performers and contributors to the Company's strategic and financial goals. The incentive compensation will be in the form of PLDT common shares of stock, or the Performance Shares, which will be released in three annual grants on the condition, among others, that pre-determined consolidated core net income targets are successfully achieved over three annual performance periods from January 1, 2017 to December 31, 2019. See *Note 26 – Employee Benefits* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for further details.

Transfer of SBI's Home Broadband Subscription Assets to PLDT

On September 26, 2017, the Board of Directors of PLDT and SBI, a PLDT subsidiary providing wireless broadband service, approved the sale and transfer of SBI's trademark, subscribers (both individual and corporate) and all of SBI's assets, rights and obligations directly or indirectly connected to its HOME Ultera and

HOMEBRO WiMAX businesses to PLDT. Subsequent to the transfer, SBI will continue to provide broadband services to its existing Canopy subscribers using a portion of Smart's network.

Subscription of PLDT Online in iflix Convertible Note

On August 4, 2017, PLDT Online subscribed to a convertible note of *iflix* for US$1.5 million, or Php75.5 million, in a new funding round led by Hearst Entertainment. The convertible note was paid on August 8, 2017. The note is zero coupon, senior and unsubordinated, non-redeemable, transferable, and convertible into Series B Preferred Shares subject to occurrence of a conversion event. *iflix* will use the funds to invest in its local content strategy and for its regional and international expansion.

Sale of PCEV's Remaining Beacon Shares to MPIC

On June 13, 2017, PCEV entered into a share purchase agreement with MPIC to sell its remaining 25% equity interest in Beacon for a total consideration of Php21,800 million. MPIC settled a portion of the consideration amounting to Php12,000 million upon closing and the balance of Php9,800 million will be paid in annual installments from June 2018 to June 2021. The unpaid balance from MPIC is measured at fair value using a discounted cash flow valuation method, with interest income to be accreted over the term of the receivable.

After the sale of PCEV's remaining 25% interest in Beacon, PCEV continues to hold its representation in the Board and participate in decision making. As set forth in the SPA: (i) the Seller shall be entitled to nominate one director to the Board of Directors of PCEV ("Seller's Director") and MPIC agrees to vote its shares in PCEV in favor of such Seller's Director; and (ii) the Buyer shall cede to the Seller the right to vote all of the Shares ("Proxy Shares"). The parties agreed that with respect to decisions or policies affecting dividend payouts to be made by the Company, the Seller's Director shall exercise its voting rights, and shall vote, in accordance with the recommendation of the Buyer on such matter. As a result, PCEV's previously joint control over Beacon has become significant influence.

Sale of SPi Global by Asia Outsourcing Gamma Limited, or AOGL

On May 19, 2017, AOGL entered into a sale and purchase agreement with Partners Group, a global private markets investment manager, relating to the acquisition of SPi Global, a wholly-owned subsidiary of AOGL, for an enterprise value of US$330 million. The transaction was completed on August 25, 2017. As a result of the sale on various dates in 2017 and 2018, PGIC received a total cash distribution of US$57 million from Beta through redemption of a portion of its ordinary shares. AOGL is a wholly-owned subsidiary of Beta which is, in turn, owned 73.35% by CVC Capital Partners, one of the world's leading private equity and investment advisory firms, and 18.32% by PLDT through its indirect subsidiary, PGIC.

For more information relating to the (1) DOLE Compliance Order to PLDT, see *Note 27 – Provisions and Contingencies*; (2) Petition against the Philippine Competition Commission, see *Note 10 – Investment in Associates and Joint Ventures*; and (3) Wilson Gamboa and Jose M. Roy III Petition, see *Note 27 – Provisions and Contingencies*, to the accompanying audited consolidated financial statements Item 18. "Financial Statements".

Business Overview

As at December 31, 2017, our business activities were categorized into three business units: Wireless, Fixed Line and Others.

We monitor the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. See *Note 4 – Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Wireless

While our legacy business of voice and SMS still provides the majority of our revenues, data, whether mobile internet (accessed via the mobile phone) or broadband (accessed via dongles and other similar devices), is the focus area of our business today. We generate data revenues from across all segments of our wireless business.

We provide (a) mobile services, (b) home broadband services, (c) digital platforms and mobile financial services, and (d) MVNO and other services, through our wireless business, which contributed approximately 95%, 3% and (collectively for digital platforms and mobile financial services, and MVNO and other services) 2%, respectively, of our wireless service revenues in 2017. Mobile data usage has surged in the past several years while voice and SMS usage has slowed down. Wireless revenues contributed 59% of our total revenues in 2017 as compared to 64% and 68% for the years ended December 31, 2016 and 2015, respectively. Our mobile service revenues, were 90%, 92% and 91% of our total wireless revenues in 2017, 2016 and 2015, respectively.

Our mobile services, which accounted for approximately 95% of our wireless service revenues for the year ended December 31, 2017, are provided through Smart and DMPI with 58,293,908 total subscribers as at December 31, 2017 as compared to 62,763,209 total subscribers as at December 31, 2016, and 68,612,118 total subscribers as at December 31, 2015, representing a combined market share of approximately 49%, 50% and 55% as at December 31, 2017, 2016 and 2015, respectively. Our mobile revenue market share has been eroding by the combined impact of aggressive price competition, the ongoing upgrade of our mobile network and the consequent loss of subscriber market share. This was exacerbated by a larger proportion of legacy revenues from SMS and international voice relative to competition, that offset growth in our mobile data revenues. Moreover, mobile penetration in the Philippines decreased to approximately 118% in 2017 from 124% in 2016, and account for approximately 29 and 34 times the country's fixed line penetration in 2017 and 2016, respectively, although the existence of subscribers owning multiple SIM cards results in this penetration rate being inflated to a certain extent.

As at December 31, 2017, approximately 96% of our mobile subscribers were prepaid service subscribers. The predominance of prepaid service reflects one of the distinguishing characteristics of the Philippine mobile market, allowing us to reduce billing and administrative costs on a per-subscriber basis, as well as to control credit risk.

The continued growth of internet usage by smartphone and broadband dongle users resulted in significant increase in our mobile data revenues. As a result, our mobile internet revenues, which are part of our mobile data service revenues, increased by Php2,919 million, or 17%, to Php20,086 million in 2017 from Php17,167 million in 2016. Our mobile internet revenues contributed 76% and 67% of our mobile data service revenues in 2017 and 2016, respectively. Conversely, mobile broadband revenues, which are derived from the use of dongles and other similar mobile broadband devices, decreased by Php2,117 million, or 26%, to Php6,030 million.

Smart's and DMPI's wireless network provides extensive coverage in the Philippines, covering substantially all of Metropolitan Manila and most of the other major population centers in the Philippines. Our low spectrum band resources (700MHz, 850MHz and 900MHz) are primarily used to provide coverage whilst higher spectrum bands (1800MHz, 2100MHz, etc.) provide additional capacity. Our network supports HSPA+ (for 3G) and LTE-Advanced.

Fixed Line

We are the leading provider of fixed line telecommunications services throughout the Philippines, servicing retail, corporate and SME clients. Our fixed line business group offers voice, data and miscellaneous services. We had 2,663,210 fixed line subscribers as at December 31, 2017, an increase of 224,737, or 9%, from 2,438,473 fixed line subscribers as at December 31, 2016, mainly due to higher net additions in 2017 compared with 2016. Revenues from our fixed line business were 49%, 44% and 40% of our total revenues for the years ended December 31, 2017, 2016 and 2015, respectively. International voice revenues have been declining largely due to a drop in call volumes as a result of the availability of alternative calling options and OTT services. An increase in our data service revenues in recent years has mitigated such decline to a certain extent. Recognizing the growth potential of data services, we have put considerable emphasis on the development of new data-capable and IP-based networks.

Our 13,070-kilometer long DFON is complemented by an extensive digital microwave backbone network operated by Smart. This microwave network complements the higher capacity fiber optic networks and is vital in delivering reliable services to areas not covered by fixed terrestrial transport network. Our fixed line network reaches all of the major cities and municipalities in the Philippines, with a concentration in the Metropolitan Manila area. Our network offers the country's most extensive connections to international networks through two international gateway switching exchanges and various regional submarine cable systems in which we have economic interests.

See Item 4. "Information on the Company – Infrastructure – Fixed Line Network Infrastructure" for further information on our fixed line infrastructure.

Others

Our other business in 2017 consisted primarily of PCEV, an investment holding company, which owns an 8.74% effective interest in Meralco as at December 31, 2016 through its 25% equity interest in Beacon, until the full divestment of Beacon shares to MPIC on June 13, 2017. PLDT Global Investments Corporation, or PGIC, which owns an 18.32% economic interest in Beta, an investment holding company of SPi Technologies, Inc. and its subsidiaries, or SPi Group, where we reinvested approximately US$40 million of the proceeds from the sale of BPO in 2013; and PLDT Digital Investments Pte. Ltd., or PLDT Digital, an investment holding company, which owns a 6.1% equity interest in Rocket, through its wholly-owned subsidiary, PLDT Online.

Capital Expenditures and Divestitures

See Item 5. "Operating and Financial Review and Prospects – Plans" for capital expenditures planned for 2018 and Item 5. "Operating and Financial Review and Prospects – Liquidity and Capital Resources" for information concerning our principal capital expenditures for the years ended December 31, 2015, 2016 and 2017.

With the exception of the sale of 112.71 million common shares, comprising approximately a 10% equity interest, in Meralco to MPIC, there were no material divestitures in 2015.

On May 30, 2016, the PLDT Board approved the Company's acquisition of 50% equity interest, including outstanding advances and assumed liabilities, in the entities that own the telecommunications business of SMC with Globe acquiring the remaining 50% interest. See Item 10. "Additional Information – Material Contracts" for further information.

On May 30, 2016, PCEV sold common and preferred stock of Beacon, representing approximately 25% equity interest in Beacon to MPIC for a total consideration of Php26,200 million.

On May 19, 2017, AOGL entered into a Share Purchase Agreement with Partners Group, relating to the acquisition of SPi Global for an enterprise value of US$330 million. The transaction was completed on August 25, 2017.

On June 13, 2017, PCEV entered into a Share Purchase Agreement with MPIC to sell its remaining 25% equity interest in Beacon, consisting of 646 million shares of common stock and 458 million shares of preferred stock, for a total consideration of Php21,800 million.

See Item 4. "Recent Developments" for further information.

Organization

See Exhibit 8. "List of Subsidiaries" for a listing of PLDT's significant subsidiaries, including name, country of incorporation, proportion of ownership interests and, where different, proportion of voting power held.

Strengths

We believe our business is characterized by the following competitive strengths:

- *Recognized Brands*. PLDT, Smart, *TNT* and *Sun* are widely recognized brand names in the Philippines. We have built the PLDT brand name for almost 90 years as the leading telecommunications provider in the Philippines. Smart is recognized in the Philippines as an innovative provider of high-quality mobile services. The *TNT* brand, which is provided using Smart's network, has also gained significant recognition as a price-competitive brand. Since its launch in 2003, *Sun* has built considerable brand equity as a provider of "unlimited" services. Having a range of strong and recognizable brands allows us to offer to various market segments differentiated products and services that suit customers' budgets and usage preferences.

- *Leading Market Shares*. We have maintained our position as a market leader in fixed line and broadband markets in the Philippines in terms of both subscribers and revenues.

- *Diversified Revenue Sources*. We derive our revenues from two of our business segments, namely, Wireless and Fixed Line, with each contributing 54% and 46%, respectively, to our total revenues in 2017, 59% and 41%, respectively, in 2016, and 63% and 37%, respectively, in 2015. Revenue sources of our wireless business include mobile (voice, SMS, mobile data, and inbound roaming and other mobile services), home broadband, digital platforms and mobile financial services, and MVNO and other services. Revenues from mobile voice and SMS have been declining over the past several years, but this decline has been partly mitigated by the increase in revenues from data services, particularly mobile internet and mobile broadband services. Our fixed line business derives service revenues from voice (local exchange, international and domestic services), data and miscellaneous services. Revenues from international and domestic fixed line services have been declining over the past several years due to pressures on traditional fixed line voice revenues as a result of the popularity of OTT service providers, but have been offset by the significant revenue contributions from our home broadband, corporate data and leased lines, and data center and IT services, as well as higher revenues from our local exchange service.

- *Superior Integrated Network*. With the most extensive telecommunications networks in the Philippines, we are able to offer a wide array of communications services. Part of our network transformation program included the continued upgrade of our fixed line network to an all IP-based NGN, the build-out of our transmission and FTTH network, the investment in increased international bandwidth capacity, and the expansion of our 3G, 4G LTE and wireless broadband networks in order to enhance our data and broadband capabilities. Our network investments include the upgrade of our IT capabilities which are essential in enabling us to offer more relevant services to our customers.

- *Innovative Products and Services*. Voyager Innovations, Inc. or Voyager, (including through its affiliates PayMaya Philippines, Fintqnologies Corporation, or FINTQ, and Takatack Technologies Pte. Ltd. or Takatack Technologies) is the digital innovations arm of PLDT and Smart. Voyager creates and launches platforms, services and solutions for emerging markets in the areas of digital financial services, access including sponsored data, data-in-sachets and messaging, e-Commerce platforms, digital marketing solutions, and the incubation of other new technologies. Through PayMaya and FINTQ, the Voyager Group offers various digital financial services and financial technology solutions.

- *Strong Strategic Relationships*. We have important strategic relationships with First Pacific, NTT DOCOMO and NTT Communications. We believe the technological support, international experience and management expertise made available to us through these strategic relationships will enable us to enhance our market leadership and provide/cross-sell a wider range of products and services.

Strategy

The key elements of our business strategy are:

- *Build on our strong positions in the fixed line and wireless businesses*. We plan to continue building on our position as one of the leading fixed line and wireless service providers in the Philippines by continuing to launch new products and services to increase subscriber value and utilization of our existing facilities and equipment at reduced cost, and to increase our subscribers' use of our network for both voice and data, as well as their reliance on our services.

- *Capitalize on our strength as an integrated provider of telecommunications services*. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to maximize revenue opportunities by cross-selling our products and services, and by developing convergent products that feature the combined benefits of voice and data, fixed line, wireless, and other products and services, including media content, utilizing our network and business platforms.

- *Strengthen our leading position in the data and broadband market*. Leveraging on the inherent strengths of our fixed line and wireless businesses, we are committed to further develop our fastest growing business, particularly mobile internet. Consistent with our strategy of introducing innovative products and services using advanced technology, we continue to launch various products and services in the data and broadband market that deliver quality of experience according to different market needs, including data centers and cloud-related services. We will also accelerate the deployment of new base stations to boost quality and coverage, and accommodate technology bands under the co-use arrangements we entered into with BellTel, one of VTI's subsidiaries.

- *Provide the customer a superior data experience.* We are in the process of executing our digital transformation strategy through our wireless business focusing on: (i) investing in network infrastructure to improve 3G and 4G coverage and capacity, as well as network resilience; (ii) upgrading service development platforms to improve customers' ease-of-use, billing systems, customer interface; and (iii) beefing up our content portfolio to include entertainment, peace-of-mind/convenience, and games, among others.

- *Maintain a strong financial position and improve shareholder returns.* In 2017, we paid out dividends approximately 60% of our core earnings. We plan to continue utilizing our free cash flows for the payment of cash dividends to common shareholders and investments in new growth areas. As part of our growth strategy, we have made and may continue to make acquisitions and investments in companies or businesses. We will continue to consider value-accretive investments in telecommunications as well as telco-related businesses.

Business

Wireless

We provide mobile, home broadband, digital platforms and mobile financial services, as well as MVNO and other services, through our wireless business.

The following table summarizes key measures of our wireless business as at and for the years ended December 31, 2017, 2016 and 2015:

	December 31,		
	2017	**2016**	**2015**
Systemwide mobile subscriber base	58,293,908	62,763,209	68,612,118
Prepaid	55,776,646	59,952,941	65,063,860
Postpaid	2,517,262	2,810,268	3,548,258
Home Broadband subscriber base	237,354	270,203	258,776
Growth rate of mobile subscribers			
Prepaid	(7%)	(8%)	(6%)
Postpaid	(10%)	(21%)	8%
Growth rate of Home Broadband subscribers	(12%)	4%	(22%)
Wireless service revenues (in million pesos)	88,652	100,582	110,716
Mobile	84,439	96,497	105,655
Home Broadband	2,556	2,772	3,040
Digital platforms and mobile financial services	1,240	728	1,051
MVNO and others	417	585	970
Percentage to wireless service revenues			
Mobile	95%	96%	95%
Home Broadband	3%	3%	3%
Digital platforms and mobile financial services	1%	1%	1%
MVNO and others	1%	—	1%
Percentage of wireless service revenues to total service revenues	59%	64%	68%

Mobile Services

We market nationwide mobile communications services under the brand names Smart, *TNT* and *Sun*, each focusing on specific segments of the market. With a continuous and in-depth consumer understanding program, each of our brands is able to provide relevant products and drive behavior to our target segments.

In 2017, we clustered our programs to focus on the following objectives: (i) reinforcing our data network; (ii) driving mobile data usage and monetization; and (iii) managing voice and SMS revenues.

Reinforcing our Data Network

We are committed to providing our customers with a superior data experience. We believe the key to achieving this is a superior network in terms of coverage, capacity and internet speeds. We have completed the network upgrades in Davao, Cebu, Rizal and parts of Metro Manila and have initiated the next step of our network upgrade strategy. This involves the upgrade of the network in Metro Manila to support LTE Carrier Aggregation which can deliver speeds of up to 400Mbps.

We have made vast improvements with our comprehensive network modernization program. In 2017, we have deployed LTE to more than 1,200 sites outside of the key metros. Subscribers from 582 municipalities in 65 provinces outside Metro Manila now have access to high speed LTE services. By 2018, 90% of all cities and municipalities in the Philippines are expected to be covered by our mobile broadband services as committed to the NTC.

In April 2017, Smart, together with Ericsson Philippines, made the country's first successful mobile call using Voice over LTE, or VoLTE. VoLTE will enable users with capable device to utilize 4G/LTE network even when making or receiving calls, providing users direct global reach and enhanced voice quality.

In August 2017, Smart has successfully activated 4-component carrier (4CC) aggregation in the country's premiere tourist destination, Boracay Island, enhancing data service quality and speeds of up to 280Mbps.

Driving Mobile Data Usage and Monetization

With our network improvements, we are able to provide innovative mobile internet offers to suit the demands of our varying consumer segments.

Smart Prepaid

To increase data usage among subscribers, *Smart Prepaid* enhanced its data portfolio by introducing *All Out Surf*, a complete data, call, and text plan that enables entry-level data users to connect with friends and family whether through *Facebook*, messaging apps, voice calls or SMS, and *GigaSurf*, which offers higher data bandwidth, thereby enabling users to watch videos, play mobile games, stream music, view and share live videos, and stay updated on their social networks.

In October 2017, *Smart Prepaid* rolled out *All Out Surf 99* and *GigaSurf 99* to cover the weekly data needs of customers. *All Out Surf 99* comes with 1GB of data, unlimited *Facebook* access, unlimited texts to all networks, and 100 minutes of calls to *Smart*, *TNT*, and *Sun*, is valid for seven days at Php99. *GigaSurf 99*, with 2GB of data and unlimited texts to all networks, is valid for seven days at Php99.

In the same month, *Smart Prepaid* launched its *Video Time* products, which combine content subscription and data for streaming under one package. With *Video Time*, customers enjoy both access to *iflix* and *iWant TV*, as well as data, to readily stream and watch their favorite movies and TV shows on the go. *Video Time 99* includes subscription to *iflix* and *iWant TV* plus 2GB of data for streaming, and is valid for seven days at Php99.

To increase smartphone adoption, *Smart Prepaid* partners with leading smartphone vendors and distribution partners for bundling data-packed SIMs with new smartphones.

TNT

TNT, Smart's value brand, has shifted its focus on becoming a data brand.

TNT's SIM upgrade in 2017 enabled subscribers to exchange their SIM cards for LTE SIMs.

To cater to the growing demand for data, *TNT* introduced open access data sachets such as *GaanSurf* and *Panalo Data*, as well as consolidated call, text and data usage of current users through enhanced combo products, such as *Super Combo* and *Panalo Combo* offers.

TNT also offers *Choose Your Tropa Apps* for Php20 valid for three days, which gives subscribers the flexibility to choose any three apps from a list of social media apps like *Facebook*, *Instagram*, *Snapchat* and *Twitter*, gaming apps like *Mobile Legends*, *Clash Royale* and *Clash of Clans*, or content and entertainment apps such as *Google*, *Wattpad* and *YouTube.*

Smart Postpaid

In April 2017, Smart relaunched its data plans. Line-only *Data Plans* ranging from Php399 to Php2,999 were introduced with enhanced inclusions of up to 36GB a month, or up to two times more data versus previously available plans. Along with this, *Smart Postpaid* also adapted the device amortization model, which gave subscribers the flexibility to choose and bundle any device with their line-only plans for a fixed cost each month.

With the device amortization model in place, *Smart Postpaid* continued to bring in the latest devices throughout the year. Smart maintained a good variety of smartphone models from *Apple, Samsung, Huawei, LG, Oppo,* and *Vivo*.

Along with the influx of 5-inch high-definition screens, *Smart Postpaid* also started promoting entertainment on-the-go to further drive data adoption. In August 2017, we launched *Video Time*, which are *video-on-demand* app subscriptions bundled with data allowance, so subscribers can watch their favorite movies and TV shows on their mobile phones without having to rely on WiFi or on their DSL home connection. This content-based add-on, which provides access to thousands of international and local content on *iflix*, and *iWant TV*, enables convenient content streaming for subscribers.

In September 2017, Smart launched the *Samsung Galaxy Note 8* for Php2,499 a month, coupled with 10GB of data, unlimited texts to all networks, and free call minutes. The *iPhone 8* was made available in November 2017, also for Php2,499 a month, and comes with 9GB of data, unlimited texts to all networks and free call minutes. In December 2017, *Apple*'s 10th year anniversary release, the *iPhone X*, debuted and was offered by Smart for Php3,199 a month, which comes with 9GB of data, unlimited texts to all network, and 60 minutes of calls to all network.

Smart Postpaid subscribers enjoy data access abroad with *Surf Abroad 550*. Subscribers can avail *Surf Abroad* with no registration, no manual network selection and charged within plan consumables. Moreover, subscribers may avail of the *Smart Travel WiFi* powered by virtual SIM technology, which enables local connectivity for up to five devices, and provides high-speed internet service in over 100 countries. *Smart Travel WiFi* now offers both 3G and 4G devices for as low as Php290 per day for select Asian countries, and Php550 per day for the rest of the world.

Smart Bro

As Smart's mobile broadband brand, *Smart Bro* worked to encourage more subscribers to adopt LTE-capable devices and products so they may experience Smart LTE connectivity.

Smart Bro Prepaid offers affordable *LTE WiFi* devices and provide subscribers easier ways to enjoy Smart's LTE network. *Smart Bro Prepaid* further drove LTE penetration by providing competitively-priced *LTE Pocket WiFi Prepaid Kits* throughout the year. In the first quarter of 2017, *LTE Pocket WiFi* was reduced to Php1,495 and was even made more affordable at Php1,295 beginning the third quarter of 2017. During the last quarter of 2017, the *LTE Pocket WiFi* was offered at a lower price of Php995 as part of Smart's holiday campaign.

In September 2017, the brand launched *Smart Bro Prepaid LTE Home WiFi*, which offers an affordable and convenient way to enjoy LTE connectivity at home. For Php1,995, subscribers can avail of the *WiFi* device plus 10GB of pre-loaded data valid for seven days. The device connects up to 10 devices, and offers speeds of up to 42Mbps.

Smart Bro Postpaid also provides wireless internet on postpaid plans with fixed monthly data allocation, offering *LTE WiFi* devices, which support the 700MHz frequency.

Smart Bro Postpaid's Plan 499, which comes with 6GB of monthly data and a free *LTE Pocket WiFi*, continued to drive its business for most part of 2017. Aimed at achieving for higher ARPU and data usage in the last quarter of 2017, *Smart Bro Postpaid* promoted its new *Shared Plan Bundles* featuring pooled data-sharing between different SIMs and WiFi devices all under one postpaid plan. The bundles are available under *Shared Plan 799*, which comes with *LTE Home WiFi* and *LTE 2-in-1 Pocket WiFi*, with 6GB of monthly shareable data, and *Shared Plan 499*, which comes with two regular *Pocket WiFi* devices.

Smart Bro Postpaid also continued to partner with parents and kids, featuring the new *iPad 9.7-inch WiFi* tablet bundled with an *LTE Pocket WiFi* and 3.5GB monthly data allocation with its *Smart Bro Gadget Plan 799*.

For its existing subscribers, a new load package was introduced with the new *SurfMax Plus* for all-day chat using popular messaging apps like *Messenger*, *WhatsApp* and *Viber*, with additional open access data for streaming and downloading. Subscribers can enjoy *SurfMax Plus* for as low as Php100, which comes with all-day chat and 1.5GB of data.

Sun

To grow its subscriber base, *Sun* refreshed its best-value offers to include data offers in its *Sun*-to-*Sun* text and voice promos.

In July 2017, *Sun* introduced the *Sun Prepaid LTE* SIM available for Php35, with preloaded value including unlimited texts to other *Sun* subscribers, all-day *Facebook* access (30MB/day) and all-day access to various chat apps (20MB/day). In the same month, Sun also launched *WAIS LTE*, which offers load packages with unlimited texts and calls to other *Sun* subscribers, open access data allocation, and separate provision for email and chat applications.

Sun Postpaid offered *Sun Best Value Plans* featuring LTE devices that empower users with hi-speed mobile internet, such as *StarMobile UP Prime* under *Sun Best Value Plan 399*, and *LG K7* under *Sun Best Value Plan 599*. Moreover, it continued its push for *Fixed Load Plan 300,* a value-packed *SIM-only plan* that offers unlimited tri-net calls, unlimited texts to all networks, and access to Facebook and Viber.

Sun also sustained its top data bundles, including *NonStop Surf* and *iSurf*, which offers up to 800MB surfing per day.

Sun also offered the *Pay Early, Get Lucky Promo,* which gives subscribers a chance to win smartphones and overseas trips whenever they pay their monthly due in full and on time.

Managing Voice and SMS revenues

Smart Prepaid continues to offer *All Text* promos, which come with unlimited texts to all networks, minutes for calling *Smart, TNT,* and *Sun,* and access to top apps such as *Facebook, Messenger,* and *Viber,* among others. Moreover, the brand offers *Unli Call and Text* promos, which come with unlimited calls to *Smart, Sun*, and *TNT,* unlimited texts to all networks, and data allocation.

Smart Prepaid All Out Surf 30 also comes with unlimited texts to all networks, 30 minutes of calls to *Smart, TNT*, and *Sun,* free *Facebook* access and 300MB open access data.

On the other hand, *Smart Postpaid* continues to push call and text add-ons under its *Flexibundles*, including *TriNet Plus 399, All Talk 299, All Net Talk 249*, and *All Net Talk 149.*

Meanwhile, value brand *TNT* offers *Super Combo 30,* which comes with unlimited texts to all networks, 60 minutes of calls to *TNT, Smart,* and *Sun*, and 200MB of open access data, valid for three days for Php30.

Sun also offers *WAIS 100*, which provides unlimited texts and calls to other *Sun* subscribers, valid for 15 days for Php100, and *WAIS 200*, which comes with unlimited texts and calls to *Sun* plus 500 texts to *Smart* and *TNT*, valid for 30 days, for Php200. The brand also offers different denominations of *Sun Text Unlimited*, which comes with unlimited texts to *Sun*, corresponding call minutes to *Sun, Smart*, and *TNT*, texts to other networks and access to top apps.

Rates

Our current policy is to recognize a prepaid subscriber as “active” only when the subscriber activates and uses the SIM card. Beginning the second quarter of 2017, a prepaid mobile subscriber is considered inactive if the subscriber does not reload within 90 days after the full usage or expiry of the last reload, revised from the previous 120 days.

Smart Prepaid and *TNT* call and text prepaid cards are sold in denominations of Php100, Php300 and Php500. The stored value of a prepaid card remains valid for a period ranging from 30 days to 120 days depending on the denomination of the card, with larger denominations having longer validity periods from the time a subscriber activates the card. We launch from time to time promotions with shorter validity periods.

The electronic loading facility, *Smart eLoad,* made reloading of air time credits more convenient and accessible to consumers. *Smart eLoad’s* over-the-air reloads have evolved to respond to market needs and now come in various denominations ranging from Php15 to Php1,000 with corresponding expiration periods.

Smart also offers fixed rate or “bucket” packages as a means of driving subscriber activations and stimulating usage. These bucket packages, which offer a fixed amount of text messages, call minutes or data volume for a limited validity period, have proven to be popular with subscribers.

Smart also offers unlimited text with voice and data allocation under its various brands in order to be competitive. These plans include unlimited text to all networks, call minutes and high data allocation with monthly service fees ranging from Php399 to Php2,999 for Smart Postpaid and from Php3,500 to Php8,000 for *Smart Infinity*. Additional charges at different rates for usage in excess of the allocated amounts, depending on the monthly plan.

Smart subscribers pay an international direct dialing rate of US$0.40 per minute. This rate applies to most destinations, including the United States, Hong Kong, Japan, Singapore, United Kingdom and United Arab Emirates. Smart charges US$0.98 per minute for 27 other destinations and US$2.18 per minute for another ten destinations. Smart subscribers also have the option of calling at more affordable rates, which are as low as Php2.50 per minute, through *Smart Sulit IDD* load.

International web browsing was also made more affordable and convenient with *Surf Abroad*, whereby subscribers automatically enjoy web browsing abroad for a fixed rate of Php550 per day with no registration required, so long as the subscriber turns on the data roaming feature. 154 countries covered by this service. Smart also offers *Smart Travel WiFi* powered by virtual SIM technology that enables local connectivity for up to five devices. *Smart Travel WiFi,* a broadband device that provides high-speed internet service in over 100 countries, which is powered by virtual SIM technology that enables local connectivity for up to five devices to local networks for as low as Php290 per day in Asia and Php550 per day elsewhere in the world.

Another data roaming service of Smart is *Smart Chat Abroad*, which offers *Smart Prepaid* and *Smart Postpaid* subscribers to access applications such as *Facebook Messenger, Viber, WhatsApp, Line, WeChat* and other chat applications while roaming abroad in over 130 countries, for a fixed rate of only Php150 per day.

Smart Bro Pocket WiFi is available in prepaid and postpaid variants. We also offer various additional load packages covering all-day access, volume-based charging and longer validity periods. For example, *SurfMax Plus* is a package which offers all-day chat using messaging apps like *Messenger, WhatsApp* and *Vibe*r with additional open access data for streaming and downloading.

Distribution and Discounts

We sell our mobile services primarily through a network of independent dealers and distributors that generally have their own retail networks, direct sales forces and sub-dealers. We currently have 19 exclusive regional and 104 exclusive provincial distributors, and 87 key account dealers, 25 of which were exclusive. These dealers include major distributors of mobile handsets and broadband modems whose main focus is telecommunications outlets. Account managers from our sales force manage the distribution network and regularly update these business partners on upcoming marketing strategies, promotional campaigns and new products. With the introduction of *Smart eLoad*, Smart moved into a new realm of distribution. These over-the-air reloads, which were based on the “sachet” marketing concept of consumer goods, such as shampoo and ketchup, required a distribution network that approximates those of fast-moving consumer goods companies. *Sun* also offers over-the-air reloads through Sun’s *Xpress Load*. Starting with just 50,000 outlets when it was launched, our distribution network now encompasses approximately 1.6 million retailers with Smart and *Sun* combined. These retailers must be affiliated with one of Smart’s and *Sun’s* authorized dealers, distributors, sub-dealers or agents. With the prepaid reloading distribution network now extended to corner store and individual retailer levels and minimum reloading denominations as low as Php10, Smart’s prepaid service became more affordable and accessible to subscribers.

For prepaid services, we offer competitive transfer prices for prepaid phone kits and modems. Call and text cards and over-the-air reloads are sold at a discount ranging from approximately 8% to 9.44%.

Consumers can also enjoy the convenience of availing our service through the *Smart Online Store*, where they can transact online to choose phones and apply for new postpaid plans, renew an existing plan, buy prepaid SIM and devices, or subscribe for e-load and various add-on promos.

Home Broadband Service

HOME Ultera is a fixed wireless broadband service being offered under PLDT’s *HOME* brand. *HOME Ultera,* powered by LTE technology, is specifically designed for the home and offers customized packages.

PLDT offers subscribers with diverse and compelling bundled content through its partnerships with globally renowned content providers. These partners include *iflix*, Southeast Asia’s leading internet TV service provider; Fox International Channels which offers a wide range of video-on-demand, live content and catch-up TV; and ABS-CBN’s *iWanTV,* the leading OTT content platform in the Philippines.

Rates

HOME Ultera offers *LTE Broadband* packages with speeds ranging from 3Mbps up to 15Mbps. These packages include *Plan 699*, which offers up to 3Mbps at 30GB monthly volume, *Plan 1299*, which offers up to 10Mbps at 50GB monthly volume, and *Plan 1699*, which offers up to 15Mbps at 100GB monthly volume capacity. In such case the subscribed monthly volume capacity is consumed prior to the end of the monthly period, *HOME Ultera* offers volume booster packages of 1GB for Php49, 4GB for Php149 and 10GB for Php249, for the subscriber to continuously stay online.

Digital Platforms and Mobile Financial Services

Voyager and PayMaya Philippines (formerly Smart eMoney, Inc.), collectively known as the Voyager Group, provide digital innovations and digital financial services for emerging markets, starting with the Philippines. The Voyager Group focuses on digital customer engagement, digital marketing solutions, digital financial services, and e-Commerce platforms, as well as incubation of other new technologies.

Digital Financial Services

Through PayMaya Philippines and FINTQnologies, the Voyager Group offers various digital financial services and financial technology solutions.

PayMaya Philippines is the leading digital financial services company in the country. It offers *PayMaya*, the leading OTT digital payments electronic wallet and mobile application in the Philippine market as well as *Smart Money*, the pioneering mobile money service linked to the Smart SIM and mobile phone. *PayMaya* also powers Smart MasterCard and MVP Rewards.

PayMaya Business is a suite of digital payments solutions which allows businesses to receive payments from all cards anytime, anywhere. *PayMaya* Enterprise, meanwhile, offers communities and companies with easy disbursement and payment solutions.

Smart Padala is the leading local remittance network in the market, allowing anyone to remit funds to any mobile number in the Philippines.

PayMaya Philippines is the first non-financial institution in Southeast Asia to be granted an issuing and acquiring license by Visa. It also partners with MasterCard, thereby giving it the opportunity to offer both Visa and MasterCard products.

FINTQ is a financial technology provider in the Philippines. Under FINTQ, Voyager Innovations offers solutions and platforms enabling digital lending, micro insurance, anti-fraud and card control, among others.

Lendr is the Philippine's first multi-channel, mobile device and consumer loans marketplace, a one-stop-loan shop for personal, auto, salary and home loans.

Mobile Loan Saver is the Philippine's fully paperless and electronic salary loan that provides Landbank customers with an alternative source of financing that they can apply for simply by sending a text message using their mobile phones.

Rove enables government and humanitarian agencies with electronic disbursements of cash grants to beneficiaries, with automated monitoring and evaluation components for transparency, speed and efficiency.

With Cash Credit, FINTQ offers *Pera Agad*, a micro-lending service that utilizes big data.

Digital Commerce

Takatack is an extensive digital commerce marketplace in the Philippines that brings together products and different merchants, catering to both consumers and enterprises.

TackThis! is a digital online store enabler for retailers in the Philippines, which powers every merchant's online site and storefront allowing them to own their brand and build relationships directly with their customers.

Voyager eCommerce Marketplace Platform provides enterprises with custom eCommerce presence.

TackThis! Rewards offer enterprises with a ready digital commerce incentive platform for their employees.

Access and Customer Engagement

Hatch is the digital marketing technology arm of Voyager. It provides end-to-end content, advertising, and platform solutions that aim to connect brands to people and communities.

freenet is the country's first sponsored data access service that allows brands and businesses to easily reach their customers by offering free access to their mobile apps and sites.

Talk2 is the preferred OTT app of overseas Filipinos, enabling users to have a Philippine number so they can call and be called, text and receive text based on local rates.

PowerApp is the globally patented data sachet platform that is now embedded in the equipment of major telecom network vendors.

VYGR provides digital marketing services to customers.

Hatch Campaigns assists businesses to reach and delight customers through various SMS campaigns and digital advertising formats.

Hatch CX Automation extends Voyager's digital transformation capabilities to developers and businesses through APIs, micro services, and artificial intelligence.

Hatch Rewards offers flexible rewards platforms, capabilities, and ecosystem to boost customer loyalty.

Hatch Insights gives enterprises the power to know more about their customers and to develop targeted and custom offerings based on their preferences.

Fixed Line

We provide voice services, including LEC, international and domestic services, data and miscellaneous services under our fixed line business.

We offer postpaid and prepaid fixed line services. Initially intended to be an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services came to form an important part of our overall churn and credit risk exposure management strategy.

The following table summarizes key measures of our fixed line services as at and for the years ended December 31, 2017, 2016 and 2015:

	December 31,		
	2017	2016	2015
Systemwide fixed line subscriber base	2,663,210	2,438,473	2,303,454
Postpaid	2,634,157	2,406,881	2,269,883
Prepaid	29,053	31,592	33,571
Growth rate of fixed line subscribers			
Postpaid	9%	6%	6%
Prepaid	(8%)	(6%)	(42%)
Number of fixed line employees	6,832	7,205	7,039
Number of local exchange line subscribers per employee	390	338	327
Fixed line service revenues (in million pesos)	74,757	69,006	65,475
Voice	28,500	29,630	30,253
Data	44,294	37,711	33,748
Miscellaneous	1,963	1,665	1,474
Percentage to fixed line service revenues			
Voice	38%	43%	46%
Data	59%	55%	52%
Miscellaneous	3%	2%	2%
Percentage of fixed line revenues to total service revenues	49%	44%	40%

Voice Services

Local Exchange

Our local exchange service, which consists of our basic voice telephony business, is provided primarily through PLDT. We also provide local exchange services through our subsidiaries – PLDT-Philcom, Inc. and subsidiaries, or Philcom Group, Bonifacio Communications Corporation, PLDT Clark Telecom, Inc., or ClarkTel, PLDT Subic Telecom, Inc., or SubicTel, PLDT-Maratel, Inc., or PLDT Maratel and Digitel. Together, these subsidiaries account for approximately 4% of our consolidated fixed line subscribers.

Rates

Basic monthly charges for our local exchange service vary according to the type of customer (business or residential) and location, with charges for urban customers generally being higher than those for rural/provincial customers. Regular installation charges amount to Php1,100 for residential customers and Php1,500 for business customers. New products launched on a promotional basis or products bundled with existing services usually are combined with a waiver of the installation fee or allow for a minimal installation fee of Php500. Aside from basic monthly charges, we charge our postpaid subscribers separately for NDD, IDD and calls to mobile phones. Generally, calls between PLDT and other landlines within a local area code are free. Our prepaid fixed line customers do not pay a basic monthly charge but they can load a minimum amount of Php200, which will expire in a month, to have unlimited incoming calls. To make outbound calls, customers must top-up, as local calls are charged Php2.00 per call and tolls are charged separately depending on the type of call. We offer the Php300 load plan with 600 free local outgoing minutes and unlimited incoming calls for one month. To make outbound calls in excess of the free minutes, prepaid fixed line customers must top-up their load, with all local calls charged at Php2.00 per call while tolls are charged separately depending on the type of call.

PLDT offers both prepaid and postpaid PLP, where subscribers to the services benefit from a text-capable home phone which allows subscribers to bring the telephone set anywhere within the home zone area. These services are primarily intended for subscribers in areas where PLDT has no fixed cable facilities and is expected to increase our fixed line subscriber base.

Currently, the *PLP* postpaid regular service offers the following two plans: (i) *Plan 600* and (ii) *Plan 1,000*, both of which include unlimited local outgoing calls. Another postpaid service currently offered is the *Call All* plan wherein *PLP* is bundled with PLDT fixed line service for a monthly service fee of Php850.

For the *PLP* prepaid service, we now have the following three load plans being offered to the market: (i) Php300 load denomination with free 600 local outgoing minutes and unlimited incoming calls for one month; (ii) Php150 load denomination with free 250 local outgoing minutes and unlimited incoming calls valid for 15 days; and (iii) the new Php100 load denomination with 100 local outgoing minutes, 45MB-worth of internet and unlimited incoming calls valid for seven days. All prepaid plans charges Php2.00 per call in excess of free local outgoing minutes via top-up load.

Pursuant to a currency exchange rate adjustment, a mechanism authorized by the NTC, we are allowed to adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the Philippine peso-to-U.S. dollar exchange rate relative to a base rate of Php11.00 to US$1.00. In a letter dated July 11, 2008, the NTC approved our request to implement a rate rationalization program for our local service rates. In 2016, we did not make any adjustment in our monthly local service rates. For a detailed description of these rates, see "– International Service – Rates" and "– Domestic Service – Rates" and Item 3. "Key Information – Risk Factors – Risks Relating to Us – Our business is significantly affected by governmental laws and regulations, including regulations in respect of rates and taxes and laws relating to anti-competitive practices and monopoly."

In the first quarter of 2005, HB No. 926 was filed and is pending in the House of Representatives of the Philippines. The proposed bill provides for the cancellation of the currency exchange rate mechanism currently in place. If this bill is passed into law or if the NTC issues guidelines to change the basis of the currency exchange rate mechanism, our ability to generate U.S. dollar linked revenues from our local exchange business could be adversely affected.

International Service

Our international service consists of switched voice and packet-based voice services and data services that go through our IGFs. We also generate international revenues through access charges paid to us by other Philippine telecommunications carriers for incoming international voice calls that terminate on our local exchange network. Our voice services are transmitted over the traditional Time-Division Multiplexing and IP networks.

The continued popularity of OTT services that offer free on-net calling services has negatively impacted the international call volumes of PLDT in 2017.

We have been pursuing a number of initiatives to sustain our international service business, including: (i) adjusting slightly our inbound termination rates; (ii) identifying and containing unauthorized traffic termination on our network; (iii) interconnecting popular communication service providers (like *Skype* and *Viber*); and (iv) introducing a number of marketing initiatives, including implementation of voicemail service and establishment of new voice services (Bucket IDD and Local Number Service). In addition, PLDT Global is also enhancing the presence of PLDT in other international markets by offering products and services such as international prepaid calling cards, virtual mobile services, SMS transit and other global bandwidth services. These strategies are intended to help us maximize the use of our existing international facilities, and develop alternative sources of revenue.

The table below sets forth the net settlement amounts for international calls handled by PLDT, by country, for the years ended December 31, 2017, 2016 and 2015:

	Net Settlement		
	2017	**2016**	**2015**
	(US Dollars in millions)		
Saudi Arabia	36	43	58
United Arab Emirates	10	28	25
United States	10	15	12
Hong Kong	6	7	8
Canada	6	6	7
Japan	2	2	3
UK	1	3	3
Malaysia	1	2	6
Cyprus	1	-	-
Others	11	9	15
Total	84	115	137

Rates

The average termination rate for PLDT was US$0.0842 per minute in 2017, US$0.0844 per minute in 2016 and US$0.0846 per minute in 2015.

Rates for outbound international calls are based on type of service, whether operator-assisted or direct-dialed. Our rates are quoted in U.S. dollars and are billed in Philippine pesos. The Philippine peso amounts are determined at the time of billing. We charge a flat rate of US$0.40 per minute to retail customers for direct-dialed calls, applicable to all call destinations at any time on any day of the week.

We also offer international service through PLDT *Budget Card,* a prepaid call card, which offers low-priced international calling services to 101 calling destinations/countries (including 12 Middle East destinations) with rates ranging from Php1.00 per minute to Php15.00 per minute. PLDT *Budget Card* comes in two denominations: Php50 and Php100, which can be consumed within 30 days from first use. The PLDT *Budget Card* can now be used by Smart, Sun & TNT prepaid and postpaid subscribers in making international calls.

We also offer lower international rates such as ID-DSL which has a monthly service fee of Php99 with 30 minutes of free calls to selected countries and a rate of as low as Php1.00 per minute for calls in excess of free minutes.

Domestic Service

Our domestic services are provided primarily through PLDT. This service consists of voice services for calls made by our fixed line customers outside of their local service areas within the Philippines and access charges paid to us by other telecommunications carriers for wireless and fixed line calls carried through our backbone network and/or terminating to our fixed line customers.

Mobile substitution, OTT voice call alternatives and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, such as e-mails, SMS and social networking sites, have negatively affected our domestic call volumes.

Rates

Rates for domestic calls traditionally were based on type of service, such as whether the call is operator-assisted or direct-dialed. However, in line with its move towards rate simplification, PLDT simplified these rates in recent years for calls originating from and terminating to the PLDT fixed line network and for calls terminating to fixed line networks of other LECs. PLDT also simplified its rates for calls terminating to mobile subscribers.

In addition, PLDT bundles the free PLDT-to-PLDT calls in some promotions and product/service launchings in order to stimulate fixed line usage.

We continue to evaluate the rate structure of our domestic services from per minute toll charges to flat rates per call for calls of unlimited duration. This is envisioned to make fixed line rates more competitive with VoIP rates and to revitalize interest in fixed line usage. We continue to study various pricing models in respect of the above new rate plans.

PLDT currently has interconnection arrangements with the majority of other LECs, pursuant to which the originating carrier pays: (1) a hauling charge of Php0.50 per minute for short-haul traffic or Php1.25 per minute for long-haul traffic to the carrier owning the backbone network, and (2) an access charge ranging from Php1.00 per minute to Php2.50 per minute to the terminating carrier as mandated by the NTC through MC No. 09-11-2016 effective January 1, 2017. PLDT still maintains revenue-sharing arrangements with a few other LECs, whereby charges are generally apportioned 30% for the originating entity, 40% for the backbone owner or Inter-Exchange Carrier and the remaining 30% for the terminating entity.

Data Services

Our data service revenues include charges for broadband, leased lines, Ethernet-based and IP-based services. These services are used for broadband internet, and domestic and international private data networking communications.

The following table summarizes key measures of our data services as at and for the years ended December 31, 2017, 2016 and 2015:

	December 31,		
	2017	2016	2015
Systemwide home broadband subscriber base	1,713,527	1,450,550	1,255,864
Growth rate of home broadband subscribers	18%	16%	9%
Data service revenues (in million pesos)	44,294	37,711	33,748
Home broadband	18,054	14,896	12,338
Corporate data and ICT	26,240	22,815	21,410
Percentage to fixed line service revenues			
Home broadband	24%	22%	19%
Corporate data and ICT	35%	33%	33%
Percentage of data service revenues to total service revenues	59%	55%	52%

Recognizing the growth potential of data services, and in light of their importance to our business strategy, we have been putting considerable emphasis on these service segments. These segments registered the highest percentage growth in revenues among our fixed line services from 2015 to 2017.

Home Broadband

PLDT HOME remains the nation's leading home broadband service provider, now serving 1.6 million subscribers nationwide as at December 31, 2017 from 1.3 million subscribers as at December 31, 2016. PLDT HOME's broadband data services include *Home DSL* and *Home Fibr*, the country's most powerful broadband connection. PLDT HOME provides broadband services through its existing copper network and a nationwide roll-out of its FTTH network. PLDT's FTTH nationwide network rollout reached over four million homes passed in 2017.

In 2017, PLDT HOME launched its initial set of fiber-powered "PLDT SmartCities," in Toledo City, Cebu in February, General Santos City in April, Naga City and South Metro Manila in May, East Metro Manila in July, Cavite as the first "PLDT Fibr-powered SmartProvince" in August, and Rockwell Center in September. Working with city governments of these key urban centers, PLDT is deploying high-speed world-class internet connectivity to more homes.

To complement the build-out of its fiber network, PLDT HOME is also modernizing and upgrading its current copper network and the roll-out of FTTH. In 2017, PLDT also started the deployment of *V-fiber* using hybrid fiber technologies, such as vectored very-high-speed DSL, or *VVDSL,* and *G.Fast*, that can deliver fiber speeds through copper lines in residences and offices. PLDT has the country's most extensive transmission and distribution network infrastructure which now has about 174,000 kilometers of fiber optic cables that transport the growing data traffic of its fixed line and mobile networks.

PLDT HOME is strongly committed to fulfill its subscribers' digital home lifestyle needs through conveniently and strategically bundled packages with our core data service. PLDT HOME was first to market such services under the *Smart Home* banner, with almost half a million existing subscriptions nationwide.

This digital ecosystem is built on the following pillars: connectivity, peace of mind, entertainment, and convergence. The *Smart Home* connectivity is best experienced through devices like the *Telpad* which is the world's first landline, broadband and tablet service in one; and the *TVolution* which turns an ordinary TV into a smart TV, enabled by *Home Fibr's* internet speeds of up to 1Gbps, which allows for high-speed browsing of multiple websites and the country's first symmetrical speed service that provides equal upload and download speeds; and the *Whole Home WiFi Solution*, the Philippines' first intelligent Home WiFi technology designed to blanket the entire home with wireless connectivity. This latest product comes with dedicated and expert service from the *Home Geek Squad*, a group of technical experts.

PLDT HOME also pioneered the 'peace of mind' suite which features security-enhancing products like the home monitoring system *Fam Cam* launched in partnership with network solutions giant D-Link; the online safety solution *Fam Zone* which is Australia's leading online parental control platform; and the multi-functional kiddie gadget, *Smart Watch*, manufactured by TCL Telecommunication Technology Holdings Limited under the Alcatel brand.

PLDT HOME has always been at the forefront of providing subscribers with diverse and compelling bundled content through its partnerships with globally renowned content providers. PLDT introduced Roku-Powered™ *TVolution*, an all-in-one, plug-and-play device that brings HD TV channels and Subscription Video-on-Demand services in one powerful box. With this device, subscribers get to conveniently access content from global entertainment partners including Southeast Asia's internet TV service provider *iflix*, U.S.-based internet TV pioneer Netflix, Philippine's pay TV service provider Cignal Digital TV, Fox International Channels, ABS-CBN's *iWant TV*, an OTT content platform in the Philippines, and over 100 free streaming channels.

PLDT HOME also introduced the convergence of wired and wireless connections through its data sharing feature which allows subscribers to seamlessly share data with their Smart mobile phones. The data sharing bundle also allows subscribers to conveniently upgrade their mobile devices to the latest iPhone plans or bundle their home broadband service with a *Smart Bro Pocket WiFi* so they can enjoy the same strong connections even outside the home.

Corporate Data and ICT

Leased lines and other data services include: (i) Diginet, a domestic private leased line service, specifically supporting Smart's fiber optic and enterprises' leased line network requirements; (ii) IP-VPN, an end-to-end managed IP-based or Layer 3 data networking service that offers secure means to access corporate network resources; (iii) Metro Ethernet, a high-speed, Layer 2, wide area networking service that enables mission-critical data transfers; (iv) *Shops.Work*, a connectivity solution designed for retailers and franchisers, linking company branches to the head office; and (v) *Shops.Work UnPlugged*, or *SWUP*, a wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas.

International leased lines and other data services consist mainly of: (i) iGate, our dedicated internet access service, which provides businesses with a high-speed, diverse, reliable and managed connectivity to the global internet; (ii) Fibernet, which provides cost-effective, managed and resilient international high bandwidth point-to-point private data networking connectivity, through our global points of presence and extensive international alliances, to offshore and outsourcing, banking and finance, and semiconductor industries; and (iii) other international managed data services in partnership with other global service providers, which provide web acceleration, network security, content delivery and other data networking services to multinational companies.

ICT services include data centers, which provide colocation and related connectivity services, managed server hosting, disaster recovery and business continuity services, managed security services, cloud services, big data services and various managed IT solutions. On July 28, 2016, ePLDT inaugurated VITRO Makati, ePLDT's first TIA-942 Rated 3 certified data center and the country's biggest data center with 3,600 racks at full capacity located in one of the country's premiere business districts. On February 13, 2017, ePLDT inaugurated the first data center in Mindanao. VITRO Davao has a total capacity of 44 racks that can serve both primary and back-up requirements of enterprises based in Mindanao. Four days after the launch of VITRO Davao, ePLDT also launched the biggest data center outside of Metro Manila. VITRO Clark is the first purpose-built data center North of Manila. This is the second TIA-942 Rated 3 certified data center of ePLDT, and another Nexcenter certified facility. It has a total capacity of 1,500 racks. The ePLDT Group has a total of 8,341 rack capacity in nine locations covering Metro Manila, Subic, Clark, Cebu and Davao. ePLDT, PLDT's digital business arm, manages and operates the six VITRO™ data center facilities located in Pasig, Makati, Subic, Clark, Cebu and Davao, with a total of 14,336 square meters of server farm space (or 7,146 rack capacity), and IPC, ePLDT's Cloud subsidiary, manages and operates the three VITRO data center facilities located in Makati, Taguig and Sucat, with a total of 2,640 square meters of server farm space (or 1,195 rack capacity), to accommodate enterprise customers' IT infrastructure hosting requirements. The facilities boast of best-in-class data center amenities in fully resilient configuration, supported by requisite operational certification attesting to compliance to global and industry recognized standards.

PLDT Group completed and commercially launched the Philippines' first carrier-grade cloud infrastructure in 2012 and has consistently built partnerships with global Cloud brands and invested in expertise for professional services. The Group offers a full-suite of Cloud Solutions to clients such as Infrastructure-as-a-Service, Software-as-a-Service, Unified Communications-as-a-Service, Contact-Center-as-a-Service, Disaster Recovery-as-a-Service, Coupa Spend Management and the Oracle Cloud Suite.

Complementing these capabilities are ePLDT Group's partnerships with Cisco, Google, IBM-Softlayer, Salesforce.com, SAP, and Microsoft, among others where ePLDT offers professional services beyond infrastructure and license-selling. Among the group's cloud credentials and achievements are Google for Work Partner, Microsoft Country Partner of the Year, Ranked #1 Microsoft Cloud Solutions Provider, Microsoft Productivity Competency Gold Partner, Cisco 2-Tier Partner of the year, Top value-added reseller for SAP Business 1, SAP All-in-one Gold Partner and Salesforce Silver Consulting Partner.

Miscellaneous

Miscellaneous services provide facilities management, outsourcing, rental fees, and other services which are conducted through our wholly-owned subsidiary, ePLDT, which, together with its subsidiaries, is a broad-based integrated information and communications technology company.

Infrastructure

Wireless Network Infrastructure

Mobile

Through Smart and DMPI, we operate a digital GSM network. To meet the growing demand for mobile services, Smart and DMPI have implemented an extensive deployment program for their GSM network covering substantially all of Metropolitan Manila and most of the other population centers in the Philippines.

Smart has been colocating its cell sites where its base stations are installed with PLDT and DMPI. Over 250 of Smart's mobile switching centers are housed in PLDT's fixed line complexes as at December 31, 2017. These operational synergies have allowed Smart to reduce switch installation time from three months to five weeks.

Smart has been continually extending its 3G footprint. The 3G network provides more capacity, faster data rates and richer data and video applications from a 2G network. Smart has also been deploying its HSPA+ network in urban areas where there is a demand for mobile broadband applications and where HSPA+ mobile units are more likely to be available.

Smart launched its 4G LTE network in August 2012. As at December 31, 2017, Smart has deployed LTE to more than 1,100 sites outside of the key metros. By the end of 2018, we expect that 90% of all cities and municipalities will be covered by our mobile broadband services as committed to the NTC.

As at December 31, 2017, Smart has established 8,716 LTE base stations, of which 7,318 are for mobile LTE and 1,398 are for fixed wireless LTE, throughout the Philippines for its LTE network coverage.

Home Broadband

Home Broadband offers fixed wireless broadband internet connectivity to both residential and corporate clients. It also maintains and operates *WiFi* hotspots installations that serve mobile internet users. Smart also upgraded its 3G network to High-Speed Downlink Packet Access to provide users with high download data rates and an improved broadband experience. Roughly 4,000 of Smart's base stations are now fixed wireless broadband-capable, covering most of the key cities and the other populated centers in the country. These are strategically colocated in Smart's mobile base stations that allow it to efficiently reach many subscribers. For its backbone, it uses the nationwide PLDT and Smart fiber optic and IP backbone that provide substantial bandwidth capacity to utilize and to grow on demand.

Fixed Line Network Infrastructure

Domestic

Our domestic telephone network includes installed telephones and other equipment, such as modems on customers' premises, copper and fiber access lines referred to as "outside plant connecting customers to our exchanges," inter-exchange fiber optics connecting exchanges, and long distance transmission equipment with unmatched capacity and reach. As at December 31, 2017, we have managed to modernize NGN soft switches including international gateways, and are expanding the wireline infrastructure in areas we believe are unserved and underserved areas.

In early 2016, we completed the upgrade of our fixed line facilities to fully IP-based platforms that can deliver voice and data services using a copper or fiber line to the customer with improved quality of service. This migration initiative enables us to fully replace the aging Public Switched Telephone Network, or PSTN, and transfer existing customers to these newer platforms, in an effort to ensure the best service for new customers of voice and data services for their present and future needs with a diversified range of telecommunication services using IP technology.

One of these platforms, FTTH, is an advanced access technology that employs fiber optics all the way up to customer premises. To realize this, we are building a fiber distribution network that will connect homes and other premises to further ensure good internet quality even kilometers away from the serving exchange. This new optical fiber distribution network will eventually replace conventional copper cable. At present, FTTH is potentially capable of delivering up to 2.5 Gigabits per second, or Gbps, download speed and 1Gbps upload speed. Its huge bandwidth enables us to deliver high-bandwidth content and services to our subscribers. These include high definition broadcast television, video-on-demand, and other new services being offered by leading telecommunications companies outside the Philippines. We have been testing FTTH since 2006 and in 2012 began deploying FTTH in high-end and selected upper middle villages in Metropolitan Manila. Initially, we are deploying FTTH in greenfield areas. In the last quarter of 2015, we started deploying it in existing service areas to support the growing demand for higher DSL speed. With the intention to maximize the existing copper cable to deliver high speed broadband, PLDT adopted vectored VDSL technology in vertical (buildings) and horizontal deployments to provide data rates up to 100Mbps. PLDT has also recently adopted the new capabilities such as *G.Fast* to deliver even higher speed on copper.

Along with PLDT's pole infrastructures, we have been using the poles of Meralco to deploy the FTTH FOC Network in Metropolitan Manila and in the rest of Meralco's service areas for PLDT's outside plant aerial cable pursuant to lease agreements with Meralco. PLDT is also using the pole infrastructure of other electric utility companies outside Meralco's service area.

Our network includes an internet gateway that is composed of high capacity and high performance routers that serve as our IP network gateway connecting the Philippines to the rest of the world. It provides premium and differentiated internet service to all types of customers ranging from ordinary broadband to high bandwidth internet requirements of corporate customers, knowledge processing solution providers, internet service providers, or ISPs, and even other service providers. Additionally, transparent caching service that is hosted in our domestic data centers provides a faster internet experience for customers. The caching facility includes well known websites such as Netflix, iflix, Google, Facebook and Amazon, among others.

Furthermore, we have several networks that provide domestic and international connectivity for corporate customers and other carriers. These include the Multi-Service Access Platform, or MSAP, based on Synchronous Digital Hierarchy, or SDH, technology and legacy data networks that provide wide range of bandwidth from low speed to high speed capacity up to 1Gbps. These MSAP networks are deployed in strategic areas nationwide. Starting 2015, we employed demarcation CPE that provides a purely IP-based access last mile with speed of up to 10 Gbps to single enterprise customer.

In 2015, we completed Phase 6 deployment of our Carrier Ethernet Network, or CEN, covering more exchanges to serve the growing demand for high bandwidth or up to 10Gbps Ethernet services from the corporate segment and prepare the network for efficient delivery of multimedia services. Carrier Ethernet service is a global standard for secure, scalable, resilient, cost effective, and high bandwidth point-to-point or multi-point connectivity using the simple and ubiquitous Ethernet technology delivered through PLDT's MEF-certified CEN. It supports enterprise requirements such as data storage, headquarter to branch connectivity, headquarter to disaster recovery site connectivity, cloud services and backhaul for mobile/LTE services. PLDT's CEN also serves as aggregation point for NGN and FTTH access nodes.

We likewise have an IP backbone network, or IPBB, composed of high-capacity, high-performance core and edge routers that provide IP connectivity to the different network elements built for PLDT, Smart, subsidiaries and affiliates and corporate customers. It serves as the common and highly resilient IP transport platform for all IP-based services of the PLDT Group.

The PLDT DFON is a nationwide backbone network. It is the first fiber optic backbone network in the country and is used to deliver voice, video, data, and other broadband and multimedia services nationwide. It is comprised of nodes connected by terrestrial and submarine cable links configured in 11 loops and two appendages extending to Palawan and Iligan. The DFON loops provide self-healing and alternative segment route protection for added resiliency against single and multiple fiber breaks along the different segments. The DFON uses the ROADM and 10/40/100G technology which give it greater flexibility for capacity and expansion. The network also includes interconnectivity among the three international cable landing stations of PLDT with its own backhaul capacity and resiliency under the same DFON platform. To date, the network has an aggregated loop capacity of nearly 15.3 Terabits per second. The DFON is complemented by a terrestrial microwave backbone network to deliver services to remote areas unreachable by the fixed terrestrial transport network. Both the DFON and IPBB serve as the common high bandwidth Fiber Optic Cable-based backbone for the PLDT Group. DFON is part of the 176,461 kilometer backbone and intermediate fiber optic cable of the PLDT Group.

Aside from the DFON and IPBB, the PLDT Group has embarked on further synergy initiatives to rationalize and integrate its networks which include, among others, the outside plant, the DSL network, the IP backbone, the transmission systems, the internet gateway, international voice gateway, the PSTN, and NGN. These initiatives are expected to complement and enhance coverage and capacity for all networks in the PLDT Group.

PLDT has also began a transport system transformation program, which includes the transformation of DFON, IP Backbone and Carrier Ethernet network into a new architecture and technology in preparation for the provision of 5G services.

International

PLDT's international network was designed and built to support mainstream, as well as new IP-based international services, including IDD and IP voice, messaging, international enterprise solutions, and the biggest use of international network resources today, internet services of the PLDT Group. The international network also supports in part requirements of the Company's traditional, as well as MVNO operations in various locations in Asia, Europe and the United States, and the international retail business run by PLDT Global.

For voice services, PLDT operates two IP voice gateways. As at December 31, 2017, PLDT's international long distance facilities allow direct voice correspondence with 93 foreign carriers from 44 countries and can reach almost a thousand foreign destinations (including fixed and wireless network destination "breakouts", or specific areas within a country) worldwide.

The Company now has five international internet gateways. In November 2017, the fifth international gateway in La Union was put into service to fortify PLDT Group's infrastructure for internet and IP-based services, as well as connections of our fixed and wireless networks to content and internet services available from, and businesses connected to, the global internet. All these gateways employ high capacity, high performance routers, and together with ancillary facilities (such as security against network/service attacks), they provide premium and differentiated internet and/or IP services to all types of customers ranging from ordinary broadband to high bandwidth internet requirements of corporate customers, knowledge processing solution providers, ISPs and even other service providers. PLDT also operates three offshore/forward gateway routers in Hong Kong, Singapore and the United States to support optimized and direct access to content providers and businesses connected to the internet in Asia as well as the continental U.S.

To localize international internet content, PLDT employs local transparent caching network, additional content provider partnering and capacity expansion with various popular internet content providers. High demand contents from popular content and CDN providers are available locally and are delivered to PLDT customers.

To provide the international transport backbone for the voice and internet gateways as well as other international data services, PLDT operates the Philippines' most extensive international submarine cable network. To date, PLDT maintains and operates three international cable landing stations in La Union and Batangas for international cables coming from the West Philippine Sea, and in Daet in the east for international cables coming from the Pacific Ocean. These international cable stations are connected by an advance terrestrial fiber mesh network (North, South and East Luzon systems) to our three International Transmission Maintenance Centers.

Connecting the country to the rest of the world via PLDT's international cable stations are submarine cable systems in which PLDT had invested in and/or acquired capacities from, the most recent of which is in the AAE-1 cable system, which connects Asia and Europe. The table below shows submarine cable systems, in which PLDT has interests, that terminate in the Philippines or connect onward to other submarine cable systems from the Philippines, and the countries or territories they link:

Cable System	Countries Being Linked
Asia-Pacific Cable Network 2, or APCN2	Philippines, Hong Kong, Japan, Korea, Malaysia, Singapore, China and Taiwan
Southeast Asia-Middle East-Western Europe No. 3 Cable, or SEA-ME-WE-3	Japan, Korea, China, Taiwan, Hong Kong, Macau, Philippines, Vietnam, Brunei, Malaysia, Singapore, Indonesia, Australia, Thailand, Myanmar, Sri Lanka, India, Pakistan, United Arab Emirates, Oman, Djibouti, Saudi Arabia, Egypt, Cyprus, Turkey, Greece, Italy, Morocco, Portugal, France, UK, Belgium and Germany
Fiber-optic Loop Around the Globe, or FLAG, Cable	Japan, Korea, China, Hong Kong, Malaysia, Thailand, India, United Arab Emirates, Saudi Arabia, Egypt, Italy, Spain and UK
Southern Cross Cable	U.S. Mainland, Hawaii, Fiji, Australia and New Zealand
East Asia Crossing, or EAC Cable	Japan, Hong Kong, Korea, Taiwan, Singapore and the Philippines
Pacific Crossing-1, or PC1, Japan-U.S. Cable Network (JUCN), TGN-Pacific, Unity, FASTER	Japan and the U.S.
Asia-America Gateway, or AAG, Cable Network	Malaysia, Singapore, Thailand, Vietnam, Brunei, Hong Kong, Philippines, Guam, Hawaii and the U.S. Mainland
Asia Submarine-cable Express, or ASE	Philippines, Japan, Singapore, Malaysia and Hong Kong
TGN-Intra Asia	Hong Kong and Japan
Asia Africa Europe-1, or AAE-1 Cable	Hong Kong, Vietnam, Cambodia, Thailand, Malaysia, Singapore, Myanmar, India, Pakistan, Oman, UAE, Qatar, Yemen, Djibouti, Saudia, Arabia, Egypt, Greece, Italy and France

With the operation of AAE-1 system, PLDT now has another direct route to Europe and the Middle East via its PoP facilities in Hong Kong and Singapore. PLDT has also signed the agreements with major Asian carriers and OTT players for the new Jupiter cable system to support the expected new fixed and mobile services requirements that will require significant bandwidth in three years' time. Furthermore, PLDT signed a number of MOUs with strategic partners for the planning of new regional cable systems.

PLDT's international automatic optical transport switching system continues to provide effective redundancy in case of contingencies, as was proved during the multiple cable breaks that occurred in 2017 when premium traffic to Hong Kong, Japan, Singapore and the continental U.S. was automatically restored. To extend this redundancy domestically, this system was extended to the main islands in the Philippines: Luzon (Makati), Visayas (Cebu) and Mindanao (Davao) and upgraded in 2017 to ensure that the Company's premium enterprise clients are provided with redundancy and thereby, minimizing service disruptions. In August 2017, disruptions occurred due to the strong typhoon in Hong Kong. Cable ships were mobilized for the repair, and remediation measures included cable rerouting and capacity augmentation.

With regard to service enabling platforms, the Company's ARCHER platform supports voice and data services that are being offered in various parts of the world to serve mainly overseas Filipinos. The platform provides convergent charging, self-care, dealer portal, voucher management, call control, campaign and loyalty capabilities, and facilitates the time to market for new international mainstream products and new digital products.

Interconnection Agreements

Since the issuance of E.O. No. 59 in 1993, which requires non-discriminatory interconnection of Philippine carriers' networks, we have entered into bilateral interconnection arrangements with other Philippine fixed line and mobile carriers. See Item 4. "Information on the Company – Licenses and Regulations – Regulatory Tariffs" for further discussion.

As at December 31, 2017, PLDT has direct interconnection agreements with 93 foreign carriers from 44 countries.

The average international termination rate for calls to PLDT was approximately US$0.084 per minute in 2017. Also, PLDT carries international calls terminating at Smart and *Sun* networks where they have no direct interconnections.

The access charge for SMS from Smart to other CMTS operators and vice versa was reduced from Php0.35 per SMS to Php0.15 per SMS effective November 30, 2011, as mandated by the NTC through MC No. 02-10-2011.

Through MC No. 09-11-2016, the NTC has mandated that the interconnection charge for voice service between two domestic PTE's cannot be higher than Php2.50 per minute, effective January 1, 2017.

Licenses and Regulations

Licenses

The table below shows the expiry dates of franchises for each company indicated:

Company	Expiry Date of Franchises
PLDT	November 28, 2028
SubicTel	January 22, 2020
Clarktel	June 30, 2024
Philcom	November 2019
Digitel	February 2019
Smart	May 19, 2042
Spectrum transferred from PCEV	May 14, 2019
SBI	July 14, 2022
DMPI	December 11, 2027
CURE*	April 24, 2026

* *In the case of CURE, PLDT has agreed to divest the CURE spectrum as a part of the NTC decision with respect to PLDT's acquisition of a controlling interest in Digitel.*

A franchise holder is required to obtain operating authority from the NTC to provide specific telecommunications services authorized under its franchise. These approvals may take the form of a CPCN, or, while an application for a CPCN is pending, a provisional authority to operate. Provisional authorities are typically granted for a period of 18 months. The Philippine Revised Administrative Code of 1987 provides that if the grantee of a license or permit, such as a CPCN or provisional authority, has made timely and sufficient application for the extension thereof, the existing CPCN or provisional authority will not expire until the application is finally decided upon by the administrative agency concerned.

The following table sets forth the spectrum system service/technology, licensed frequency bands and bandwidth assignments used by Smart, DMPI, SBI and PDSI:

Assignees	Service/Technology	Bands (in MHz)	Bandwidth Assignment
Smart	3G-WCDMA	850	10 MHz x 2
	GSM 900	900	7.5 MHz x 2
	GSM 1800	1,800	20 MHz x 2
	3G-WCDMA	2,100	15 MHz x 2
DMPI	CDMA 2000	1,900	2 channels of 1.25 MHz of bandwidth
	3G-WCDMA	2,100	10 MHz x 2
	TD-LTE	2,500	15 MHz
	TD-LTE	3,400	30 MHz
	GSM 1800	1,800	17.5 MHz x 2
SBI	TD-LTE	2,500	20 MHz
	TD-LTE	3,400	30 MHz
PDSI	TD-LTE	2,300	30 MHz

* *NTC approved the frequency co-use arrangement between Smart and Globe of various frequencies under LTE 700, GSM/3G 900, GSM/LTE 1800, BWA/LTE 2300, and LTE 2500 assigned to Bell Telecommunications Philippines, Inc.*

As a condition of our acquisition of a controlling interest in Digitel, we have agreed with the NTC that we will divest the congressional franchise, spectrum and related permits held by CURE following the migration of CURE's *Red Mobile* subscriber base to Smart. See *Note 2 – Summary of Significant Accounting Policies – Divestment of CURE* to the accompanying audited consolidated financial statements in Item 18 "Financial Statements" for further discussion.

Material Effects of Regulation on our Business

Operators of IGFs and mobile telephone operators, pursuant to E.O. No. 109, are required to install a minimum number of local exchange lines. Of these new lines, operators are required to install one rural exchange line for every ten urban exchange lines installed. Smart and PCEV were required to install 700,000 and 400,000 rural lines, respectively, and each received a certificate of compliance from the NTC in 1999.

PLDT, SubicTel, ClarkTel, Philcom, Smart, Digitel, PCEV, SBI and CURE are required to pay various permits, regulation and supervision fees to the NTC. PLDT was previously engaged in disputes with the NTC over some of the assessed fees.

The NTC has issued a number of directives that regulate the manner in which we conduct our business:

- On July 3, 2009, the NTC issued MC No. 03-07-2009, imposing an extension of the expiration of the prepaid loads from two months to various expiration periods ranging from three days to 120 days. Smart and DMPI have been implementing the new validity period of prepaid loads since July 19, 2009.
- On July 7, 2009, the NTC amended its rules on broadcast messaging in MC No. 04-07-2009, which prohibits content and/or information providers from initiating push messages. It further requires that requests for services must be initiated by the subscribers and not forced upon them by the public telecommunications entities and/or content providers and mandates that subscribers be sent a notification when they subscribe for any service and be given an option whether to continue with the availed service.
- On July 23, 2009, the NTC issued MC No. 05-07-2009 mandating mobile operators, including Smart, to charge calls on a maximum six-second per pulse basis instead of the previous per minute basis whether the subscriber is prepaid or postpaid. Smart and CURE have filed petitions with the Supreme Court challenging the implementation of this regulation which remains pending. The six-second per pulse billing scheme is expected to have a negative impact on Smart's revenue, profit and ARPU as this is expected to decrease the amount of time billed per call as a result of moving to shorter billing intervals of six seconds from the previous one minute.
- On February 18, 2011, the NTC issued MC No. 01-02-2011 which among others required mobile phone providers like Smart and DMPI to make internet access through mobile phones optional; inform their subscribers of charges for internet access through mobile phones; and remind subscribers through SMS if at least 50% of credit limit has already been consumed.
- On October 24, 2011, the NTC issued MC No. 02-10-2011 which mandates that interconnection charge for SMS between two separate networks shall not be higher than Php0.15 per SMS. Accordingly, Smart amended its interconnection agreements with other SMS providers in compliance with the circular. However, the NTC subsequently directed Smart to reduce the retail price of users sending regular SMS to users on other networks from Php1.00 to Php0.80 or less; refund or reimburse its subscribers for the excess Php0.20 per off-net SMS; pay a fine of Php200 per day from December 1, 2011 until the date of compliance with the decision; and submit documents, records and reports pertaining to SMS sent to other networks. Smart challenged this decision and the resolution before the CA. On June 27, 2016, the CA rendered a decision setting aside the Decision dated November 20, 2012 and Resolution dated May 7, 2014 of the NTC for being bereft of legal basis and for having been rendered in utter disregard of the requirements of due process. The CA further permanently enjoined the NTC and any and all of its agents from implementing the MC No. 02-10-2011. The NTC and Intervenor Bayan Muna filed their respective Motions for Reconsideration which were denied by the CA. The NTC and Intervenor Bayan Muna filed separate Petitions for Certiorari with the Supreme Court which remain pending.
- On July 15, 2011, the NTC issued MC No. 7-7-2011 which requires broadband service providers to specify the minimum broadband/internet connection speed and service reliability and the service rates in advertisements, flyers, brochures and service agreements and also sets the minimum service reliability of broadband service to 80%.
- On December 19, 2011, the NTC issued a Decision in NTC ADM Case 2009-048 which lowered the interconnection charge between LEC and CMTS to Php2.50 per minute from Php4.00 per minute for LEC to CMTS and Php3.00 per minute from CMTS to LEC. PLDT and Smart

individually filed on February 1, 2012 and January 20, 2012, respectively, separate motions for reconsideration arguing (among other things) that interconnection, including the rates thereof, should be, by law, a product of bilateral negotiations between the parties and that the decision to set lower rates was unconstitutional as an invalid exercise by the NTC of its quasi-legislative powers and violates the constitutional guarantee against non-impairment of contracts. The NTC denied the motion and PLDT and Smart appealed to the CA, reiterating among other things, that the NTC erred in ruling that all LECs are automatically entitled to a cross-subsidy; that the NTC decision violates PLDT and Smart's right to due process; and that the NTC decision violates the constitutional proscription against non-impairment of contracts. On December 12, 2014, the CA granted Smart's petition for review and set aside the NTC decision dated December 19, 2011. PAPTELCO has also filed a motion for reconsideration which was denied by the CA in a Resolution dated September 18, 2015. A Petition for Review was filed by PAPTELCO before the Supreme Court which remains pending.

- On July 8, 2015, the NTC issued MC No. 07-08-2015 defining "broadband" for fixed-line services, fixing data connection speed of at least 256 kilobits per second and mandating that ISPs must specify the average downstream and upstream data rates offered per area. Also, advertisements, flyers and brochures of service offers must specify service rates for broadband or internet connection data plans and, ISPs are allowed to set a cap on the data volume for each service package, provided that subscribers are automatically informed when the data volume consumed has reached specified thresholds.

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchange of its shares representing at least 30% of its aggregate common shares within five years from: (a) the date the law became effective; or (b) the entity's commencement of commercial operations, whichever date is later. PLDT and PCEV have complied with this requirement. 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 30% of whose authorized capital stock is publicly listed.

If DMPI is found to be in violation of R.A. 7925, this could result in the revocation of the franchise of DMPI and possible filing of a *quo warranto* case against DMPI by the Office of the Solicitor General of the Philippines. DMPI takes the position that the provisions of R.A. 7925 are merely directory and the policy underlying the requirement of telecommunications entities to conduct a public offering should be deemed to have been achieved when PLDT acquired a 100% equity interest in DMPI in 2011, since PLDT continues to be a publicly-listed company. However, there can be no assurance that for DMPI, the Philippine Congress will agree with such position.

See Item 3. "Key Information – Risk Factors – Risks Relating to Us – Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes, and laws relating to anti-competitive practices and monopoly" for further discussion.

On April 14, 2009, the NTC released the implementing guidelines on developing reference access offers, which are statements of the prices, terms and conditions under which a telecommunications carrier proposes to provide access to its network or facilities to another such carrier or value-added service provider.

Regulatory Tariffs

In January 2009, the access charge for domestic calls from one fixed line to a fixed line in another network was updated to the range of Php1.00 per minute to Php3.00 per minute while the access charge for calls from fixed line to CMTS was updated to Php4.00 per minute. The access charge for CMTS calls to fixed line network remained at Php3.00 per minute.

PLDT is an Inter-Exchange Carrier providing transit service among CMTS, LEC operators including the PAPTELCO and non-PAPTELCO. Transit is a service being provided by PLDT to connect calls from one carrier to other carriers most of which have no direct interconnection. Since January 2009, PLDT's transit fee remains at Php0.50 per minute for short haul (intra-island), Php1.25 per minute for long-haul (inter-island) and Php1.14 per minute for CMTS calls.

On November 24, 2016, the NTC issued MC No. 09-11-2016 entitled Interconnection Charge for Voice Services mandating that interconnection charge for voice calls between two separate networks shall not be higher than Php2.50 per minute. The MC likewise directed that existing interconnection agreements shall be amended to comply with this MC within 10 days from the effectivity of this MC. The new agreed reduced interconnection charges shall be effective not later than January 1, 2017 to give sufficient time for the necessary adjustment in the operators' respective billing systems.

PLDT has continually and actively negotiated with other legitimate Philippine fixed and CMTS carriers for interconnection based on the guidelines being issued by the NTC or any authorized government agency. These carriers include the major fixed and mobile players in the industry with nationwide operations, PAPTELCO and other non-PAPTELCO players, both of which usually operate in selected towns in the countryside. As at December 31, 2017, PAPTELCO has 35 member companies, of which 20 are active, operating 54 main telephone exchanges in the countryside.

Competition

Including us, there are three major LECs, eight major IGF providers and two major mobile operators in the Philippines. Some new entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support as well as service innovations and marketing strategies.

Mobile Service

Currently, there are only two major mobile operators, namely us and Globe. Mobile market penetration in the Philippines is in excess of 100% based on SIM ownership.

Competition in the mobile telecommunications industry has intensified starting the middle of 2010 with greater availability of unlimited offers from the telecommunications operators resulting in increased volumes of calls and texts but declining yields. Even after PLDT's acquisition of the Digitel Group in the last quarter of 2011, Globe continued to compete aggressively to gain revenue market share, albeit on a more regional/localized basis. Competition also increased in the postpaid space with more aggressive promotions involving greater handset subsidies. The principal bases of competition are price, including handset prices in the case of postpaid plans, quality of service, network reliability, geographic coverage and attractiveness of packaged services, including video content.

In recent years, the prevalence of OTT services, such as social media, instant messaging and internet telephone, also known as VoIP services, has greatly affected our legacy revenues namely voice and SMS. 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 various municipalities in the country.

Voice

Local Exchange

Although the growth of the fixed line voice market has been impacted by higher demand for mobile services, we have sustained our leading position in the fixed line market on account of PLDT's extensive network in key cities nationwide. In most areas, we face one or two competitors. Our principal competitors in the local exchange market, Globe and Bayan Telecommunications, Inc., or Bayan, provide local exchange service through both fixed and fixed wireless landline services. In July 2015, Globe increased its shareholdings in Bayan to 98.57% from 56.87%.

Fixed wireless landline services resemble a mobile phone service but provide the same tariff structure as a fixed line service such as the charging of monthly service fees. Our major competitors, Globe and Bayan, offer services in limited areas of Metropolitan Manila such as Makati, Las Piñas, the Visayas region and selected areas of Southern Luzon such as Cavite and Batangas.

International

There are 10 licensed IGF operators in the country, including us. While we still maintain a leadership position in this highly competitive service segment of the industry, our market share in recent years has declined as a result of: (1) competition from other IGF operators; (2) migration from fixed to direct mobile calling; and (3) the popularity of alternative and cheaper modes of communication such as e-mail, instant messaging, social-networking (such as *Facebook*, *Twitter* and *Instagram*), including "free services" over the internet (such as *Skype*, *Viber*, *Line*, *Facebook Messenger*, *GoogleTalk* and *WhatsApp*, and similar services), and the establishment of virtual private networks for several corporate entities, which have further heightened competition.

With respect to outbound calls from the Philippines, we compete for market share through our local exchange and mobile businesses, which are the origination points of outbound international calls. We also have introduced a number of marketing initiatives to stimulate growth of outbound call volumes, including tariff reductions and volume discounts for large corporate subscribers.

The number of inbound calls into the Philippines has been negatively impacted by the popularity of OTT services due to further improvement of internet access and the increase in smartphone and tablet adoption as a result of intense local competition. We have been pursuing a number of initiatives to mitigate the decline in our inbound telecommunications traffic, including a modest reduction of our termination rates, marketing and promotions to call Philippines and PLDT Fixed at popular Filipino websites, interconnecting with OTT providers like *Skype* and *Viber* in order to directly capture their organic traffic to the Philippines and continuously identifying and limiting unauthorized traffic termination. In addition, we have also established presence, through our wholly-owned subsidiary PLDT Global, in key cities overseas to identify and capture Philippine terminating traffic at its source, maximize the use of our international facilities and develop alternative sources of revenue.

Domestic

Our domestic service business has been negatively affected by the growing number of mobile subscribers in the Philippines and the widespread availability and growing popularity of alternative economical non-voice methods of communication, particularly SMS and e-mail. In addition, various ISPs have launched voice services via the internet to their subscribers nationwide.

While domestic call volumes have been declining, we have remained the leading provider of domestic service in the Philippines due to our significant subscriber base and ownership of the Philippines' most extensive transmission network.

From time to time, PLDT launches promotions bundled with our other products to attract new subscribers including free PLDT-to-PLDT NDD service.

Data Services

The market for data services is a growing segment in the Philippine telecommunications industry. This development has been spurred by the significant growth in consumer and retail broadband internet access, enterprise resource planning applications, customer relationship management, knowledge processing solutions, online gaming and other e-services that drive the need for broadband and internet-protocol based solutions both in the Philippines and abroad. Our major competitors in this area are Globe and Bayan. The principal bases of competition in the data services market are coverage, price, content, value for money, bundles or free gifts, customer service and quality of service. PLDT intends to compete in this segment, consistent with its overall strategy to broaden its distribution platform and increase its ability to deliver multimedia content.

Environmental Matters

PLDT reaffirms its commitment to ensuring compliance with environmental regulations as part of its business operation. For the year 2017, PLDT deployed of Pollution Control Officers (PCO's) and hired additional Facility Officers to assist PCO's in PLDT facilities throughout the Philippines. Working closely with the Department of Environment and Natural Resources's, or DENR, Regional Offices, the Company has likewise successfully accomplished the Quarterly Self-Monitoring Reporting requirement, which requires us to quarterly assess and report our environmental compliance, in all regions.

The Company takes pride in the following accomplishments:

- Continuous monitoring of air emission quality from large standby generator sets through annual stack emission testing, with the results within the acceptable limits prescribed by the implementing rules and regulations for the Philippine Clean Air Act.
- Regular cleaning, siphoning and desludging of wastewater treatment facilities.

- Hauling and treatment of generated hazardous wastes in various facilities through engagement with DENR-accredited third-parties.
- Reduction of greenhouse gas emission attributed to purchased electricity consumption.

The Company has not been subjected to any significant fines or regulatory action involving non-compliance with environmental regulations of the Philippines.

Intellectual Property Rights

We do not own any material intellectual property rights apart from our brand names and logos. We are not dependent on patents, licenses or other intellectual property which are material to our business or results of operations, other than licenses to use the software that accompany most of our equipment purchases and licenses for certain contents used in VAS of our wireless business. See *Note 15 – Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Properties

PLDT owns three office buildings located in Makati City and owns and operates 289 fixed line exchanges nationwide, of which 46 are located in the Metropolitan Manila area, including Digital Telecommunications Philippines Inc.'s, or DTPI's, three exchanges. The remaining 243 exchanges, including DTPI's 32 exchanges, are located in cities and small municipalities outside the Metropolitan Manila area. We also own radio transmitting and receiving equipment used for international and domestic communications.

As at December 31, 2017, our principal properties, excluding property under construction, consisted of the following, based on net book values:

- 70% consisted of cable, wire and mobile facilities, including our DFON, subscriber cable facilities, inter-office trunking and toll cable facilities and mobile facilities;
- 13% consisted of central office equipment, including IGFs, pure national toll exchanges and combined local and toll exchanges;
- 9% consisted of land and improvements and buildings, which we acquired to house our telecommunications equipment, personnel, inventory and/or fleet;
- 3% consisted of information origination and termination equipment, including pay telephones and radio equipment installed for customers use, and cables and wires installed within customers' premises; and
- 5% consisted of other work equipment.

For more information on these properties, see *Note 9 – Property and Equipment* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

These properties are located in areas where our subscribers are being served. In our opinion, these properties are in good condition, except for ordinary wear and tear, and are adequately insured.

The majority of our connecting lines are above or under public streets and properties owned by others. For example, for many years, the PLDT Group has been using the power pole network of Meralco in Metropolitan Manila for PLDT's fixed line aerial cables in this area pursuant to short-term lease agreements with Meralco with typically five-year and more recently one-year terms.

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites, telecommunications equipment locations and various office equipment. For more information on the obligations relating to these properties and long-term obligations, see Note 21 – Interest-Bearing *Financial Liabilities* and *Note 28 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

In 2018, we expect that cash from operations should enable us to increase the level of our capital expenditures for the continued expansion and upgrading of our network infrastructure. We expect to make additional investments in our core facilities to leverage existing technologies and increase capacity. Our 2018 estimated consolidated capital expenditures is approximately Php58 billion, of which approximately Php27 billion is estimated to be spent by our wireless segment and approximately Php31 billion is estimated to be spent by our fixed line segment. See Item 5. "Operating and Financial Review and Prospects – Plans" for further discussion on our capital expenditures.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements (and the related notes) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 included elsewhere in this report. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements as a result of particular factors such as those set forth under "Forward-Looking Statements" and Item 3. "Key Information – Risk Factors" and elsewhere in this report. Our consolidated financial statements, and the financial information discussed below, have been prepared in accordance with IFRS. For convenience, certain Philippine peso financial information in the following discussions have been converted to U.S. dollars at the exchange rate at December 31, 2017 of Php49.96 to US$1.00, as quoted through the Philippine Dealing System.

Overview

We are the largest and most diversified telecommunications company delivering data and multimedia services in the Philippines. We have organized our business into business units based on our products and services and have three reportable operating segments which serve as bases for management's decision to allocate resources and evaluate operating performance: wireless, fixed line and others. See *Note 4 – Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for further information on each of these segments.

Key performance indicators and drivers that our management uses to monitor and direct the operation of our businesses include, among others, the general economic conditions in the Philippines; market trends such as customer demands, behavior and satisfaction parameters; technological developments; network performance (in terms of speed, coverage and capacity); market share and profitability.

In addition, our results of operations and financial position are increasingly affected by fluctuations of the Philippine peso against the U.S. dollar.

Management's Financial Review

As discussed in Item 3. "Key Information – Performance Indicators", we use our Adjusted EBITDA and core income to assess our operating performance; a reconciliation of our consolidated Adjusted EBITDA and our consolidated core income to our consolidated net income for the years ended December 31, 2017, 2016 and 2015 is set forth below.

The following table shows the reconciliation of our consolidated Adjusted EBITDA to our consolidated net income for the years ended December 31, 2017, 2016 and 2015:

	December 31,		
	2017	**2016**	**2015**
		(Pesos in millions)	
Adjusted EBITDA	66,174	61,161	70,218
Add (deduct) adjustments:			
Equity share in net earnings of associates and joint ventures	2,906	1,181	3,241
Interest income	1,412	1,046	799
Gains on derivative financial instruments – net	533	996	420
Foreign exchange losses – net	(411)	(2,785)	(3,036)
Amortization of intangible assets	(835)	(929)	(1,076)
Provision for income tax	(1,103)	(1,909)	(4,563)
Impairment of investments	(2,562)	(5,515)	(5,166)
Noncurrent asset impairment	(3,913)	(1,074)	(5,788)
Financing costs – net	(7,370)	(7,354)	(6,259)
Depreciation and amortization	(51,915)	(34,455)	(31,519)
Other income – net	10,550	9,799	4,804
Total adjustments	(52,708)	(40,999)	(48,143)
Consolidated net income	**13,466**	**20,162**	**22,075**

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2017, 2016 and 2015:

	December 31,		
	2017	**2016**	**2015**
	(Pesos in millions)		
Consolidated core income	27,668	27,857	35,212
Add (deduct) adjustments:			
Gains on derivative financial instruments – net, excluding hedge costs	724	1,539	762
Net income (loss) attributable to noncontrolling interests	95	156	10
Core income adjustment on equity share in net losses of associates and joint ventures	(60)	(95)	(179)
Foreign exchange losses – net	(411)	(2,785)	(3,036)
Impairment of investments	(2,562)	(5,515)	(5,166)
Noncurrent asset impairment	(3,913)	(1,074)	(5,788)
Depreciation due to shortened life of plant and equipmet	(12,816)	-	-
Net tax effect of aforementioned adjustments	4,741	79	260
Total adjustments	(14,202)	(7,695)	(13,137)
Consolidated net income	**13,466**	**20,162**	**22,075**

The following table shows the reconciliation of our consolidated basic and diluted core earnings per share, or EPS, to our consolidated basic and diluted EPS attributable to common equity holders of PLDT for the years ended December 31, 2017, 2016 and 2015:

	2017		2016		2015	
	Basic	**Diluted**	**Basic**	**Diluted**	**Basic**	**Diluted**
	(in Pesos)					
Consolidated core EPS	127.79	127.79	128.66	128.66	162.70	162.70
Add (deduct) adjustments:						
Gains on derivative financial instruments – net, excluding hedge costs	2.34	2.34	4.99	4.99	2.47	2.47
Core income adjustment on equity share in net losses of associates and joint ventures	(0.28)	(0.28)	(0.44)	(0.44)	(0.83)	(0.83)
Foreign exchange losses – net	(1.74)	(1.74)	(10.40)	(10.40)	(11.85)	(11.85)
Depreciation due to shortened life of plant and equipment	(41.52)	(41.52)	-	-	-	-
Noncurrent asset impairment	(24.98)	(24.98)	(30.48)	(30.48)	(50.64)	(50.64)
Total adjustments	(66.18)	(66.18)	(36.33)	(36.33)	(60.85)	(60.85)
Consolidated EPS attributable to common equity holders of PLDT	**61.61**	**61.61**	**92.33**	**92.33**	**101.85**	**101.85**

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with IFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the end of each reporting period. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future years.

Judgments

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

Determination of functional currency

The functional currencies of the entities under the PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue from and cost of rendering products and services.

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso, except for (a) SMHC, FECL Group, PLDT Global and certain of its subsidiaries, DCPL, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC, which uses the U.S. dollar;

(b) eInnovations, Takatack Holdings, Takatack Technologies, VIS, iCommerce, Fintech Ventures, ePay, 3rd Brand, CPL and AGSPL, which uses the Singaporean dollar; (c) CCCBL, which uses the Chinese renminbi; (d) AGS Malaysia and Takatack Malaysia, which uses the Malaysian ringgit; (e) AGS Indonesia, which uses the Indonesian rupiah; and (f) ePay Myanmar, which uses the Myanmar kyat.

Accounting for investments in MediaQuest Holdings, Inc., or MediaQuest, through PDRs

ePLDT made various investments in PDRs issued by MediaQuest in relation to its direct interest in Satventures, Inc., or Satventures, and Hastings Holdings, Inc., or Hastings, and indirect interest in Cignal TV, Inc., or Cignal TV.

A summary of the PDRs issued by MediaQuest to ePLDT is set forth in the table below:

PDRs	Date of issuance	Number of PDRs issued	Investment cost	Direct Economic interest	Effective economic interest
Cignal TV PDRs	September 27, 2013	416,667	Php6 billion	40%	64%, which includes an indirect 24% interest through Satventures (reflecting Satventures' 60% interest in Cignal TV multiplied by 40%)
Satventures PDRs	September 27, 2013	333,333	Php3.6 billion	40%	40%
Hastings PDRs	June 1, 2015	91,000	Php3.25 billion	70%	70%

Based on our judgment, at the PLDT Group level, ePLDT's investments in PDRs gives ePLDT a significant influence over Satventures, Hastings and Cignal TV as evidenced by provision of essential technical information and material transactions among PLDT, Smart, Satventures, Hastings and Cignal TV, and thus are accounted for as investments in associates using the equity method.

The carrying value of our investments in PDRs issued by MediaQuest amounted to Php10,835 million and Php12,647 million as at December 31, 2017 and 2016, respectively. See related discussion on *Note 10 – Investments in Associates and Joint Ventures – Investments in Associates – Investment in MediaQuest PDRs* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Leases

As a lessee, we have various lease agreements in respect of certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on IAS 17, *Leases*. Total lease expense amounted to Php7,016 million, Php6,632 million and Php6,078 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total finance lease obligations amounted to Php679 thousand and Php994 thousand as at December 31, 2017 and 2016, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 21 – Interest-bearing Financial Liabilities – Obligations under Finance Leases* and *Note 28 – Financial Assets and Liabilities – Liquidity Risk* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Accounting for investments in Phunware and AppCard

In 2015, PLDT Capital subscribed to preferred shares of Phunware and AppCard. See *Note 10 – Investments in Associates and Joint Ventures* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements". The investments in Phunware and AppCard allow PLDT Capital to designate one director to the five-seat board of each of Phunware and AppCard for as long as PLDT Capital beneficially owns a specified percentage of Phunware or AppCard shares, as applicable.

Based on our judgment, at the PLDT Group Level, PLDT Capital's investments in preferred shares give PLDT a significant influence over Phunware and AppCard as evidenced by the board seats assigned to us. This gives us the authority to participate in the financial and operating policy decisions of Phunware and AppCard but neither control nor joint control of those policies. Hence, the investments are accounted for as investment in associates.

Accounting for investments in VTI, Bow Arken Holdings Company, or Bow Arken, and Brightshare Holdings, Inc., or Brightshare

On May 30, 2016, PLDT acquired a 50% equity interest in each of VTI, Bow Arken and Brightshare. See related discussion on *Note 10 – Investments in Associates and Joint Ventures – Investments in Joint Ventures* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements". Based on the Memorandum of Agreement, PLDT and Globe each have the right to appoint half the members of the Board of Directors of each of VTI, Bow Arken and Brightshare, as well as the (i) co-Chairman of the Board; (ii) co-Chief Executive Officer and President; and (iii) co-Controller where any matter requiring their approval shall be deemed passed or approved if the consents of both co-officers holding the same position are obtained. All decisions of each Board of Directors may only be approved if at least one director nominated by each of PLDT and Globe votes in favor of it.

Based on these rights, PLDT and Globe have joint control over VTI, Bow Arken and Brightshare, which is defined in IFRS 11, *Joint Arrangements,* as a contractually agreed sharing of control of an arrangement and exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Consequently, PLDT and Globe classified the joint arrangement as a joint venture in accordance with IFRS 11 given that PLDT and Globe each have the right to 50% of the net assets of VTI, Bow Arken and Brightshare and their respective subsidiaries.

Accordingly, PLDT accounted for the investment in VTI, Bow Arken and Brightshare using the equity method of accounting in accordance with IAS 28 *Measuring an Associate or Joint Venture*. Under the equity method of accounting, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

Impairment of available-for-sale equity investments

For available-for-sale financial investments, we assess at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale financial investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. We treat "significant" generally as decline of 20% or more below the original cost of investment, and "prolonged" as greater than 12 months assessed against the period in which the fair value has been below its original cost.

Based on our judgment, the continuing decline in fair value of our investment in Rocket Internet is considered significant as the cumulative net losses from changes in fair value represent more than 20% decline in value below cost. As a result, total cumulative impairment losses recognized on our investment in Rocket Internet amounted to Php11,045 million and Php10,505 million as at December 31, 2017 and 2016, respectively. Impairment losses charged in our consolidated income statements amounted to Php540 million, Php5,381 million and Php5,124 million for the years ended December 31, 2017, 2016 and 2015, respectively. See related discussion on *Note 11 – Available-for-Sale Financial Investments – Investment of PLDT Online in Rocket Internet* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in our consolidated financial statements within the next financial year are discussed below. We based our estimates and assumptions on parameters available when our consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond our control. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

IFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill and intangible assets with indefinite useful life, at a minimum, such assets are subject to an impairment test annually and whenever there is an indication that such assets may be impaired. This requires an estimation of the value in use of the CGUs to which these assets are allocated. The value in use calculation requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. See *Note 15 – Goodwill and Intangible Assets – Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Life* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for the key assumptions used to determine the value in use of the relevant CGUs.

Determining the recoverable amount of property and equipment, investments in associates and joint ventures, intangible assets, prepayments and other noncurrent assets, requires us to make estimates and assumptions in the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause us to conclude that property and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial position and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future impairment charges under IFRS.

Total asset impairment on noncurrent assets amounted to Php3,913 million, Php1,074 million and Php5,788 million for the years ended December 31, 2017, 2016 and 2015, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment* and *Note 9 – Property and Equipment – Impairment of Certain Wireless Network Equipment and Facilities* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

The carrying values of our property and equipment, investments in associates, joint ventures and deposits, goodwill and intangible assets, and prepayments are separately disclosed in *Note 9 – Property and Equipment, Note 10 – Investments in Associates and Joint Ventures, Note 15 – Goodwill and Intangible Assets* and *Note 19 – Prepayments*, respectively, to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Estimating useful lives of property and equipment

We estimate the useful lives of each item of our property and equipment based on the periods over which our assets are expected to be available for use. Our estimation of the useful lives of our property and equipment is also based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of each asset are reviewed every year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property and equipment would increase our recorded depreciation and amortization and decrease the carrying amount of our property and equipment.

In 2017, we shortened the estimated useful lives of certain data network platform and other technology equipment resulting from the transformation projects to improve and simplify the network and systems applications. Additional depreciation recognized in 2017 amounted to Php19,481 million.

The total depreciation and amortization of property and equipment amounted to Php51,915 million, Php34,455 million and Php31,519 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php186,907 million and Php203,188 million as at December 31, 2017 and 2016, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information* and *Note 9 – Property and Equipment* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Estimating useful lives of intangible assets with finite lives

Intangible assets with finite lives are amortized over their expected useful lives using the straight-line method of amortization. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

The total amortization of intangible assets with finite lives amounted to Php835 million, Php929 million and Php1,076 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total carrying values of intangible assets with finite lives amounted to Php3,699 million and Php4,396 million as at December 31, 2017 and 2016, respectively. See *Note 2 – Summary of Significant Accounting Policies*, *Note 4 – Operating Segment Information* and *Note 15 – Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Business combinations

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method, which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in our consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance and position. See *Note 14 – Business Combination* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. Based on this, management expects that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php5,495 million and Php5,829 million as at December 31, 2017 and 2016, respectively. Total consolidated benefit from deferred income tax amounted to Php2,738 million, Php4,134 million and Php4,710 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total consolidated recognized net deferred income tax assets amounted to Php30,466 million and Php27,348 million as at December 31, 2017 and 2016, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information* and *Note 7 – Income Taxes* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Estimating allowance for doubtful accounts

If we assessed that there was objective evidence that an impairment loss was incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The amount of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. In these cases, we use judgment based on all available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affects the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristics, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total provision for doubtful accounts for trade and other receivables recognized in our consolidated income statements amounted to Php3,438 million, Php8,027 million and Php3,391 million for the years ended December 31, 2017, 2016 and 2015, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php33,761 million and Php24,436 million as at December 31, 2017 and 2016, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment* and *Note 17 – Trade and Other Receivables* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Estimating pension benefit costs and other employee benefits

The cost of defined benefit and present value of the pension obligation are determined using the projected unit credit method. An actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. Further, our accrued benefit cost is affected by the fair value of the plan assets. Key assumptions used to estimate fair value of the unlisted equity investments included in the plan assets consist of revenue growth rate, direct costs, capital expenditures, discount rates and terminal growth rates. See *Note 26 – Employee Benefits* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements". Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed every year-end.

Net consolidated pension benefit costs amounted to Php1,610 million, Php1,775 million and Php1,895 million for the years ended December 31, 2017, 2016 and 2015, respectively. The prepaid benefit costs amounted to Php400 million and Php261 million as at December 31, 2017 and 2016, respectively. The accrued benefit costs amounted to Php8,997 million and Php11,206 million as at December 31, 2017 and 2016, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 19 – Prepayments* and *Note 26 – Employee Benefits* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

On September 26, 2017, the Board of Directors of PLDT approved the TIP, which intends to provide incentive compensation to key officers, executives and other eligible participants who are consistent performers and contributors to the Company's strategic and financial goals. The incentive compensation will be in the form of Performance Shares, PLDT common shares of stock, which will be released in three annual grants on the condition, among others, that pre-determined consolidated core net income targets are successfully achieved over three annual performance periods from January 1, 2017 to December 31, 2019. The TIP also contemplates the second phase of incentive compensation for the years 2020 and 2021, the details of which are not yet finalized. On September 26, 2017, the Board of Directors approved the acquisition of 860 thousand Performance Shares to be awarded under the TIP, of which approximately 211 thousand shares are allotted for the 2017 annual grant and will be released to selected participants subject to the achievement of the consolidated core net income target for the year 2017. On March 7, 2018, the Executive Compensation Committee, or ECC, of the Board approved the acquisition of additional 54 thousand shares, increasing the total Performance Shares to 914 thousand. Metropolitan Bank and Trust Company, or Metrobank, through its Trust Banking Group, is the appointed Trustee of the trust established for purposes of the TIP. The Trustee is designated to acquire the PLDT common shares in the open market through the facilities of the PSE, and administer their distribution to the eligible participants subject to the terms and conditions of the TIP. As at March 27, 2018, a total of 553 thousand PLDT common shares have been acquired by the Trustee. The TIP will be administered by the ECC of the Board. The expense accrued for the TIP amounted to Php827 million as at December 31, 2017 and is presented as equity reserves in the consolidated statement of financial position. See *Note 5 – Income and Expenses – Compensation and Employee Benefits* and *Note 26 – Employee Benefits – Other Long-term Employee Benefits* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which these are incurred if a reasonable estimate can be made. This requires an estimation of the cost to restore or dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration or dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php1,630 million and Php1,582 million as at December 31, 2017 and 2016, respectively. See *Note 22 – Deferred Credits and Other Noncurrent Liabilities* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings and tax assessments. Our estimates 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 are based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial position and performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 27 – Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Based on management's assessment, appropriate provisions were made; however, management has decided not to disclose further details of these provisions as they may prejudice our position in certain legal proceedings.

Revenue recognition

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation.

Revenues earned from multiple element arrangements offered by our fixed line and wireless businesses are split into separately identifiable components based on their relative fair value in order to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method. We account for mobile contracts in accordance with IAS 18, *Revenue*, and have concluded that the handset and the mobile services may be accounted for as separate identifiable components. The handset (with activation) is delivered first, followed by the mobile service (which is provided over the contract/lock-in period, generally one or two years). Because some amount of the arrangement consideration that may be allocated to the handset generally is contingent on providing the mobile service, the amount that is allocated to the handset is limited to the cash received (i.e., the amount paid for the handset) at the time of the handset delivery.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and only to such amount as determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn rate analysis.

Determination of fair values of financial assets and financial liabilities

Where the fair value of financial assets and financial liabilities recorded in our consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Other than those whose carrying amounts are reasonable approximations of fair values, total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2017 amounted to Php13,846 million and Php157,711 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2016 amounted to Php8,120 million and Php160,990 million, respectively. See *Note 28 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

New Accounting Standards and Interpretations to Existing Standards Effective Subsequent to December 31, 2017

See *Note 2 – Summary of Significant Accounting Policies* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for the discussion of new accounting standards that will become effective subsequent to December 31, 2017 and their anticipated impact on our consolidated financial statements for the current and future periods.

Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expense), income (loss) before income tax, net income (loss), Adjusted EBITDA, Adjusted EBITDA margin and core income for the years ended December 31, 2017, 2016 and 2015. In each of the years ended December 31, 2017, 2016 and 2015, majority of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

In 2017, we changed the presentation of our expenses by combining certain line items to simplify our reporting while maintaining the same level of information. In 2016, we changed the classification of our revenue mix to provide for a more direct comparison to the current industry presentation in the Philippines by combining or separating certain line items from our service lines, and moving line items from one service line to another. We also changed the classification of our impairment on investments not directly affecting operations (most significantly, the impairment of our investment in Rocket Internet SE, or Rocket Internet), from operating expenses to other expenses. Accordingly, we changed prior years' financial information to conform with the current years' presentation in order to provide a clear comparison.

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(Pesos in millions)		
For the year ended December 31, 2017					
Revenues	93,835	78,341	16	(12,266)	159,926
Expenses	100,346	63,864	79	(13,874)	150,415
Other income (expenses)	217	(3,323)	10,390	(2,226)	5,058
Income (loss) before income tax	(6,294)	11,154	10,327	(618)	14,569
Provision for (benefit from) income tax	(2,784)	3,680	207	—	1,103
Net income (loss)/Segment profit (loss)	(3,510)	7,474	10,120	(618)	13,466
Adjusted EBITDA	35,151	29,478	(63)	1,608	66,174
Adjusted EBITDA margin[1]	40%	39%	(394%)	—	44%
Core income	8,514	8,846	10,926	(618)	27,668
For the year ended December 31, 2016					
Revenues	104,914	72,728	20	(12,400)	165,262
Expenses	93,204	61,285	42	(13,972)	140,559
Other income (expenses)	(3,517)	(291)	2,748	(1,572)	(2,632)
Income before income tax	8,193	11,152	2,726	—	22,071
Provision for (benefit from) income tax	(1,270)	3,018	161	—	1,909
Net income/Segment profit	9,463	8,134	2,565	—	20,162
Adjusted EBITDA	32,661	26,950	(22)	1,572	61,161
Adjusted EBITDA margin[1]	32%	39%	(110%)	—	39%
Core income	11,402	7,746	8,709	—	27,857
For the year ended December 31, 2015					
Revenues	115,513	68,865	—	(13,275)	171,103
Expenses	95,358	58,417	59	(14,566)	139,268
Other income (expenses)	(1,958)	(2,599)	651	(1,291)	(5,197)
Income before income tax	18,197	7,849	592	—	26,638
Provision for income tax	2,763	1,656	144	—	4,563
Net income/Segment profit	15,434	6,193	448	—	22,075
Adjusted EBITDA	44,237	24,749	(59)	1,291	70,218
Adjusted EBITDA margin[1]	40%	38%	—	—	43%
Core income	22,512	6,539	6,161	—	35,212

[1] *Adjusted EBITDA margin for the year is measured as Adjusted EBITDA from continuing operations divided by service revenues.*

Years Ended December 31, 2017 and 2016

On a Consolidated Basis

Revenues

We reported consolidated revenues of Php159,926 million in 2017, a decrease of Php5,336 million, or 3%, as compared with Php165,262 million in 2016, primarily due to lower revenues from mobile and home broadband services in our wireless business, partially offset by higher revenues from data services in our fixed line business.

The following table shows the breakdown of our consolidated revenues by services for the years ended December 31, 2017 and 2016:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(Pesos in millions)		
For the year ended December 31, 2017					
Service Revenues					
Wireless	*88,652*			*(1,301)*	*87,351*
Mobile	84,439			(1,273)	83,166
Home Broadband	2,556			(9)	2,547
Digital platforms and mobile financial services	1,240			(17)	1,223
MVNO and others	417			(2)	415
Fixed Line		*74,757*		*(10,946)*	*63,811*
Voice		28,500		(3,204)	25,296
Data		44,294		(6,849)	37,445
Home broadband		18,054		(245)	17,809
Corporate data and ICT		26,240		(6,604)	19,636
Miscellaneous		1,963		(893)	1,070
Others			*16*	*(13)*	*3*
Total Service Revenues	88,652	74,757	16	(12,260)	151,165
Non-Service Revenues					
Sale of computers, phone units, mobile handsets and subscriber identification module, or SIM-packs	5,183	2,724	—	(18)	7,889
Point-product sales	—	860	—	12	872
Total Non-Service Revenues	5,183	3,584	—	(6)	8,761
Total Revenues	93,835	78,341	16	(12,266)	159,926
For the year ended December 31, 2016					
Service Revenues					
Wireless	*100,582*			*(Php1,467)*	*99,115*
Mobile	96,497			(1,431)	95,066
Home Broadband	2,772			(14)	2,758
Digital platforms and mobile financial services	728			(19)	709
MVNO and others	585			(3)	582
Fixed Line		*69,006*		*(10,920)*	*58,086*
Voice		29,630		(4,128)	25,502
Data		37,711		(5,984)	31,727
Home broadband		14,896		(167)	14,729
Corporate data and ICT		22,815		(5,817)	16,998
Miscellaneous		1,665		(808)	857
Others			*20*	*(11)*	*9*
Total Service Revenues	100,582	69,006	20	(12,398)	157,210
Non-Service Revenues					
Sale of computers, phone units, mobile handsets and SIM-packs	4,332	2,909	—	(2)	7,239
Point-product sales	—	813	—	—	813
Total Non-Service Revenues	4,332	3,722	—	(2)	8,052
Total Revenues	104,914	72,728	20	(12,400)	165,262

The following table shows the breakdown of our consolidated revenues by business segment for the years ended December 31, 2017 and 2016:

	2017	%	2016	%	Change Amount	Change %
			(Pesos in millions)			
Wireless	93,835	59	104,914	64	(11,079)	(11)
Fixed line	78,341	49	72,728	44	5,613	8
Others	16	—	20	—	(4)	(20)
Inter-segment transactions	(12,266)	(8)	(12,400)	(8)	134	1
Consolidated	159,926	100	165,262	100	(5,336)	(3)

Expenses

Consolidated expenses increased by Php9,856 million, or 7%, to Php150,415 million in 2017 from Php140,559 million in 2016, primarily due to higher expenses in our wireless business resulting from higher depreciation and amortization, and noncurrent asset impairment.

The following table shows the breakdown of our consolidated expenses by business segment for the years ended December 31, 2017 and 2016:

	2017	%	2016	%	Change Amount	Change %
			(Pesos in millions)			
Wireless	100,346	67	93,204	66	7,142	8
Fixed line	63,864	42	61,285	44	2,579	4
Others	79	—	42	—	37	88
Inter-segment transactions	(13,874)	(9)	(13,972)	(10)	98	1
Consolidated	150,415	100	140,559	100	9,856	7

Other Income (Expenses)

Consolidated other income amounted to Php5,058 million in 2017, a change of Php7,690 million as against other expenses of Php2,632 million in 2016, primarily due to lower impairment on the Rocket Internet investment, higher equity share in net earnings of Asia Outsourcing Beta Limited, or Beta, resulting from the gain on sale of SPi Technologies, Inc., or SPi, and gain on conversion of iflix convertible notes in our others segment and lower net foreign exchange losses in our wireless segment, partially offset by impairment of investment in Hastings and lower gain on sale of properties in our fixed line business.

The following table shows the breakdown of our consolidated other income (expenses) by business segment for the years ended December 31, 2017 and 2016:

	2017	2016	Change Amount	Change %
	(Pesos in millions)			
Wireless	217	(3,517)	3,734	106
Fixed line	(3,323)	(291)	(3,032)	(1,042)
Others	10,390	2,748	7,642	278
Inter-segment transactions	(2,226)	(1,572)	(654)	(42)
Consolidated	5,058	(2,632)	7,690	292

Net Income

Consolidated net income decreased by Php6,696 million, or 33%, to Php13,466 million in 2017, from Php20,162 million in 2016, primarily due to the Php12,973 million decrease in net income in our wireless segment, partially offset by Php7,555 million increase in net income from our other business. Our consolidated basic and diluted EPS decreased to Php61.61 for the year ended December 31, 2017 from Php92.33 in 2016. Our weighted average number of outstanding common shares was approximately 216.06 million in each of 2017 and 2016.

The following table shows the breakdown of our consolidated net income by business segment for the years ended December 31, 2017 and 2016:

	2017	%	2016	%	Change Amount	Change %
			(Pesos in millions)			
Wireless	(3,510)	(26)	9,463	47	(12,973)	(137)
Fixed line	7,474	56	8,134	40	(660)	(8)
Others	10,120	75	2,565	13	7,555	295
Inter-segment transactions	(618)	(5)	—	—	(618)	(100)
Consolidated	13,466	100	20,162	100	(6,696)	(33)

Adjusted EBITDA

Our consolidated Adjusted EBITDA amounted to Php66,174 million in 2017, an increase of Php5,013 million, or 8%, as compared with Php61,161 million in 2016, primarily due to improved Adjusted EBITDA in our fixed line and wireless operating segments.

The following table shows the breakdown of our consolidated Adjusted EBITDA by business segment for the years ended December 31, 2017 and 2016:

	2017	%	2016	%	Change Amount	Change %
			(Pesos in millions)			
Wireless	35,151	53	32,661	53	2,490	8
Fixed line	29,478	45	26,950	44	2,528	9
Others	(63)	—	(22)	—	(41)	(186)
Inter-segment transactions	1,608	2	1,572	3	36	2
Consolidated	66,174	100	61,161	100	5,013	8

Core Income

Our consolidated core income amounted to Php27,668 million in 2017, a decrease of Php189 million, or 1%, as compared with Php27,857 million in 2016, primarily due to a decrease in core income from our wireless business as a result of higher depreciation expense, partly offset by higher core income in each of the others and fixed line segments. Our consolidated basic and diluted core EPS decreased to Php127.79 in 2017 from Php128.66 in 2016.

The following table shows the breakdown of our consolidated core income by business segment for the years ended December 31, 2017 and 2016:

	2017	%	2016	%	Change Amount	Change %
			(Pesos in millions)			
Wireless	8,514	31	11,402	41	(2,888)	(25)
Fixed line	8,846	32	7,746	28	1,100	14
Others	10,926	39	8,709	31	2,217	25
Inter-segment transactions	(618)	(2)	—	—	(618)	(100)
Consolidated	27,668	100	27,857	100	(189)	(1)

On a Business Segment Basis

<u>Wireless</u>

Revenues

We generated revenues of Php93,835 million from our wireless business in 2017, a decrease of Php11,079 million, or 11%, from Php104,914 million in 2016.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2017 and 2016 by service:

	2017	%	2016	%	Increase (Decrease) Amount	Increase (Decrease) %
			(Pesos in millions)			
Service Revenues:						
Mobile	84,439	90	96,497	92	(12,058)	(12)
Home Broadband	2,556	3	2,772	3	(216)	(8)
Digital platforms and mobile financial services	1,240	1	728	1	512	70
MVNO and others[(1)]	417	—	585	—	(168)	(29)
Total Wireless Service Revenues	88,652	94	100,582	96	(11,930)	(12)
Non-Service Revenues:						
Sale of mobile handsets, SIM-packs and broadband data modems	5,183	6	4,332	4	851	20
Total Wireless Revenues	93,835	100	104,914	100	(11,079)	(11)

[(1)] *Includes service revenues generated by MVNOs of PLDT Global subsidiaries.*

Service Revenues

Our wireless service revenues in 2017 decreased by Php11,930 million, or 12%, to Php88,652 million as compared with Php100,582 million in 2016, mainly as a result of lower revenues from mobile services and home broadband services, partially offset by higher revenues from digital platforms and mobile financial services. As a percentage of our total wireless revenues, service revenues accounted for 94% and 96% for the years ended December 31, 2017 and 2016, respectively.

Mobile Services

Our mobile service revenues amounted to Php84,439 million in 2017, a decrease of Php12,058 million, or 12%, from Php96,497 million in 2016. Mobile service revenues accounted for 95% and 96% of our wireless service revenues for the years ended December 31, 2017 and 2016, respectively.

					Increase (Decrease)	
	2017	**%**	**2016**	**%**	**Amount**	**%**
			(Pesos in millions)			
Mobile Services:						
Voice	30,724	36	37,094	38	(6,370)	(17)
SMS	26,045	31	32,745	34	(6,700)	(20)
Data	26,281	31	25,517	27	764	3
Inbound roaming and others[1]	1,389	2	1,141	1	248	22
Total	84,439	100	96,497	100	(12,058)	(12)

[1] *Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees and share in revenues from Smart Money.*

Voice Services

Mobile revenues from our voice services, which include all voice traffic, decreased by Php6,370 million, or 17%, to Php30,724 million in 2017 from Php37,094 million in 2016, mainly on account of lower domestic and international voice revenues due to the availability of OTT services. Mobile voice services accounted for 36% and 38% of our mobile service revenues for the years ended December 31, 2017 and 2016, respectively.

Domestic voice service revenues decreased by Php4,530 million, or 16%, to Php24,136 million in 2017 from Php28,666 million in 2016, due to lower domestic outbound and inbound voice service revenues.

International voice service revenues decreased by Php1,840 million, or 22%, to Php6,588 million in 2017 from Php8,428 million in 2016, primarily due to lower international inbound and outbound voice service revenues as a result of lower international voice traffic, partially offset by the effect of higher weighted average rate of the Philippine peso relative to the U.S. dollar.

SMS Services

Mobile revenues from our SMS services, which include all SMS-related services and VAS, decreased by Php6,700 million, or 20%, to Php26,045 million in 2017 from Php32,745 million in 2016 mainly due to declining SMS volumes as a result of alternative text messaging options, such as OTT services and social media. Mobile SMS services accounted for 31% and 34% of our mobile service revenues for the years ended December 31, 2017 and 2016, respectively.

Data Services

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php764 million, or 3%, to Php26,281 million in 2017 from Php25,517 million in 2016 as a result of increased mobile internet usage, partially offset by lower revenues from mobile broadband.

The following table shows the breakdown of our mobile data service revenues for the years ended December 31, 2017 and 2016:

					Increase (Decrease)	
	2017	**%**	**2016**	**%**	**Amount**	**%**
			(Pesos in millions)			
Data Services:						
Mobile internet[1]	20,086	76	17,167	67	2,919	17
Mobile broadband	6,030	23	8,147	32	(2,117)	(26)
Other data	165	1	203	1	(38)	(19)
Total	26,281	100	25,517	100	764	3

[1] *Includes revenues from web-based services, net of discounts and content provider costs.*

Mobile internet

Mobile internet service revenues increased by Php2,919 million, or 17%, to Php20,086 million in 2017 from Php17,167 million in 2016 as a result of the increase in smartphone ownership and greater data adoption among our subscriber base leading to the increase in mobile internet browsing and prevalent use of mobile apps, social networking sites and other OTT services. Mobile internet services accounted for 24% and 18% of our mobile service revenues for the years ended December 31, 2017 and 2016, respectively.

Mobile broadband

Mobile broadband revenues amounted to Php6,030 million in 2017, a decrease of Php2,117 million, or 26%, from Php8,147 million in 2016, primarily due to a decrease in the number of subscribers, mainly *Sun Broadband*. Mobile broadband services accounted for 7% and 9% of our mobile service revenues for the years ended December 31, 2017 and 2016, respectively.

Other data

Revenues from our other data services, which include domestic leased lines and share in revenue from PLDT *WeRoam*, decreased by Php38 million, or 19%, to Php165 million in 2017 from Php203 million in 2016.

Inbound Roaming and Others

Mobile revenues from inbound roaming and other services increased by Php248 million, or 22%, to Php1,389 million in 2017 from Php1,141 million in 2016.

The following table shows the breakdown of our mobile service revenues by service type for the years ended December 31, 2017 and 2016:

			Increase (Decrease)	
	2017	**2016**	**Amount**	**%**
	(Pesos in millions)			
Mobile service revenues	84,439	96,497	(12,058)	(12)
By service type				
Prepaid	59,862	67,304	(7,442)	(11)
Postpaid	23,188	28,052	(4,864)	(17)
Inbound roaming and others	1,389	1,141	248	22

Prepaid Revenues

Revenues generated from our mobile prepaid services amounted to Php59,862 million in 2017, a decrease of Php7,442 million, or 11%, as compared with Php67,304 million in 2016. Mobile prepaid service revenues accounted for 71% and 70% of mobile service revenues for the years ended December 31, 2017 and 2016, respectively. The decrease in revenues from our mobile prepaid services was primarily driven by a lower mobile prepaid subscriber base resulting in lower voice and SMS revenues, partially offset by the increase in mobile internet revenues.

Postpaid Revenues

Revenues generated from mobile postpaid service amounted to Php23,188 million in 2017, a decrease of Php4,864 million, or 17%, as compared with Php28,052 million in 2016, and accounted for 27% and 29% of mobile service revenues for the years ended December 31, 2017 and 2016, respectively. The decrease in our mobile postpaid service revenues was primarily due to a lower postpaid subscriber base.

Subscriber Base, Average Revenue Per User, or ARPU, and Churn Rates

The following table shows our wireless subscriber base as at December 31, 2017 and 2016:

	2017	2016	Increase (Decrease) Amount	%
Mobile subscriber base	58,293,908	62,763,209	(4,469,301)	(7)
Smart[1]	21,821,441	23,027,793	(1,206,352)	(5)
Postpaid	*1,388,090*	*1,383,830*	*4,260*	-
Prepaid[2]	*20,433,351*	*21,643,963*	*(1,210,612)*	*(6)*
TNT	28,807,964	29,845,509	(1,037,545)	(3)
Sun[1]	7,664,503	9,889,907	(2,225,404)	(23)
Postpaid	*1,129,172*	*1,426,438*	*(297,266)*	*(21)*
Prepaid[2]	*6,535,331*	*8,463,469*	*(1,928,138)*	*(23)*
Home broadband subscriber base	237,354	270,203	(32,849)	(12)
Total wireless subscribers	58,531,262	63,033,412	(4,502,150)	(7)

(1) *Includes mobile broadband subscribers.*
(2) *Beginning 2Q2017, the prepaid subscriber base excludes subscribers who did not reload within 90 days vis-à-vis 120 days previous cut-off.*

The average monthly churn rate for *Smart Prepaid* subscribers in 2017 and 2016 were 6.7% and 7.6%, respectively, while the average monthly churn rate for *TNT* subscribers were 6.8% and 6.3% in 2017 and 2016, respectively. The average monthly churn rate for *Sun Prepaid* subscribers were 7.7% and 8.8% in 2017 and 2016, respectively.

The average monthly churn rate for *Smart Postpaid* subscribers were 2.3% and 4.8% in 2017 and 2016, respectively, and 3.5% and 6.4% in 2017 and 2016, respectively, for *Sun Postpaid* subscribers.

The following table summarizes our average monthly ARPUs for the years ended December 31, 2017 and 2016:

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2017	2016	Amount	%	2017	2016	Amount	%
	(in Pesos)				(in Pesos)			
Prepaid								
Smart	118	117	1	1	108	107	1	1
TNT	81	82	(1)	(1)	74	76	(2)	(3)
Sun	88	90	(2)	(2)	82	83	(1)	(1)
Postpaid								
Smart	1,004	966	38	4	972	951	21	2
Sun	422	443	(21)	(5)	418	437	(19)	(4)

(1) *Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income but excluding inbound roaming revenues, gross of discounts, and content provider costs, by the average number of subscribers in the month.*

(2) *Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, net of discounts and content provider costs, by the average number of subscribers in the month.*

Home Broadband

Revenues from our *Home Ultera* services decreased by Php216 million, or 8%, to Php2,556 million in 2017 from Php2,772 million in 2016, due mainly to the continued migration of our high-value fixed wireless subscribers from legacy technologies (Canopy & WiMAX) to wired broadband (digital subscriber line, or DSL/FTTH). In addition, we offer lower-priced plan offerings as part of our efforts to expand our customer base to include lower income home segments.

Subscribers of our *Home Ultera* services decreased by 32,849, or 12%, to 237,354 subscribers as at December 31, 2017 from 270,203 subscribers as at December 31, 2016.

Digital Platforms and Mobile Financial Services

Revenues from digital platforms and mobile financial services, as reported by Voyager, increased by Php512 million, or 70%, to Php1,240 million in 2017 from Php728 million in 2016, primarily due to the increase in PayMaya mobile payment transactions.

MVNO and Others

Revenues from our MVNO and other services decreased by Php168 million, or 29%, to Php417 million in 2017 from Php585 million in 2016, primarily due to lower revenue contribution from MVNOs of PLDT Global and ACeS Philippines, partially offset by the impact of higher weighted average rate of the Philippine peso relative to the U.S. dollar.

Non-Service Revenues

Our wireless non-service revenues consist of sales of mobile handsets, SIM-packs, mobile broadband data modems, tablets and accessories. Our wireless non-service revenues increased by Php851 million, or 20%, to Php5,183 million in 2017 from Php4,332 million in 2016, primarily due to higher revenues from postpaid mobile handsets, partly offset by the decline in revenues from prepaid mobile handsets and broadband data modems attributable to lower average price per unit.

Expenses

Expenses associated with our wireless business amounted to Php100,346 million in 2017, an increase of Php7,142 million, or 8%, from Php93,204 million in 2016. A significant portion of the increase was mainly attributable to higher depreciation and amortization, and noncurrent asset impairment, partially offset by lower provisions, cost of sales and services, interconnection costs, and selling, general and administrative expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 107% and 89% for the years ended December 31, 2017 and 2016, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2017 and 2016 and the percentage of each expense item in relation to the total:

					Increase (Decrease)	
	2017	**%**	**2016**	**%**	**Amount**	**%**
			(Pesos in millions)			
Selling, general and administrative expenses	42,046	42	42,472	46	(426)	(1)
Depreciation and amortization	36,914	37	18,984	20	17,930	94
Cost of sales and services	8,858	9	14,429	15	(5,571)	(39)
Interconnection costs	6,373	6	8,035	9	(1,662)	(21)
Noncurrent asset impairment	3,913	4	1,038	1	2,875	277
Provisions	2,242	2	8,246	9	(6,004)	(73)
Total	100,346	100	93,204	100	7,142	8

Selling, general and administrative expenses decreased by Php426 million, or 1%, to Php42,046 million, primarily due to lower expenses related to selling and promotions, repairs and maintenance, and insurance and security services, partly offset by higher rent expenses and compensation and employee benefits.

Depreciation and amortization charges increased by Php17,930 million, or 94%, to Php36,914 million, primarily due to higher depreciable asset base and depreciation due to shortened life of certain data network platform and other technology equipment resulting from the transformation projects to improve and simplify the network and systems applications.

Noncurrent asset impairment increased by Php2,815 million to Php3,913 million, primarily due to impairment of certain network equipment, which were rendered obsolete due to technological advancements as a result of the continuing network transformation projects.

Cost of sales and services decreased by Php5,571 million, or 39%, to Php8,858 million, primarily due to lower issuances of mobile handsets and mobile broadband data modems, partly offset by higher cost of licenses from various partnership with content providers.

Interconnection costs decreased by Php1,662 million, or 21%, to Php6,373 million, primarily due to lower interconnection cost on domestic voice and SMS services, mainly as a result of lower interconnection rates, and lower interconnection costs on international voice and SMS services, partially offset by an increase in interconnection charges on international data roaming.

Provisions decreased by Php6,004 million, or 73%, to Php2,242 million, primarily due to lower provisions for doubtful accounts and inventory obsolescence.

Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2017 and 2016:

	2017	2016	Change Amount	Change %
		(Pesos in millions)		
Other Income (Expenses):				
Financing costs – net	(2,260)	(2,487)	227	9
Equity share in net losses of associates	(129)	(237)	108	46
Foreign exchange losses – net	(46)	(1,702)	1,656	97
Gain on derivative financial instruments – net	282	485	(203)	(42)
Interest income	307	270	37	14
Other income – net	2,063	154	1,909	1,240
Total	217	(3,517)	3,734	106

Our wireless business' other income amounted to Php217 million in 2017, an increase of Php3,734 million, or 106%, as against other expenses of Php3,517 million in 2016, primarily due to the combined effects of the following: (i) higher other income – net by Php1,909 million mainly due to higher miscellaneous income, partly offset by the impairment on Smart's investment in AF Payments, Inc., or AFPI, and lower income from consultancy; (ii) lower net foreign exchange losses by Php1,656 million on account of revaluation of foreign currency-denominated assets and liabilities due to the lower level of depreciation of the Philippine peso relative to the U.S. dollar; (iii) lower net financing costs by Php227 million; (iv) lower equity share in net losses of associates by Php108 million; (v) higher interest income by Php37 million; and (vi) lower net gains on derivative financial instruments by Php203 million.

Benefit from Income Tax

Benefit from income tax amounted to Php2,784 million in 2017, an increase of Php1,514 million from Php1,270 million in 2016, mainly on account of the tax impact of depreciation due to shortened life of property and equipment, and noncurrent asset impairment recognized for the year.

Net Income (Loss)

As a result of the foregoing, our wireless business' net loss amounted to Php3,510 million in 2017, lower by Php12,973 million as against net income of Php9,463 million in 2016.

Adjusted EBITDA

Our wireless business' Adjusted EBITDA increased by Php2,490 million, or 8%, to Php35,151 million in 2017 from Php32,661 million in 2016. Adjusted EBITDA margin increased to 40% in 2017 from 32% in 2016.

Core Income

Our wireless business' core income decreased by Php2,888 million, or 25%, to Php8,514 million in 2017 from Php11,402 million in 2016 on account of higher depreciation expense, partially offset by higher Adjusted EBITDA.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php78,341 million in 2017, an increase of Php5,613 million, or 8%, from Php72,728 million in 2016.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2017 and 2016 by service segment:

	2017	%	2016	%	Increase (Decrease) Amount	%
			(Pesos in millions)			
Service Revenues:						
Voice	28,500	36	29,630	41	(1,130)	(4)
Data	44,294	57	37,711	52	6,583	17
Miscellaneous	1,963	2	1,665	2	298	18
	74,757	95	69,006	95	5,751	8
Non-Service Revenues:						
Sale of computers, phone units and SIM packs, and point-product sales	3,584	5	3,722	5	(138)	(4)
Total Fixed Line Revenues	78,341	100	72,728	100	5,613	8

Service Revenues

Our fixed line service revenues increased by Php5,751 million, or 8%, to Php74,757 million in 2017 from Php69,006 million in 2016, due to higher revenues from our data and miscellaneous services, partially offset by lower voice service revenues.

Voice Services

Revenues from our voice services decreased by Php1,130 million, or 4%, to Php28,500 million in 2017 from Php29,630 million in 2016, primarily due to lower international (partly due to the continued popularity of services such as *Skype*, *Viber*, *Line*, *Facebook Messenger*, *Google Talk* and *Whats App*, offering free on-net calling services, and other similar services), and domestic services, partially offset by higher revenues from local exchange.

Data Services

The following table shows information of our data service revenues for the years ended December 31, 2017 and 2016:

	2017	2016	Increase Amount	%
		(Pesos in millions)		
Data service revenues	44,294	37,711	6,583	17
Home broadband	18,054	14,896	3,158	21
Corporate data and ICT	26,240	22,815	3,425	15

Our data services posted revenues of Php44,294 million in 2017, an increase of Php6,583 million, or 17%, from Php37,711 million in 2016, primarily due to higher home broadband revenues from DSL and *Fibr*, an increase in corporate data and leased lines primarily i-Gate, Fibernet, Internet Protocol-Virtual Private Network, or IP-VPN, Metro Ethernet and *Shops.Work*, and higher data center and ICT revenues. The percentage contribution of this service segment to our fixed line service revenues accounted for 59% and 55% for the years ended December 31, 2017 and 2016, respectively.

Home Broadband

Home broadband data revenues amounted to Php18,054 million in 2017, an increase of Php3,158 million, or 21%, from Php14,896 million in 2016. This growth is driven by increasing demand for broadband services which the company is providing through its existing copper network and a nationwide roll-out of its FTTH network. Home broadband revenues accounted for 41% and 39% of total data service revenues in the years ended December 31, 2017 and 2016, respectively. PLDT's FTTH nationwide network rollout reached over four million homes passed in 2017.

Corporate Data and ICT

Corporate data services amounted to Php22,889 million in 2017, an increase of Php2,909 million, or 15%, as compared with Php19,980 million in 2016, mainly due to sustained market traction of broadband data services and growth on *Fibr*, as a result of higher internet connectivity requirements, and key Private Networking

Solutions such as IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data revenues accounted for 52% and 53% of total data services in the years ended December 31, 2017 and 2016, respectively.

ICT revenues increased by Php516 million, or 18%, to Php3,351 million in 2017 from Php2,835 million in 2016 mainly due to higher revenues from colocation and managed IT services. Cloud services include cloud contact center, cloud infrastructure as a service, cloud software as a service and cloud professional services. The percentage contribution of this service segment to our total data service revenues was 8% in each of 2017 and 2016.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees. These service revenues increased by Php298 million, or 18%, to Php1,963 million in 2017 from Php1,665 million in 2016 mainly due to higher outsourcing and management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues accounted for 3% and 2% in 2017 and 2016, respectively.

Non-service Revenues

Non-service revenues decreased by Php138 million, or 4%, to Php3,584 million in 2017 from Php3,722 million in 2016, primarily due to lower sale of *PLP* and *Telpad* units, and *FabTab* for *myDSL* retention, partly offset by higher computer-bundled, hardware and software sales.

Expenses

Expenses related to our fixed line business totaled Php63,864 million in 2017, an increase of Php2,579 million, or 4%, as compared with Php61,285 million in 2016. The increase was primarily due to higher selling, general and administrative expenses, cost of sales and services, and provisions, partly offset by lower interconnection costs, depreciation and amortization expenses, and noncurrent asset impairment. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 82% and 84% for the years ended December 31, 2017 and 2016, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2017 and 2016 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2017	**%**	**2016**	**%**	**Amount**	**%**
			(Pesos in millions)			
Selling, general and administrative expenses	37,390	59	34,248	56	3,142	9
Depreciation and amortization	15,001	24	15,471	25	(470)	(3)
Cost of sales and services	4,788	7	3,868	6	920	24
Interconnection costs	4,587	7	5,940	10	(1,353)	(23)
Provisions	2,098	3	1,722	3	376	22
Noncurrent asset impairment	-	-	36	-	(36)	(100)
Total	63,864	100	61,285	100	2,579	4

Selling, general and administrative expenses increased by Php3,142 million, or 9%, to Php37,390 million primarily due to higher professional and other contracted services, and compensation and employee benefits, partly offset by lower repairs and maintenance costs, and selling and promotions.

Depreciation and amortization charges decreased by Php470 million, or 3%, to Php15,001 million mainly due to a lower depreciable asset base.

Cost of sales and services increased by Php920 million, or 24%, to Php4,788 million, primarily due to various partnerships with content providers.

Interconnection costs decreased by Php1,353 million, or 23%, to Php4,587 million, primarily due to lower international interconnection costs, as a result of a decrease in international inbound calls that terminated to other domestic carriers, and lower domestic interconnection costs.

Provisions increased by Php376 million, or 22%, to Php2,098 million, mainly due to higher provision for doubtful accounts, partly offset by lower provision for inventory obsolescence.

Noncurrent asset impairment amounted to nil and Php36 million in 2017 and 2016, respectively.

Other Income (Expenses)

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2017 and 2016:

	2017	2016	Change Amount	Change %
	(Pesos in millions)			
Other Income (Expenses):				
Financing costs – net	(5,106)	(4,917)	(189)	(4)
Foreign exchange losses	(98)	(486)	388	80
Equity share in net earnings (losses) of associates	44	(40)	84	210
Gains on derivative financial instruments – net	251	511	(260)	(51)
Interest income	695	707	(12)	(2)
Other income – net	891	3,934	(3,043)	(77)
Total	(3,323)	(291)	(3,032)	(1,042)

Our fixed line business' other expenses amounted to Php3,323 million in 2017 from Php291 million in 2016, mainly due to the combined effects of the following: (i) lower other income – net by Php3,043 million mainly due to impairment of investment in Hastings and lower gain on sale of properties, partly offset by the reversal of impairment of investment in Digitel Crossing, Inc., or DCI; (ii) lower net gains on derivative financial instruments by Php260 million; (iii) higher net financing costs by Php189 million; (iv) a decrease in interest income by Php12 million; (v) equity share in net earnings of associates of Php44 million in 2017 as against equity share in net losses of associates of Php40 million in 2016; and (vi) lower net foreign exchange losses by Php388 million.

Provision for Income Tax

Provision for income tax amounted to Php3,680 million in 2017, an increase of Php662 million, or 22%, from Php3,018 million in 2016. The effective tax rates for our fixed line business were 33% and 27% in 2017 and 2016, respectively.

Net Income

As a result of the foregoing, our fixed line business registered a net income of Php7,474 million in 2017, a decrease of Php660 million, or 8%, as compared with Php8,134 million in 2016.

Adjusted EBITDA

Our fixed line business' Adjusted EBITDA increased by Php2,528 million, or 9%, to Php29,478 million in 2017 from Php26,950 million in 2016. Adjusted EBITDA margin remained stable at 39% in each of 2017 and 2016.

Core Income

Our fixed line business' core income increased by Php1,100 million, or 14%, to Php8,846 million in 2017 from Php7,746 million in 2016, primarily as a result of higher Adjusted EBITDA and lower depreciation expense, partially offset by lower other income – net.

Others

Revenues

We generated revenues of Php16 million from our other business in 2017, a decrease of Php4 million, or 20%, from Php20 million in 2016.

Expenses

Expenses related to our other business totaled Php79 million in 2017, an increase of Php37 million, or 88%, as compared with Php42 million in 2016, due to higher selling, general and administrative expenses.

Other Income (Expenses)

The following table summarizes the breakdown of other income (expenses) for other business segment for the years ended December 31, 2017 and 2016:

	2017	2016	Change Amount	Change %
		(Pesos in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates and joint ventures	2,991	1,458	1,533	105
Interest income	653	306	347	113
Financing costs – net	(201)	(187)	(14)	(7)
Foreign exchange losses	(267)	(597)	330	55
Other income – net	7,214	1,768	5,446	308
Total	10,390	2,748	7,642	278

Other income increased by Php7,642 million to Php10,390 million in 2017 from Php2,748 million in 2016, primarily due to the combined effects of the following: (i) higher other income – net by Php5,446 million due to lower impairment on the Rocket Internet investment and gain on conversion of iflix convertible notes, partly offset by lower gain on sale of Beacon Electric Holdings, Inc., or Beacon, shares in 2017; (ii) higher equity share in net earnings of associates and joint ventures by Php1,533 million due to higher equity share in net earnings of Beta, resulting mainly from the gain on sale of SPi; (iii) an increase in interest income by Php347 million; (iv) lower net foreign exchange losses by Php330 million; and (v) higher financing costs by Php14 million.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php10,120 million in 2017, an increase of Php7,555 million from Php2,565 million in 2016.

Core Income

Our other business segment's core income amounted to Php10,926 million in 2017, an increase of Php2,217 million, or 25%, as compared with Php8,709 million in 2016, mainly as a result of the higher equity share in net earnings of associates and joint ventures, higher other income and higher interest income.

Years ended December 31, 2016 and 2015

On a Consolidated Basis

Revenues

We reported consolidated revenues of Php165,262 million in 2016, a decrease of Php5,841 million, or 3%, as compared with Php171,103 million in 2015, primarily due to lower revenues from mobile, and digital platforms and mobile financial services from our wireless business and lower revenues from fixed line voice services, partially offset by higher revenues from data and miscellaneous services, as well as non-service revenues, in our fixed line business.

The following table shows the breakdown of our consolidated revenues by services for the years ended December 31, 2016 and 2015:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(Pesos in millions)		
For the year ended December 31, 2016					
Service Revenues					
Wireless	*100,582*			*(1,467)*	*99,155*
Mobile	96,497			(1,431)	95,066
Home Broadband	2,772			(14)	2,758
Digital platforms and mobile financial services	728			(19)	709
MVNO and others	585			(3)	582
Fixed Line		*69,006*		*(10,920)*	*58,086*
Voice		29,630		(4,128)	25,502
Data		37,711		(5,984)	31,727
Home broadband		14,896		(167)	14,729
Corporate data and ICT		22,815		(5,817)	16,998
Miscellaneous		1,665		(808)	857
Others			*20*	*(11)*	*9*
Total Service Revenues	100,582	69,006	20	(12,398)	157,210
Non-Service Revenues					
Sale of computers, phone units, mobile handsets and SIM-packs	4,332	2,909	—	(2)	7,239
Point-product sales	—	813	—	—	813
Total Non-Service Revenues	4,332	3,722	—	(2)	8,052
Total Revenues	104,914	72,728	20	(12,400)	165,262
For the year ended December 31, 2015					
Service Revenues					
Wireless	*110,716*			*(1,528)*	*109,188*
Mobile	105,655			(1,480)	104,175
Home Broadband	3,040			(24)	3,016
Digital platforms and mobile financial services	1,051			(3)	1,048
MVNO and others	970			(21)	949
Fixed Line		*65,475*		*(11,733)*	*53,742*
Voice		30,253		(4,454)	25,799
Data		33,748		(6,578)	27,170
Home broadband		12,338		(10)	12,328
Corporate data and ICT		21,410		(6,568)	14,842
Miscellaneous		1,474		(701)	773
Total Service Revenues	110,716	65,475	—	(13,261)	162,930
Non-Service Revenues					
Sale of computers, phone units, mobile handsets and SIM-packs	4,797	2,692	—	(2)	7,487
Point-product sales	—	698	—	(12)	686
Total Non-Service Revenues	4,797	3,390	—	(14)	8,173
Total Revenues	115,513	68,865	—	(13,275)	171,103

The following table shows the breakdown of our consolidated revenues by business segment for the years ended December 31, 2016 and 2015:

	2016	%	2015	%	Change Amount	Change %
			(Pesos in millions)			
Wireless	104,914	64	115,513	68	(10,599)	(9)
Fixed line	72,728	44	68,865	40	3,863	6
Others	20	—	—	—	20	100
Inter-segment transactions	(12,400)	(8)	(13,275)	(8)	875	(7)
Consolidated	165,262	100	171,103	100	(5,841)	(3)

Expenses

Consolidated expenses increased by Php1,291 million, or 1%, to Php140,559 million in 2016 from Php139,268 million in 2015, primarily as a result of higher expenses in our fixed line business due to higher selling, general and administrative expenses, and depreciation and amortization expenses.

The following table shows the breakdown of our consolidated expenses by business segment for the years ended December 31, 2016 and 2015:

	2016	%	2015	%	Change Amount	Change %
			(Pesos in millions)			
Wireless	93,204	66	95,358	68	(2,154)	(2)
Fixed line	61,285	44	58,417	42	2,868	5
Others	42	—	59	—	(17)	(29)
Inter-segment transactions	(13,972)	(10)	(14,566)	(10)	594	(4)
Consolidated	140,559	100	139,268	100	1,291	1

Other Expenses

Consolidated other expenses amounted to Php2,632 million in 2016, a decrease of Php2,565 million, or 49%, from Php5,197 million in 2015, primarily due to higher gain on sale of Beacon shares by PCEV in 2016 compared to the gain on sale of Beacon's Meralco shares in 2015 in our other segment and gain on sale of property of our fixed line segment, partly offset by higher financing costs in our wireless segment.

The following table shows the breakdown of our consolidated other income (expenses) by business segment for the years ended December 31, 2016 and 2015:

	2016	2015	Change Amount	Change %
	(Pesos in millions)			
Wireless	(3,517)	(1,958)	(1,559)	80
Fixed line	(291)	(2,599)	2,308	(89)
Others	2,748	651	2,097	322
Inter-segment transactions	(1,572)	(1,291)	(281)	22
Consolidated	(2,632)	(5,197)	2,565	(49)

Net Income

Consolidated net income decreased by Php1,913 million, or 9%, to Php20,162 million in 2016, from Php22,075 million in 2015, primarily due to the decrease in net income in our wireless segment, partially offset by the increase in net income from other and fixed line businesses. Our consolidated basic and diluted EPS decreased to Php92.33 in 2016 from Php101.85 in 2015. Our weighted average number of outstanding common shares was approximately 216.06 million in each of the years ended December 31, 2016 and 2015.

The following table shows the breakdown of our consolidated net income by business segment for the years ended December 31, 2016 and 2015:

	2016	%	2015	%	Change Amount	Change %
			(Pesos in millions)			
Wireless	9,463	47	15,434	70	(5,971)	(39)
Fixed line	8,134	40	6,193	28	1,941	31
Others	2,565	13	448	2	2,117	473
Consolidated	20,162	100	22,075	100	(1,913)	(9)

Adjusted EBITDA

Our consolidated Adjusted EBITDA amounted to Php61,161 million in 2016, a decrease of Php9,057 million, or 13%, as compared with Php70,218 million in 2015, primarily due to lower Adjusted EBITDA in our wireless operating segment.

The following table shows the breakdown of our consolidated Adjusted EBITDA by business segment for the years ended December 31, 2016 and 2015:

	2016	%	2015	%	Change Amount	Change %
			(Pesos in millions)			
Wireless	32,661	53	44,237	63	(11,576)	(26)
Fixed line	26,950	44	24,749	35	2,201	9
Others	(22)	—	(59)	—	37	63
Inter-segment transactions	1,572	3	1,291	2	281	22
Consolidated	61,161	100	70,218	100	(9,057)	(13)

Core Income

Our consolidated core income amounted to Php27,857 million in 2016, a decrease of Php7,355 million, or 21%, as compared with Php35,212 million in 2015 primarily due to a decrease in core income from our wireless business as a result of lower consolidated Adjusted EBITDA, partially offset by higher core income from our other and fixed line businesses. Our consolidated basic and diluted core EPS, decreased to Php128.66 in 2016 from Php162.70 in 2015.

The following table shows the breakdown of our consolidated core income by business segment for the years ended December 31, 2016 and 2015:

	2016	%	2015	%	Change Amount	Change %
			(Pesos in millions)			
Wireless	11,402	41	22,512	64	(11,110)	(49)
Fixed line	7,746	28	6,539	19	1,207	18
Others	8,709	31	6,161	17	2,548	41
Consolidated	27,857	100	35,212	100	(7,355)	(21)

On a Business Segment Basis

Wireless

Revenues

We generated revenues of Php104,914 million from our wireless business in 2016, a decrease of Php10,599 million, or 9%, from Php115,513 million in 2015.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2016 and 2015 by service:

	2016	%	2015	%	Decrease Amount	Decrease %
			(Pesos in millions)			
Service Revenues:						
Mobile	96,497	92	105,655	91	(9,158)	(9)
Home Broadband	2,772	3	3,040	3	(268)	(9)
Digital platforms and mobile financial services	728	1	1,051	1	(323)	(31)
MVNO and others[(1)]	585	—	970	1	(385)	(40)
Total Wireless Service Revenues	100,582	96	110,716	96	(10,134)	(9)
Non-Service Revenues:						
Sale of mobile handsets, SIM-packs and broadband data modems	4,332	4	4,797	4	(465)	(10)
Total Wireless Revenues	104,914	100	115,513	100	(10,599)	(9)

[(1)] *Includes service revenues generated by MVNOs of PLDT Global subsidiaries.*

Service Revenues

Our wireless service revenues in 2016 decreased by Php10,134 million, or 9%, to Php100,582 million as compared with Php110,716 million in 2015, mainly as a result of lower revenues from mobile, home broadband, digital platforms and mobile financial services, and MVNO and other services. As a percentage of our total wireless revenues, service revenues accounted for 96% in each of 2016 and 2015.

Mobile Services

Our mobile service revenues amounted to Php96,497 million in 2016, a decrease of Php9,158 million, or 9%, from Php105,655 million in 2015. Mobile service revenues accounted for 96% and 95% of our wireless service revenues in 2016 and 2015, respectively.

The following table shows the breakdown of our mobile service revenues for the years ended December 31, 2016 and 2015:

	2016	%	2015	%	Increase (Decrease) Amount	%
			(Pesos in millions)			
Mobile Services:						
Voice	37,094	38	46,129	44	(9,035)	(20)
SMS	32,745	34	37,982	36	(5,237)	(14)
Data	25,517	27	20,179	19	5,338	26
Inbound roaming and others[(1)]	1,141	1	1,365	1	(224)	(16)
Total	96,497	100	105,655	100	(9,158)	(9)

[(1)] *Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees and share in revenues from Smart Money.*

Voice Services

Mobile revenues from our voice services, which include all voice traffic, decreased by Php9,035 million, or 20%, to Php37,094 million in 2016 from Php46,129 million in 2015 primarily due to lower domestic and international voice revenues due to the availability of alternative calling options and other OTT services such as *Viber*, *Facebook Messenger*, and similar services. Mobile voice services accounted for 38% and 44% of our mobile service revenues in 2016 and 2015, respectively.

Domestic voice service revenues decreased by Php6,486 million, or 18%, to Php28,666 million in 2016 from Php35,152 million in 2015, due to lower domestic outbound and inbound voice service revenues.

International voice service revenues decreased by Php2,549 million, or 23%, to Php8,428 million in 2016 from Php10,977 million in 2015 primarily due to lower international inbound and outbound voice service revenues as a result of lower international voice traffic, partially offset by the effect of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar.

SMS Services

Mobile revenues from our SMS services, which include all SMS-related services and VAS, decreased by Php5,237 million, or 14%, to Php32,745 million in 2016 from Php37,982 million in 2015 mainly from lower bucket-priced and unlimited SMS revenues. Mobile SMS services accounted for 34% and 36% of our mobile service revenues in 2016 and 2015, respectively.

Data Services

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php5,338 million, or 26%, to Php25,517 million in 2016 from Php20,179 million in 2015 primarily due to higher mobile internet revenues, mobile broadband and other data revenues.

	2016	%	2015	%	Increase (Decrease) Amount	%
			(Pesos in millions)			
Data Services:						
Mobile internet[(1)]	17,167	67	12,055	60	5,112	42
Mobile broadband	8,147	32	7,951	39	196	2
Other data	203	1	173	1	30	17
Total	25,517	100	20,179	100	5,338	26

[(1)] *Includes revenues from web-based services, net of discounts and content provider costs.*

Mobile internet

Mobile internet service revenues increased by Php5,112 million, or 42%, to Php17,167 million in 2016 from Php12,055 million in 2015 as a result of the increase in smartphone ownership and greater data usage among our subscriber base leading to an increase in mobile internet browsing and prevalent use of mobile apps, social networking sites and other OTT services. Mobile internet services accounted for 18% and 11% of our mobile service revenues in 2016 and 2015, respectively.

Mobile broadband

Mobile broadband revenues amounted to Php8,147 million in 2016, an increase of Php196 million, or 2%, from Php7,951 million in 2015 primarily due to higher mobile broadband traffic.

Other data

Revenues from our other data services, which include domestic leased lines and share in revenue from PLDT *WeRoam*, increased by Php30 million, or 17%, to Php203 million in 2016 from Php173 million in 2015.

Inbound Roaming and Others

Mobile revenues from inbound roaming and other services decreased by Php224 million, or 16%, to Php1,141 million in 2016 from Php1,365 million in 2015.

The following table shows the breakdown of our mobile service revenues for the years ended December 31, 2016 and 2015:

			Increase (Decrease)	
	2016	**2015**	**Amount**	**%**
		(Pesos in millions)		
Mobile service revenues	96,497	105,655	(9,158)	(9)
By service type				
Prepaid	67,304	76,143	(8,839)	(12)
Postpaid	28,052	28,147	(95)	—
Inbound roaming and others	1,141	1,365	(224)	(16)

Prepaid Revenues

Revenues generated from our mobile prepaid services amounted to Php67,304 million in 2016, a decrease of Php8,839 million, or 12%, as compared with Php76,143 million in 2015. Mobile prepaid service revenues accounted for 70% and 72% of mobile service revenues in 2016 and 2015, respectively. The decrease in revenues from our mobile prepaid services was primarily driven by lower mobile prepaid subscriber base resulting to lower voice and text messaging revenues, partially offset by an increase in mobile internet revenues.

Postpaid Revenues

Revenues generated from mobile postpaid service amounted to Php28,052 million in 2016, a decrease of Php95 million as compared with Php28,147 million in 2015, and accounted for 29% and 27% of mobile service revenues in 2016 and 2015, respectively. The decrease in our mobile postpaid service revenues was primarily due to a lower postpaid subscriber base.

Subscriber Base, ARPU and Churn Rates

The following table shows our wireless subscriber base as at December 31, 2016 and 2015:

			Increase (Decrease)	
	2016	**2015**	**Amount**	**%**
Mobile subscriber base	62,763,209	68,612,118	(5,848,909)	(9)
Smart[(1)]	23,027,793	26,921,211	(3,893,418)	(14)
Postpaid	*1,383,830*	*1,502,678*	*(118,848)*	*(8)*
Prepaid	*21,643,963*	*25,418,533*	*(3,774,570)*	*(15)*
TNT	29,845,509	28,054,160	1,791,349	6
Sun[(1)]	9,889,907	13,636,747	(3,746,840)	(27)
Postpaid	*1,426,438*	*2,045,580*	*(619,136)*	*(30)*
Prepaid	*8,463,469*	*11,591,167*	*(3,127,698)*	*(27)*
Home broadband subscriber base	270,203	258,776	11,427	4
Total wireless subscribers	63,033,412	68,870,894	(5,837,482)	(8)

(1) *Includes mobile broadband subscribers.*

The average monthly churn rate for *Smart Prepaid* subscribers in 2016 and 2015 were 7.6% and 6.6%, respectively, while the average monthly churn rate for *TNT* subscribers were 6.3% and 5.7% in 2016 and 2015, respectively. The average monthly churn rate for *Sun Prepaid* subscribers were 8.8% and 11.3% in 2016 and 2015, respectively.

The average monthly churn rate for *Smart Postpaid* subscribers were 4.8% and 3.3% in 2016 and 2015, respectively, and 6.4% and 4.3% in 2016 and 2015, respectively, for *Sun Postpaid* subscribers.

The following table summarizes our average monthly ARPUs for the years ended December 31, 2016 and 2015:

	Gross[(1)]		Increase (Decrease)		Net[(2)]		Increase (Decrease)	
	2016	**2015**	**Amount**	**%**	**2016**	**2015**	**Amount**	**%**
				(in Pesos)				
Prepaid								
Smart	117	129	(12)	(9)	107	118	(11)	(9)
TNT	82	91	(9)	(10)	76	84	(8)	(10)
Sun	90	74	16	22	83	68	15	22
Postpaid								
Smart	966	993	(27)	(3)	951	982	(31)	(3)
Sun	443	444	(1)	—	437	441	(4)	(1)

(1) *Gross monthly ARPU is calculated by dividing gross mobile service revenues for the month, gross of discounts, content provider costs and interconnection income but excluding inbound roaming revenues, by the average number of subscribers in the month.*

(2) *Net monthly ARPU is calculated by dividing gross mobile service revenues for the month, including interconnection income, but excluding inbound roaming revenues, net of discounts and content provider costs, by the average number of subscribers in the month.*

Home Broadband

Revenues from our *HOMEBro* services decreased by Php268 million, or 9%, to Php2,772 million in 2016 from Php3,040 million in 2015 mainly due to the continued migration of our high-value fixed wireless subscribers from legacy technologies (Canopy & WiMAX) to either TD-LTE or wired broadband (DSL/FTTH). In addition, ARPU has decreased as a result of price competition and PLDT's continued efforts to bring high-quality broadband services to the lower income home segments.

Subscribers of our *HOMEBro* services increased by 11,427 or 4% to 270,203 subscribers as of December 31, 2016 from 258,776 subscribers as of December 31, 2015. This significant turnaround in subscriber base was directly attributed to the launch of the country's most affordable postpaid broadband offering designed for the home – *Home Ultera Plan 699.*

Digital Platforms and Mobile Financial Services

Revenues from digital platforms and mobile financial services, as reported by Voyager, decreased by Php323 million, or 31%, to Php728 million in 2016 from Php1,051 million in 2015 primarily due to lower revenues from PayMaya.

MVNO and Others

Revenues from our other services decreased by Php385 million, or 40%, to Php585 million in 2016 from Php970 million in 2015, primarily due to a decrease in the number of ACeS Philippines' subscribers, lower revenue contribution from MVNOs of PLDT Global, partially offset by the impact of higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php47.48 for the year ended December 31, 2016 from Php45.51 for the year ended December 31, 2015 on our U.S. dollar and U.S. dollar-linked other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of sales of mobile handsets, mobile SIM-packs and broadband data modems, tablets and accessories. Our wireless non-service revenues decreased by Php465 million, or 10%, to Php4,332 million in 2016 from Php4,797 million in 2015, primarily due to lower revenues from the sale of broadband data modems, partially offset by higher revenues from sale of mobile handsets attributed to *Smart Prepaid Android Phone Kits*.

Expenses

Expenses associated with our wireless business amounted to Php93,204 million in 2016, a decrease of Php2,154 million, or 2%, from Php95,358 million in 2015. A significant portion of the decrease was mainly attributable to lower selling, general and administrative expenses, noncurrent asset impairment and interconnection costs, partially offset by higher provisions, depreciation and amortization, and cost of sales and services. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 89% and 83% in 2016 and 2015, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2016 and 2015 and the percentage of each expense item in relation to the total:

					Increase (Decrease)	
	2016	**%**	**2015**	**%**	**Amount**	**%**
			(Pesos in millions)			
Selling, general and administrative expenses	42,472	46	47,308	50	(4,836)	(10)
Depreciation and amortization	18,984	20	17,218	18	1,766	10
Cost of sales and services	14,429	15	13,873	14	556	4
Provisions	8,246	9	2,658	3	5,588	210
Interconnections costs	8,035	9	8,513	9	(478)	(6)
Noncurrent asset impairment	1,038	1	5,788	6	(4,750)	(82)
Total	93,204	100	95,358	100	(2,154)	(2)

Selling, general and administrative expenses decreased by Php4,836 million, or 10%, to Php42,472 million, primarily due to lower selling and promotions, compensation and employee benefits, and rent expenses.

Depreciation and amortization charges increased by Php1,766 million, or 10%, to Php18,984 million, primarily due to higher depreciable asset base.

Cost of sales and services increased by Php556 million, or 4%, to Php14,429 million, primarily due to higher average costs and increased smartphone and data-capable device issuances for Smart Postpaid subscribers, increased availments for *Smart Prepaid Android Phone Kits,* and higher cost of licenses from various partnership with content providers.

Provisions increased by Php5,588 million, to Php8,246 million, primarily due to higher provisions for doubtful accounts and inventory obsolescence.

Interconnection costs decreased by Php478 million, or 6%, to Php8,035 million, primarily due to lower interconnection cost on international voice and text services, partially offset by an increase in interconnection charges on domestic voice and text services.

Noncurrent asset impairment decreased by Php4,750 million, or 82%, to Php1,038 million, primarily due to higher impairment provision for property and equipment in 2015.

Other Expenses

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2016 and 2015:

	2016	2015	Change Amount	Change %
		(Pesos in millions)		
Other Income (Expenses):				
Financing costs – net	(2,487)	(1,799)	(688)	(38)
Foreign exchange losses – net	(1,702)	(1,622)	(80)	(5)
Equity share in net losses of associates	(237)	(81)	(156)	(193)
Interest income	270	308	(38)	(12)
Gain on derivative financial instruments – net	485	—	485	100
Other income – net	154	1,236	(1,082)	(88)
Total	(3,517)	(1,958)	(1,559)	(80)

Our wireless business' other expenses amounted to Php3,517 million in 2016, an increase of Php1,559 million, or 80%, from Php1,958 million in 2015, primarily due to the combined effects of the following: (i) a decrease in other income – net by Php1,082 million mainly due to reversal of asset retirement obligation in 2015 and lower gain on insurance claims, partly offset by higher income from consultancy services; (ii) higher net financing costs by Php688 million mainly due to higher outstanding loan balances, higher weighted average interest rate and higher financing charges, partly offset by higher capitalized interest; (iii) higher equity share in net losses of associates by Php156 million; (iv) higher foreign exchange losses by Php80 million; (v) lower interest income by Php38 million; and (vi) net gains on derivative financial instruments of Php485 million in 2016.

Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php1,270 million in 2016 as against provision for income tax of Php2,763 million in 2015, primarily due to lower taxable income and recognition of deferred tax benefit relating to Smart's acquisition of DMPI's subscriber base.

Net Income

As a result of the foregoing, our wireless business' net income decreased by Php5,971 million, or 39%, to Php9,463 million in 2016 from Php15,434 million in 2015.

Adjusted EBITDA

Our wireless business' Adjusted EBITDA decreased by Php11,576 million, or 26%, to Php32,661 million in 2016 from Php44,237 million in 2015. Adjusted EBITDA margin decreased to 32% in 2016 from 40% in 2015.

Core Income

Our wireless business' core income decreased by Php11,110 million, or 49%, to Php11,402 million in 2016 from Php22,512 million in 2015 mainly on account of lower Adjusted EBITDA and higher depreciation expense.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php72,728 million in 2016, an increase of Php3,863 million, or 6%, from Php68,865 million in 2015.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2016 and 2015 by service segment:

	2016	%	2015	%	Increase (Decrease) Amount	%
			(Pesos in millions)			
Service Revenues:						
Voice	29,630	41	30,253	44	(623)	(2)
Data	37,711	52	33,748	49	3,963	12
Miscellaneous	1,665	2	1,474	2	191	13
	69,006	95	65,475	95	3,531	5
Non-Service Revenues:						
Sale of computers, phone units and SIM packs, and point-product sales	3,722	5	3,390	5	332	10
Total Fixed Line Revenues	72,728	100	68,865	100	3,863	6

Service Revenues

Our fixed line service revenues increased by Php3,531 million, or 5%, to Php69,006 million in 2016 from Php65,475 million in 2015 due to higher revenues from our data and miscellaneous services, partially offset by lower voice service revenues.

Voice Services

Revenues from our voice services decreased by Php623 million, or 2%, from Php29,630 million in 2016 from Php30,253 million in 2015 primarily due to lower international and domestic services, partially offset by higher revenues from local exchange.

Data Services

The following table shows information of our data service revenues for the years ended December 31, 2016 and 2015:

	2016	2015	Increase Amount	%
		(Pesos in millions)		
Data service revenues	37,711	33,748	3,963	12
Home broadband	14,896	12,338	2,558	21
Corporate data and ICT	22,815	21,410	1,405	7

Our data services posted revenues of Php37,711 million in 2016, an increase of Php3,963 million, or 12%, from Php33,748 million in 2015, primarily due to higher home broadband revenues from DSL and *Fibr*, an increase in corporate data and leased lines primarily i-Gate, Fibernet, Metro Ethernet and *Shops.Work*, and higher data center and ICT revenues. The percentage contribution of this service segment to our fixed line service revenues was 55% and 52% in 2016 and 2015, respectively.

Home Broadband

Home broadband data revenues amounted to Php14,896 million in 2016, an increase of Php2,558 million, or 21%, from Php12,338 million in 2015, primarily due to the company's commitment to aggressively expand the FTTH network in the Philippines, as well as an increase in the number of subscribers by 194,686, or 16%, to 1,450,550 subscribers as at December 31, 2016 from 1,255,864 subscribers as at December 31, 2015. Home broadband revenues accounted for 39% and 36% of total data service revenues in 2016 and 2015, respectively.

Corporate Data and ICT

Corporate data services contributed Php19,980 million in 2016, an increase of Php1,174 million, or 6%, as compared with Php18,806 million in 2015, primarily due to sustained market traction of broadband data services such as DSL and *Fibr*, as a result of higher internet connectivity requirements, and key Private Networking Solutions such as IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data revenues accounted for 53% and 56% of total data services in 2016 and 2015, respectively.

ICT revenues increased by Php231 million, or 9%, to Php2,835 million in 2016 from Php2,604 million in 2015, primarily due to higher revenues from colocation, managed IT and social engagement solutions services. Cloud services include cloud contact center, cloud Infrastructure as a Service, cloud Software as a Service, managed security services and cloud professional services. The percentage contribution of this service segment to our total data service revenues was 8% in each of 2016 and 2015.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees. These service revenues increased by Php191 million, or 13%, to Php1,665 million in 2016 from Php1,474 million in 2015, primarily due to higher outsourcing and management fees, partly offset by royalties from directory services in 2015. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 2% in each of 2016 and 2015.

Non-service Revenues

Non-service revenues increased by Php332 million, or 10%, to Php3,722 million in 2016 from Php3,390 million in 2015, primarily due to higher sale of *FabTAB* for *myDSL* retention and *PLP* units, computer-bundled, and TVolution units, partially offset by lower sale of *UNO* equipment, *Telpad* units, managed IT equipment, set top boxes and managed PABX solutions.

Expenses

Expenses related to our fixed line business totaled Php61,285 million in 2016, an increase of Php2,868 million, or 5%, as compared with Php58,417 million in 2015. The increase was primarily due to higher expenses related to depreciation and amortization, noncurrent asset impairment, cost of sales and services, partly offset by lower expenses related to interconnection costs. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 84% and 85% in 2016 and 2015, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2016 and 2015 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2016	**%**	**2015**	**%**	**Amount**	**%**
			(Pesos in millions)			
Selling, general and administrative expenses	34,248	56	32,608	56	1,640	5
Depreciation and amortization	15,471	25	14,301	25	1,170	8
Interconnections costs	5,940	10	6,666	11	(726)	(11)
Cost of sales and services	3,868	6	3,598	6	270	8
Provisions	1,722	3	1,244	2	478	38
Noncurrent asset impairment	36	—	—	—	36	100
Total	61,285	100	58,417	100	2,868	5

Selling, general and administrative expenses increased by Php1,640 million, or 5%, to Php34,248 million, primarily due to higher expenses related to professional and other contracted services, rent, and repairs and maintenance.

Depreciation and amortization charges increased by Php1,170 million, or 8% to Php15,471 million due to a higher depreciable asset base.

Interconnection costs decreased by Php726 million, or 11%, to Php5,940 million, primarily due to lower international interconnection/settlement costs as a result of a decrease in international inbound calls that terminated to other domestic carriers, and lower international outbound calls, and data interconnection/settlement costs, particularly Fibernet and Infonet.

Cost of sales and services increased by Php270 million, or 8%, to Php3,868 million, primarily due to higher sale of *FabTab* for *myDSL* retention, *PLP* units, computer-bundled sales, and sales of TVolution units, as well as due to various partnership with content providers.

Provisions increased by Php478 million, or 38%, to Php1,722 million, mainly due to higher provision for inventory obsolescence and doubtful accounts.

Other Expenses

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2016 and 2015:

	2016	2015	Change Amount	Change %
	(Pesos in millions)			
Other Income (Expenses):				
Financing costs – net	(4,917)	(4,509)	(408)	(9)
Foreign exchange losses – net	(486)	(892)	406	46
Equity share in net earnings (losses) of associates	(40)	38	(78)	(205)
Gains on derivative financial instruments – net	511	420	91	22
Interest income	707	620	87	14
Other income – net	3,934	1,724	2,210	128
Total	(291)	(2,599)	2,308	89

Our fixed line business' other expenses amounted to Php291 million in 2016, a decrease of Php2,308 million, or 89% from Php2,599 million in 2015 mainly due to the combined effects of the following: (i) an increase in other income – net by Php2,210 million due to gain on sale of property and lower loss on sale of fixed assets and materials; (ii) lower foreign exchange losses by Php406 million; (iii) higher net gain on derivative financial instruments by Php91 million; (iv) an increase in interest income by Php87 million; (v) equity share in net losses of associates of Php40 million in 2016 as against equity share in net earnings of associates of Php38 million in 2015; (vi) higher financing costs by Php408 million.

Provision for Income Tax

Provision for income tax amounted to Php3,018 million in 2016, an increase of Php1,362 million, or 82%, from Php1,656 million in 2015 primarily due to higher taxable income. The effective tax rates for our fixed line business were 27% and 21% in 2016 and 2015, respectively.

Net Income

As a result of the foregoing, our fixed line business registered a net income of Php8,134 million in 2016, an increase of Php1,941 million, or 31%, as compared with Php6,193 million in 2015.

Adjusted EBITDA

Our fixed line business' Adjusted EBITDA increased by Php2,201 million, or 9%, to Php26,950 million in 2016 from Php24,749 million in 2015. Adjusted EBITDA margin increased to 39% in 2016 from 38% in 2015.

Core Income

Our fixed line business' core income increased by Php1,207 million, or 18%, to Php7,746 million in 2016 from Php6,539 million in 2015, primarily as a result of higher Adjusted EBITDA, partly offset by higher provision for income tax.

Others

Expenses

Expenses related to our other business totaled Php42 million in 2016, a decrease of Php17 million, or 29%, as compared with Php59 million in 2015.

Other Income

The following table summarizes the breakdown of other income – net for other business segment for the years ended December 31, 2016 and 2015:

	2016	2015	Change Amount	Change %
	(Pesos in millions)			
Other Income (Expenses):				
Equity share in net earnings of associates and joint ventures	1,458	3,284	(1,826)	(56)
Interest income	306	99	207	209
Financing costs – net	(187)	(179)	(8)	(4)
Foreign exchange losses – net	(597)	(522)	(75)	(14)
Other income (expenses) – net	1,768	(2,031)	3,799	187
Total	2,748	651	2,097	322

Other income increased by Php2,097 million to Php2,748 million in 2016 from Php651 million in 2015 primarily due to the combined effects of the following: (i) other income of Php1,768 million in 2016 as against other expenses of Php2,031 million in 2015 due to higher gain on sale of Beacon shares by PCEV in 2016 as against the gain on sale of Meralco shares by Beacon in 2015, partly offset by higher impairment loss on our investment in Rocket Internet resulting from the decline in fair value; (ii) an increase in interest income by Php207 million; (iii) higher financing costs by Php8 million; (ii) higher foreign exchange losses by Php75 million; and (v) lower equity share in net earnings of associates by Php1,826 million mainly from lower equity share in net earnings of Beacon and equity share in net losses of VTI in 2016, partly offset by higher equity share in net earnings of Beta due to the sale of its SPi CRM business.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php2,565 million in 2016, an increase of Php2,117 million from Php448 million in 2015.

Core Income

Our other business segment's core income amounted to Php8,709 million in 2016, an increase of Php2,548 million, or 41%, as compared with Php6,161 million in 2015 mainly as a result of higher other income.

Plans

We are the largest telecommunications company in the Philippines in terms of revenues and subscribers. We intend to reinforce our leading position while offering a broader range and higher quality of products and services.

Our 2018 estimated consolidated capital expenditures is approximately Php58 billion, of which approximately Php27 billion is estimated to be spent by our wireless segment and approximately Php31 billion is estimated to be spent by our fixed line segment. Our capital spending is focused on our objective to improve network quality and provide customers a superior data experience.

We plan to expand our LTE network in line with our desire to provide coverage to substantially all of the country's cities and municipalities by the end of 2018. We intend to expand and upgrade our fixed access networks for cable fortification and resiliency in various locations. By end of the year 2018, we target having 5.1 million homes equipped for our fiber access network, and double our FTTH and hybrid fiber capacity to over 2.2 million ports. The expansion of our national and domestic networks is intended to follow the roll-out of our access networks.

We also plan to continue the transformation of our service delivery platforms and IT in order to facilitate a real-time, on demand and personalized customer experience across all touch points and channels.

Our capital expenditure budget includes projects addressing the following objectives:

(1) Commercial expansion of capacity and footprint of our wired and wireless services, as well as new platforms to expand service offerings;

(2) Technical transformation of the PLDT Group's service delivery platform in order to realize operating and cost efficiencies, provision of greater resilience and redundancy for the network, and investments in additional cable systems; and

(3) IT/Support Systems –upgrade of our IT and support systems.

We expect to fund incremental capital expenditures from free cash flow and proceeds from the discounting of MPIC receivables arising from the sale of Beacon shares.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2017, 2016 and 2015 as well as our consolidated capitalization and other consolidated selected financial data as at December 31, 2017 and 2016:

	2017	2016	2015
	(Pesos in millions)		
Cash Flows			
Net cash from operations	56,114	48,976	69,744
Net cash used in investing activities	(21,060)	(41,982)	(39,238)
Payment for purchase of property and equipment	*37,432*	*42,825*	*43,175*
Net cash used in financing activities	(40,319)	(15,341)	(11,385)
Net increase (decrease) in cash and cash equivalents	(5,817)	(7,733)	19,796

	2017	2016
	(Pesos in millions)	
Capitalization		
Interest-bearing financial liabilities:		
Long-term financial liabilities:		
Long-term debt	157,654	151,759
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	14,957	33,273
Total interest-bearing financial liabilities	172,611	185,032
Total equity attributable to equity holders of PLDT	106,842	108,175
	279,453	293,207
Other Selected Financial Data		
Total assets	459,444	475,119
Property and equipment	186,907	203,188
Cash and cash equivalents	32,905	38,722
Short-term investments	1,074	2,738

Our consolidated cash and cash equivalents and short-term investments totaled Php33,979 million as at December 31, 2017. Principal sources of consolidated cash and cash equivalents in 2017 were cash flows from operating activities amounting to Php56,114 million, proceeds from availment of long-term debt of Php26,255 million, proceeds from disposal of investment in associates and joint ventures of Php14,884 million, proceeds from issuance of perpetual notes of Php4,165 million, collection of receivables of Php2,001 million in 2017, mainly from MPIC, net proceeds from maturity of short-term investments of Php1,830 million, interest received of Php1,217 million, net proceeds from disposal of investments available-for-sale of Php924 million, dividends received of Php833 million, proceeds from disposal of property and equipment of Php484 million, net proceeds from redemption of investment in debt securities of Php456 million and proceeds from disposal of investment properties of Php290 million. These funds were used principally for: (1) debt principal and interest payments of Php39,199 million and Php7,076 million, respectively; (2) payment for purchase of property and equipment, including capitalized interest, of Php37,432 million; (3) cash dividend payments of Php16,617 million; (4) net reduction in capital expenditures under long-term financing of Php7,735 million; (5) payment for purchase of investment in associates and joint ventures, mainly payment to VTI and Bow Arken of Php5,533 million and Php100 million additional funding to AFPI.

Our consolidated cash and cash equivalents and short-term investments totaled Php41,460 million as at December 31, 2016. Principal sources of consolidated cash and cash equivalents in 2016 were cash flows from operating activities amounting to Php48,976 million, proceeds from availment of long-term debt of Php40,569 million, proceeds from disposal of investment in Beacon of Php17,000 million; dividends received of Php4,409 million, proceeds from disposal of property and equipment of Php1,889 million, interest received of Php947 million and net proceeds from redemption of investment in debt securities of Php589 million. These funds were used principally for: (1) payment for purchase of property and equipment, including capitalized interest, of Php42,825 million; (2) cash dividend payments of Php22,987 million; (3) payment for purchase of investment in

VTI, Bow Arken and Brightshare of Php21,524 million; (4) debt principal and interest payments of Php19,650 million and Php6,512 million, respectively; (5) reduction in capital expenditures under long-term financing of Php6,040 million; (6) net payment for purchase of short-term investments of Php1,177 million; (7) net payment for purchase of available-for-sale investments of Php998 million; and (8) settlement of derivative financial instruments of Php541 million.

Operating Activities

Our consolidated net cash flows provided by operating activities increased by Php7,138 million, or 15%, to Php56,114 million in 2017 from Php48,976 million in 2016, primarily due to lower prepayments, inventories and advances, and other noncurrent assets, lower level of settlement of accounts payable and other liabilities, higher operating income and lower corporate taxes paid, partially offset by lower collection of receivables.

Our consolidated net cash flows provided by operating activities decreased by Php20,768 million, or 30%, to Php48,976 million in 2016 from Php69,744 million in 2015, primarily due to lower collection of receivables, lower operating income, higher level of settlement of accounts payable and other liabilities, and higher prepayments, partially offset by lower pension contribution and lower corporate taxes paid.

Cash flows provided by operating activities of our wireless business increased by Php7,243 million, or 29%, to Php32,231 million in 2017 from Php24,988 million in 2016, primarily due to lower level of settlement of accounts payable and other liabilities, lower prepayments, and lower corporate taxes paid, partially offset by lower collection of receivables, lower operating income and higher advances and other noncurrent assets. Cash flows provided by operating activities of our fixed line business increased by Php666 million, or 3%, to Php25,551 million in 2017 from Php24,885 million in 2016, primarily due to higher operating income, lower pension contribution, lower settlement of accounts payable and other liabilities, and lower inventories, partly offset by lower collection of receivables, higher prepayments and higher corporate taxes paid. Cash flows used in operating activities of our other business increased by Php469 million, or 57%, to Php1,298 million in 2017 from Php829 million in 2016 mainly due to higher settlement of accounts payable and other liabilities, partly offset by higher collection of receivables and lower operating loss.

Cash flows provided by operating activities of our wireless business decreased by Php21,931 million, or 47%, to Php24,988 million in 2016 from Php46,919 million in 2015 primarily due to lower operating income, lower collection of receivables, higher level of settlement of accounts payable and other liabilities, and higher prepayments, partially offset by lower pension contribution and lower corporate taxes paid. Cash flows provided by operating activities of our fixed line business increased by Php2,329 million, or 10%, to Php24,885 million in 2016 from Php22,556 million in 2015, primarily due to higher operating income and lower pension contribution, partly offset by lower collection of receivables and higher prepayments. Cash flows used in operating activities of our other business amounted to Php829 million in 2016 as against cash flows provided by operating activities of Php740 million in 2015 due to operating loss in 2016.

Investing Activities

Consolidated net cash flows used in investing activities amounted to Php21,060 million in 2017, a decrease of Php20,922 million, or 50%, from Php41,982 million in 2016, primarily due to the combined effects of the following: (1) lower net payment for purchase of investments in associates and joint ventures by Php15,891 million, primarily due to the purchase of investment in VTI, Bow Arken and Brightshare in 2016; (2) lower payment for purchase of property and equipment by Php5,393 million; (3) higher net proceeds from maturity of short-term investments by Php3,007 million; (4) collection of receivables of Php2,001 million in 2017, mainly from MPIC; (5) net proceeds from disposal of investments available-for-sale of Php924 million in 2017 as against net payment for the purchase of available-for-sale investments of Php998 million in 2016; (6) proceeds from disposal of investment properties of Php290 million; (7) lower proceeds from disposal of property and equipment by Php1,405 million; (8) lower proceeds from disposal of investment in associates and joint ventures by Php2,116 million primarily due to lower proceeds from disposal of remaining Beacon shares by Php5,000 million, offset by proceeds from repurchase of a portion of Beta's ordinary shares of Php2,884 million in 2017; and (9) lower dividends received by Php3,576 million.

Consolidated net cash flows used in investing activities amounted to Php41,982 million in 2016, an increase of Php2,744 million, or 7%, from Php39,238 million in 2015, primarily due to the combined effects of the following: (1) higher net payment for purchase of investment in joint ventures and associates by Php3,250 million specifically for the purchase prices paid in connection with the SMC Transactions , partly offset by the sale of PCEV's share in Beacon; (2) lower dividends received by Php1,135 million; (3) higher net payment for purchase of short-term investments by Php452 million; (4) higher net payment for purchase of available-for-sale investments by Php73 million; (5) lower payment for purchase of investments – net of cash acquired by Php131 million; (6) proceeds from redemption of investment in debt securities by Php297 million; (7) lower payment for purchase of property and equipment by Php350 million; and (8) higher proceeds from disposal of property and equipment by Php1,555 million.

Our payment for purchase of property and equipment, including capitalized interest, in 2017 totaled Php37,432 million, a decrease of Php5,393 million, or 13%, as compared with Php42,825 million in 2016. Smart Group's capital spending decreased by Php7,784 million, or 24%, to Php24,305 million in 2017 from Php32,089 million in 2016. Smart Group's capex spending was primarily focused on expanding 3G capacity and improving LTE (4G) coverage and reach across the nation. PLDT's capital spending increased by Php3,076 million, or 38%, to Php11,134 million in 2017 from Php8,058 million in 2016. The capex spending was used to finance the continuous facility roll-out and expansion of our domestic fiber optic network, as well as expansion of our data center business. The balance represents other subsidiaries' capital spending.

Our payment for purchase of property and equipment, including capitalized interest, in 2016 totaled Php42,825 million, a decrease of Php350 million, or 1%, as compared with Php43,175 million in 2015, primarily due to PLDT's lower capital spending, partially offset by Smart Group's higher capital spending. Smart Group's capital spending, increased by Php1,782 million, or 6%, to Php32,089 million in 2016 from Php30,307 million in 2015, primarily focused on expanding 3G and LTE (4G) coverage and reach, as well as capacity and service enhancements. PLDT's capital spending decreased by Php3,201 million, or 28%, to Php8,058 million in 2016 from Php11,259 million in 2015. The capex spending was used to finance the continuous facility roll-out and expansion of our domestic fiber optic network, cable fortification and resiliency, and acquisition of new platforms to complement introduction of new products and services, as well as expansion of our data center business. The balance represented other subsidiaries' capital spending.

As part of our growth strategy, we may from time to time, continue to make acquisitions and investments in companies or businesses.

Financing Activities

On a consolidated basis, cash flows used in financing activities amounted to Php40,319 million in 2017, an increase of Php24,978 million, or 163%, from Php15,341 million in 2016, resulting largely from the combined effects of the following: (1) higher payments of long-term debt and interest by Php19,549 million and Php564 million, respectively; (2) lower proceeds from availment of long-term debt by Php14,314 million (3) higher net settlement of capital expenditures under long-term financing by Php1,695 million; (4) higher collections from derivatives by Php759 million; (5) proceeds from issuance of perpetual notes of Php4,165 million in 2017; and (6) lower cash dividend payments by Php6,370 million.

On a consolidated basis, cash flows used in financing activities amounted to Php15,341 million in 2016, an increase of Php3,956 million, or 35%, from Php11,385 million in 2015, resulting largely from the combined effects of the following: (1) net settlement of capital expenditures under long-term financing by Php6,351 million; (2) lower proceeds from availment of long-term debt by Php3,798 million; (3) higher payments of long-term debt by Php2,566 million; (4) higher interest payments by Php1,105 million; (5) lower settlement of derivative financial instruments of Php97 million; and (6) lower cash dividends paid by Php9,545 million.

Debt Financing

Proceeds from availment of long-term debt for the year ended December 31, 2017 amounted to Php26,255 million, mainly from PLDT's drawings related to the financing of our capital expenditure requirements and refinancing of maturing loan obligations. Payments of principal and interest on our total debt amounted to Php39,199 million and Php7,076 million, respectively, for the year ended December 31, 2017.

Proceeds from availment of long-term debt for the year ended December 31, 2016 amounted to Php40,569 million, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and refinancing maturing loan obligations. Payments of principal and interest on our total debt amounted to Php19,650 million and Php6,512 million, respectively, for the year ended December 31, 2016.

Our consolidated long-term debt decreased by Php12,421 million, or 7%, to Php172,611 million as at December 31, 2017 from Php185,032 million as at December 31, 2016, primarily due to debt amortizations and prepayments, partly offset by drawings from our long-term facilities and the depreciation of the Philippine peso relative to the U.S. dollar. As at December 31, 2017, the long-term debt level of Smart decreased by 17% to Php62,388 million from Php74,851 as at December 31, 2016, while PLDT's increased to Php110,223 million from Php109,867 million as at December 31, 2016. DMPI loans, with a balance of Php314 million as at December 31, 2016, have been fully paid as at December 31, 2017.

Our consolidated long-term debt increased by Php24,140 million, or 15%, to Php185,032 million as at December 31, 2016 from Php160,892 million as at December 31, 2015 primarily due to drawings from our long-term facilities and the depreciation of the Philippine peso relative to the U.S. dollar, partly offset by debt amortizations and prepayments. As at December 31, 2016, the long-term debt levels of PLDT and Smart increased by 17% and 21% to Php109,867 million and Php74,851 million, respectively, while DMPI's decreased by 94% to Php314 million, as compared with December 31, 2015.

See *Note 21 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for a more detailed discussion of our long-term debt.

Debt Covenants

Our consolidated debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with IFRS, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

As at December 31, 2017 and 2016, we are in compliance with all of our debt covenants.

See *Note 21 – Interest-Bearing Financial Liabilities – Compliance with Debt Covenants* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for a more detailed discussion of our debt covenants.

Financing Requirements

We believe that our available cash, including cash flow from operations, will provide sufficient liquidity to fund our projected operating, investment, capital expenditures and debt service requirements for the next 12 months; however, we may finance a portion of these costs from external sources if we consider it prudent to do so.

The following table shows the dividends declared to common and preferred shareholders from the earnings for the years ended December 31, 2017 and 2016:

Earnings	Date			Amount	
	Approved[(1)]	Record	Payable	Per share	Total Declared
				(Pesos in millions, except per share amount)	
2017					
Common Stock					
Regular Dividend	August 10, 2017	August 25, 2017	September 8, 2017	48.00	10,371
	March 27, 2018	April 13, 2018	April 27, 2018	28.00	6,050
Preferred Stock					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[(1)]	February 7, 2017	February 24, 2017	March 15, 2017	—	12
	May 12, 2017	May 26, 2017	June 15, 2017	—	12
	August 10, 2017	August 25, 2017	September 15, 2017	—	13
	November 9, 2017	November 28, 2017	December 15, 2017	—	12
Voting Preferred Stock	March 7, 2017	March 30, 2017	April 15, 2017	—	3
	June 13, 2017	June 27, 2017	July 15, 2017	—	2
	September 26, 2017	October 10, 2017	October 15, 2017	—	2
	December 5, 2017	December 20, 2017	January 15, 2018	—	2
Charged to Retained Earnings					16,479
2016					
Common Stock					
Regular Dividend	August 2, 2016	August 16, 2016	September 1, 2016	49.00	10,587
	March 7, 2017	March 21, 2017	April 6, 2017	28.00	6,050
Preferred Stock					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[(1)]	January 26, 2016	February 24, 2016	March 15, 2016	—	12
	May 3, 2016	May 24, 2016	June 15, 2016	—	12
	August 2, 2016	August 18, 2016	September 15, 2016	—	12
	November 14, 2016	November 28, 2016	December 15, 2016	—	12
Voting Preferred Stock	February 29, 2016	March 30, 2016	April 15, 2016	—	3
	June 14, 2016	June 30, 2016	July 15, 2016	—	3
	August 30, 2016	September 20, 2016	October 15, 2016	—	2
	December 6, 2016	December 20, 2016	January 15, 2017	—	3
Charged to Retained Earnings					16,696

[(1)] *Dividends were declared based on total amount paid up.*

See “Item 3 – Key Information – Dividends Declared” and “ – Dividends Paid” and *Note 20 – Equity* to the accompanying audited consolidated financial statements in Item 18. “Financial Statements” for further information on our dividend payments.

Credit Ratings

None of our existing indebtedness contains provisions under which credit rating downgrades would trigger a default, changes in applicable interest rates or other similar terms and conditions.

PLDT's current credit ratings are as follows:

Rating Agency	Credit Rating		Outlook
Standard & Poor's Ratings Services, or S&P	Long-term Foreign Issuer Credit	BBB+	Stable
	ASEAN regional scale	axA+	
Moody's Investor Service, or Moody's	Foreign Currency Senior Unsecured Debt Rating	Baa2	Stable
	Local Currency Issuer Rating	Baa2	Stable
Fitch Ratings, or Fitch	Long-term Foreign Currency Issuer Default Rating	BBB+	Stable
	Long-term Local Currency Issuer Default Rating	BBB+	Stable
	National Long-term Rating	AAA(ph1)	Stable
CRISP	Issuer rating	AAA	Stable

On January 16, 2017, Moody's affirmed PLDT's foreign currency bond rating and local currency issuer rating at "Baa2". Both ratings are considered "investment grade." The outlook in both ratings is stable.

On May 24, 2017, S&P affirmed our long-term foreign issuer credit rating at "BBB+", with a stable outlook. This rating is considered as "investment grade." On the S&P ASEAN regional scale, PLDT's rating affirmed at "axA+".

On December 12, 2017, Fitch upgraded PLDT's long-term foreign currency issuer default rating at "BBB+", with a stable outlook. Fitch also affirmed PLDT's long-term local currency issuer default rating at "BBB+" and its National Rating at "AAA (phl)", both with a stable outlook.

On January 6, 2014, CRISP rated PLDT's inaugural peso retail bonds as "AAA" issuer rating with a "stable" outlook, the highest on the scale. CRISP cited PLDT's market leadership, strong historical financial performance and excellent management and governance as key considerations for providing their rating. As at March 27, 2018, there has been no change in the credit rating issued by CRISP.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have any current or future effect on our financial position, results of operations, cash flows, changes in stockholders' equity, liquidity, capital expenditures or capital resources that are material to investors.

Equity Financing

On August 5, 2014, the PLDT Board of Directors approved the amendment of our dividend policy, increasing the dividend payout rate to 75% from 70% of our core earnings per share as regular dividends. In 2016, in view of our elevated capital expenditures to support the build-out of a resilient and reliable data network, lower EBITDA primarily due to higher subsidies to grow the data business and defend market share and the resources required to support the acquisition of SMC's telecommunications business, we have lowered our regular dividend payout to 60% of our core income. In declaring dividends, we take into consideration the interest of our shareholders, as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs. However, in the event that no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends of up to the balance of our core earnings or to undertake share buybacks. We were able to pay out approximately 100% of our core earnings for seven consecutive years from 2007 to 2013, approximately 90% of our core earnings for 2014, 75% of our core earnings for 2015 and 60% of our core earnings in 2016 and 2017. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, are not available for distribution unless realized in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, Philippines, as the dividend-disbursing agent, converts the Philippine peso dividends into U.S. dollars at the prevailing exchange rates and remits the dollar dividends abroad, net of any applicable withholding tax.

Our subsidiaries pay dividends subject to the requirements of applicable laws and regulations and availability of unrestricted retained earnings, without any restriction imposed by the terms of contractual agreements. Notwithstanding the foregoing, the subsidiaries of PLDT may, at any time, declare and pay such dividends depending upon the results of operations and future projects and plans, the respective subsidiary's earnings, cash flow, financial condition, capital investment requirements and other factors.

Consolidated cash dividend payments paid to shareholders amounted to Php16,617, Php22,987 million and Php32,532 million as at December 31, 2017, 2016 and 2015, respectively.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a detailed discussion of our consolidated contractual undiscounted obligations as at December 31, 2017 and 2016, see *Note 28 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php88 million and Php6,788 million as at December 31, 2017 and 2016, respectively. These commitments will expire within one year. The commercial commitment in 2016 includes standby letters of credit issued in relation with PLDT's acquisition of VTI, Bow Arken and Brightshare.

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines for the years ended December 31, 2017 and 2016 were 3.2% and 1.8%, respectively. Moving forward, we currently expect inflation to rise following the impact of the implementation of the Tax Reform Acceleration and Inclusion Law which may push inflation higher in the upper end of the 2% to 4% target range according to the BSP.

See "Item 11. Quantitative and Qualitative Disclosures about Market Risks—Foreign Currency Exchange Risk" for a description of the impact of foreign currency fluctuations on our business.

Item 6. Directors, Senior Management and Employees

Directors and Executive Officers

The Board is principally responsible for PLDT's overall direction and governance. PLDT's Articles of Incorporation provide for 13 members of the Board, who shall be elected by the stockholders. At present, three of PLDT's 13 directors are independent directors. The Board holds office for a one year period and until their successors are elected, and are qualified in accordance with the By-Laws.

The name, age and period of service, of each of the current directors, including independent directors, of PLDT as at January 31, 2018 are as follows:

Name	Age	Period during which individual has served as such
Manuel V. Pangilinan	71	November 24, 1998 to present
Helen Y. Dee	73	June 18, 1986 to present
Emmanuel F. Dooc(1)	68	March 27, 2018 to present
Ray C. Espinosa	61	November 24, 1998 to present
James L. Go	78	November 3, 2011 to present
Bernido H. Liu(2)	55	September 28, 2015 to present
Shigeki Hayashi	50	August 10, 2017 to present
Ret. Chief Justice Artemio V. Panganiban(2)	81	April 23, 2013 to present
Ma. Lourdes C. Rausa-Chan	64	March 29, 2011 to present
Pedro E. Roxas(2)	61	March 1, 2001 to present
Albert F. del Rosario	78	July 11, 2016 to present
Atsuhisa Shirai	56	August 30, 2016 to present
Amado D. Valdez(3)	71	November 14, 2016 to March 26, 2018
Marife B. Zamora	64	November 14, 2016 to present

(1) *Elected as Director of the Company effective March 27, 2018.*
(2) *Independent Director.*
(3) *Resigned effective March 27, 2018 and was replaced by Mr. Emmanuel F. Dooc.*

The name, age, position and period of service of the executive officers of PLDT as at January 31, 2018 are as follows:

Name	Age	Position(s)	Period during which individual has served as such
Executive Officers:			
Manuel V. Pangilinan	71	Chairman of the Board	February 19, 2004 to present
		President and CEO	January 1, 2016 to present
Ernesto R. Alberto	56	Executive Vice President	January 1, 2012 to present
		Enterprise, International and Carrier Business Head	September 16, 2011 to November 30, 2016
		Customer Sales and Marketing Head	February 1, 2008 to September 15, 2011
		Corporate Business Head	May 15, 2003 to January 31, 2008
		Chief Revenue Officer	December 1, 2016 to present
Ray C. Espinosa	61	Regulatory Affairs and Policies Head	March 4, 2008 to November 30, 2016
		Chief Corporate Services Officer	December 1, 2016 to present
Anabelle L. Chua	57	Senior Vice President	February 26, 2002 to present
		Corporate Finance and Treasury Head	March 1, 1998 to May 17, 2015
		Treasurer	February 1, 1999 to May 17, 2015
		Chief Financial Officer of Smart	December 1, 2005 to May 17, 2015
		Chief Financial Officer of PLDT	May 18, 2015 to present
Ma. Lourdes C. Rausa-Chan	64	Senior Vice President	January 5, 1999 to present
		Corporate Secretary	November 24, 1998 to present
		Corporate Affairs and Legal Services Head	January 5, 1999 to present
		Chief Governance Officer	March 4, 2008 to present
Ma. Elizabeth S. Sichon	59	Chief People and Culture Officer	December 1, 2016 to present
Victorico P. Vargas	65	Business Transformation Office Head	January 1, 2016 to present
Alejandro O. Caeg	57	Senior Vice President	January 1, 2012 to present
		Consumer Business Customer Development Head	August 1, 2017 to present
		Wireless Consumer Division Sales and Distribution Head of Smart	December 1, 2016 to July 31, 2017
		International and Carrier Business Head	March 1, 2009 to November 30, 2016
Jun R. Florencio	61	Senior Vice President	June 14, 2005 to present
		Internal Audit and Fraud Risk Management Head	February 16, 2006 to present
		Audit and Assurance Head	September 1, 2000 to February 15, 2006
Menardo G. Jimenez, Jr.[(1)]	54	Senior Vice President	December 9, 2004 to present
		Human Resources Head and Fixed Line Business Transformation Office (BTO) Head	August 1, 2010 to November 30, 2016
		Business Transformation Office – Revenue Team Head	January 1, 2008 to July 2010
		Retail Business Head	June 16, 2004 to December 31, 2007
		Corporate Communications and Public Affairs Head	December 1, 2001 to June 15, 2004
		BTO Deputy Head	January 1, 2017 to present
June Cheryl A. Cabal-Revilla	44	Senior Vice President	May 12, 2017 to present
		Financial Reporting and Controllership Head	November 15, 2006 to present
		Financial Reporting and Planning Head	May 1, 2002 to November 15, 2006
		Chief Financial Officer of Smart and DMPI	May 18, 2015 to present
		PLDT Group Controller	May 18, 2015 to present
Juan Victor I. Hernandez	44	Senior Vice President	March 23, 2017 to present
		Enterprise Business Head	December 1, 2016 to present
		Corporate Business Head	August 2009 to November 30, 2016
Oscar Enrico A. Reyes, Jr.	42	Senior Vice President	November 9, 2017 to present
		Consumer Business Market Development Head	August 1, 2017 to present
		Home Business Head	January 1, 2017 to July 31, 2017
Leo I. Posadas	51	First Vice President	March 6, 2007 to present
		Treasurer	May 18, 2015 to present

(1) *Human Resources functions were assumed by Ms. Ma. Elizabeth S. Sichon effective January 1, 2017 prior to being appointed as Chief People and Culture Officer on February 7, 2017.*

At least three of our directors, namely, Artemio V. Panganiban, Pedro E. Roxas and Bernido H. Liu, are independent directors who are neither officers nor employees of PLDT or any of its subsidiaries, and who are free from any business or other relationship with PLDT or any of its subsidiaries which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out their responsibilities as independent directors. The independence standards/criteria are provided in our By-Laws and CG Manual pursuant to which, in general, a director may not be deemed independent if such director is, or in the past five years had been, employed in an executive capacity by us or any company controlling, controlled by or under common control with us or he is, or within the past five years had been, retained as a professional adviser by us or any of our related companies, or he is not free from any business or other relationships with us which could, or could reasonably be perceived, to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

The following is a brief description of the business experiences of each of our directors, executive officers and advisors for at least the past five years:

Mr. Manuel V. Pangilinan, 71 years old, has been a director of PLDT since November 24, 1998. He was appointed as Chairman of the Board of Directors of PLDT after serving as its President and Chief Executive Officer from November 1998 to February 2004. Effective January 1, 2016, he concurrently holds the position of President and Chief Executive Officer of PLDT and Smart Communications, Inc. ("Smart"). He is the Chairman of the Governance and Nomination, Executive Compensation and Technology Strategy Committees of the Board of Directors of PLDT. He also serves as Chairman of Metro Pacific Investments Corporation ("MPIC"), Manila Electric Company ("Meralco") and Philex Mining Corporation, and Vice Chairman of Roxas Holdings, Incorporated, all of which are PSE-listed companies, and of several subsidiaries or affiliates of PLDT or MPIC, including, among others, Smart Communications, Inc. ("Smart"), Digitel Mobile Philippines, Inc., Digital Telecommunications Phils, PLDT Communications & Energy Ventures, Inc. Beacon Electric Assets Holdings Inc. ("Beacon"), Manila North Tollways Corporation, Maynilad Water Services Corporation ("Maynilad"), Landco Pacific Corporation, , Metro Pacific Hospital Holdings, Inc., Medical Doctors Incorporated (Makati Medical Center), Colinas Verdes Corporation (Cardinal Santos Medical Center), Davao Doctors Incorporated, Riverside Medical Center Incorporated, Our Lady of Lourdes Hospital and Asian Hospital Incorporated. He is also the Chairman of MediaQuest Holdings Inc.("MediaQuest"), Associated Broadcasting Corporation C("TV5") and PLDT-Smart Foundation.

Mr. Pangilinan founded First Pacific Company Limited ("First Pacific"), a Hongkong Stock Exchange-listed company, in 1981 and served as Managing Director until 1999. He was appointed as Executive Chairman until June 2003, when he was named as Chief Executive Officer and Managing Director. Within the First Pacific Group, he also holds the position of President Commissioner of P.T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia.

Outside the First Pacific Group, Mr. Pangilinan is the Chairman of the Board of Trustees of San Beda College and the Hong Kong Bayanihan Trust, a non-stock, non-profit foundation which provides vocational, social and cultural activities for Hongkong's foreign domestic helpers. He is the Chairman of Philippine Business for Social Progress, the largest private sector social action organization made up of the country's largest corporations. He is a Co-Chairman of the Philippine Disaster Resilience Foundation, Inc., a non-stock, non-profit foundation established to formulate and implement a reconstruction strategy to rehabilitate and rebuild areas devastated by floods and other calamities, and of the US-Philippine Business Society, a non-profit society which seeks to broaden the relationship between the United States and the Philippines in the areas of trade, investment, education, foreign and security policies and culture.

Mr. Pangilinan has received numerous prestigious awards including the Business Icon Gold Award for having greatly contributed to the Philippine economy through achievements in business and society by Biz News Asia magazine (2008), Global Filipino Executive of the Year for 2010 by Asia CEO Awards, and Philippines Best CEO for 2012 by Finance Asia.

Mr. Pangilinan graduated cum laude from the Ateneo de Manila University, with a Bachelor of Arts Degree in Economics. He received his Master's Degree in Business Administration from Wharton School of Finance & Commerce at the University of Pennsylvania, where he was a Procter & Gamble Fellow. He was conferred a Doctor of Humanities Degree (Honoris Causa) by the San Beda College (2002), Xavier University (2007), Holy Angel University (2009) and Far Eastern University (2010).

Ms. Helen Y. Dee, 73 years old, has been a director of PLDT since June 18, 1986. She is the Chairperson or a director of EEI Corporation, House of Investments, Petro Energy Resources Corporation and Rizal Commercial Banking Corporation, all of which are PSE-listed companies. She is the Chairperson, Vice Chairperson or a director of several companies engaged in banking, insurance and real property businesses. She is also the President and/or Chief Executive Officer of Hydee Management and Resource Corp., Moira Management, Inc., Tameena Resources, Inc., YGC Corporate Services, Inc., GPL Holdings, Inc. and Mijo Holdings, Inc. Ms. Dee received her Master's Degree in Business Administration from De La Salle University.

Mr. Emmanuel F. Dooc, 68 years old, is the Vice Chairman of the Social Security Commission (SSC) and the President and Chief Executive Officer of the Social Security System (SSS). He is a member of the Board of Directors of Union Bank of the Philippines, Inc., a PSE-listed company, a director of Philam Tower Management Corp. and Philipine Health Insurance Corporation, the Vice Chairman of the Organization, Management and Innovation of International Social Security Association (ISSA) Technical Commission, and a trustee of the Gov. Jose B. Fernandez Center Board of Advisors of the Asian Institute of Management. Prior to his appointment at SSC/SSS, he served as Commissioner of the Insurance Commission and member of the Anti-Money Laundering Council from January 2011 to November 2016. His stint in the private sector included holding the positions of

Compliance Officer and General Counsel of Philam Life & General Insurance Company (Philam) Group, Vice President for Operations Department of American International Assurance, Ltd, HK Head Office, tax lawyer at SGV and corporate secretary of several corporations.

Mr. Dooc is a recipient of various awards/recognitions, which include, the Baldomero B. Aguinaldo Award for Outstanding Head of Agency, Department of Finance Cluster (2016), Outstanding Bedan (2013 and 2014), Uliran Ama Awardee for Law (2001), Most Outstanding Rotary Club President (2000), and Honorary Insurance Commissioner of the State of Louisiana, USA (2015).

Mr. Dooc obtained his Bachelor's Degree in Education from Mabini Colleges, Bachelor of Laws Degree from San Beda College, and Teaching the Blind (Graduate Degree) from the Philippine Normal University. He also completed the Professional Certificate Course in Anti-Corruption under the International Center for Parliamentary Studies (UK), Strategic Management Program at College of Insurance (USA), Executive Management Program for Senior Government Officials at John F. Kennedy School of Government (USA), 2015 Fall International Fellows Program organized by the National Association of Insurance Commissioners and the Center for Insurance Policy and Research, Fellow and Master Fellow of Life Management Institute (USA), International Fellow of National Association of Insurance Commissioners and Center for Policy and Research (USA), and Fellow of Institute of Corporate Directors.

Atty. Ray C. Espinosa, 61 years old, has been a director of PLDT since November 24, 1998, and is member of the Technology Strategy Committee of the Board of Directors of PLDT. He has been serving as Chief Corporate Services Officer of PLDT since December 1, 2016, and General Counsel of Manila Electric Company (Meralco) since December 15, 2009. He is a director of Metro Pacific Investments Corporation and Roxas Holdings, Inc., a director and Chairman of the Finance Committee of Meralco, an independent director and Chairman of the Audit Committee of Lepanto Consolidated Mining Company, all of which are PSE-listed companies, and an independent director and the Chairman of the Risk Management Committee of Maybank Philippines, Inc. He is the Chairman of PhilStar Group of Companies and Business World Publication Corporation, the President of Mediaquest Holdings, Inc., a director of Voyager Innovations Inc. and Paymaya Philippines Inc., and a trustee of the Beneficial Trust Fund of PLDT and PLDT-Smart Foundation, Inc. Atty. Espinosa served as Head of Regulatory and Strategic Affairs of PLDT until 2016, President & CEO of TV5 Network Inc. and Cignal TV Inc. until May 2013 and, prior thereto, was the President & CEO of ePLDT and its subsidiaries until April 2010. In June 2013, he joined First Pacific as Associate Director and was appointed as First Pacific Group's Head of Government and Regulatory Affairs and Head of Communications Bureau for the Philippines.

Atty. Espinosa has a Master of Laws degree from the University of Michigan Law School and is a member of the Integrated Bar of the Philippines. He was a partner at Sycip Salazar Hernandez & Gatmaitan from 1982 to 2000, and a foreign associate at Covington and Burling (Washington, D. C., USA) from 1987 to 1988. He placed first in the 1982 Philippine Bar Examinations.

Mr. James L. Go, 78 years old, has been a director of PLDT since November 3, 2011, and is a member of the Technology Strategy and Risk Committees and Advisor of the Audit Committee of the Board of Directors of PLDT. He is the Chairman and Chief Executive Officer of JG Summit Holdings, Inc. and Oriental Petroleum and Minerals Corporation, the Chairman of Universal Robina Corporation and Robinsons Land Corporation, the Vice Chairman of Robinsons Retail Holdings, Inc., and a director of Cebu Air, Inc and Meralco, which are PSE-listed companies. He is also the Chairman of JG Summit Petrochemical Corporation and JG Summit Olefins Corporation, and a director of CFC Corporation, United Industrial Corporation Limited, Marina Center Holdings Private Limited and Hotel Marina City Private Limited. He is also the President and a Trustee of the Gokongwei Brothers Foundation. He was the Vice Chairman and President and Chief Executive Officer of Digital Telecommunications, Inc. ("Digitel") until October 26, 2011. Mr. Go received his Bachelor of Science Degree and Master of Science Degree in Chemical Engineering from Massachusetts Institute of Technology, USA.

Mr. Bernido H. Liu, 55 years old, has been an independent director of PLDT since September 28, 2015 and is an independent member of the Audit, Governance and Nomination, Executive Compensation and Risk Committees of the Board of Directors of PLDT. He is the Chairman and Chief Executive Officer of Golden ABC, Incorporated. ("GABC"), a fashion retail company which creates and sells its own clothing, personal care and accessory lines marketed and retailed under a fast-growing dynamic portfolio of well-differentiated proprietary brands. He is the Group Chairman and President of LH Paragon Incorporated, a business holdings company which has under its management GABC and other companies in various industries, namely, Matimco Incorporated, Oakridge Realty Development Corporation, Basic Graphics Incorporated, Essentia Medical Group Incorporated, Red Logo Lifestyle Inc., Greentree Food Solutions, Inc., and GABC International Pte Limited. He is a Trustee for Children's Hour Philippines and of the Philippine Retailers Association, a director for Mga Likha ni Inay, Inc., a member of the Visayas Advisory Council of Habitat for Humanity Philippines, and an independent member of the Board of Trustees of the PLDT-SMART Foundation, Inc.

Mr. Liu graduated with a Bachelor of Science Degree in Architecture from the University of San Carlos, Cebu, and completed the Executive Education Owner/President Management Program of the Harvard Business School. Over the years, Mr. Liu and GABC under his leadership have been recognized by different award-giving bodies. Awards include, among others, the Agora Award for Outstanding Achievement in Entrepreneurship from the Philippine Marketing Association, Ten Outstanding Young Men for Entrepreneurship, and the ASEAN Business Award of Excellence for Priority Integration Sector in Retail.

Mr. Shigeki Hayashi, 50 years, old, is the Vice President-Planning/Carrier Relation Global Business of NTT Communications Corporation ("NTT Com"). He handles strategy and management of the global business of overseas subsidiaries, post-merger Integration of NTT Com's mergers and acquisitions companies and carrier relation with global carriers of NTT Com. His previous positions in NTT Com were Director-Planning, Global Business (2012 to 2016), Senior Manager-Overseas Business Management, Global Business (2007 to 2012) and Senior Manager-Tax Accounting Division, Accounts and Finance Department (1999 to 2004). He was the Deputy General Manager-Corporate Management Department of NTT Europe Ltd. from 2004 to 2007. Mr. Hayashi obtained his Bachelor of Economics Degree from Osaka University.

Hon. Artemio V. Panganiban, 81 years old, has been an independent director of PLDT since April 23, 2013 and is serving as an independent member of the Audit, Governance and Nomination, Executive Compensation and Risk Committees of the Board of Directors of PLDT. He served as an independent member of the Advisory Board and an independent non-voting member of the Governance and Nomination Committee of the Board of Directors of PLDT from June 9, 2009 to May 6, 2013. Currently, he is also an independent director of Meralco, Petron Corporation, First Philippine Holdings Corporation, Metro Pacific Investments Corporation, Robinsons Land Corporation, GMA Network, GMA Holdings, and Asian Terminals, Inc., and a regular director of Jollibee Foods Corporation, all of which are PSE-listed companies, as well as a senior adviser of Metropolitan Bank and Trust Company, a member of the Advisory Council of the Bank of the Philippine Islands and an adviser of Double Dragon Properties, Corp. He is also Chairman of the Board of Trustees of the Foundation for Liberty and Prosperity, and of the Board of Advisers of Metrobank Foundation, Inc., a trustee of Tan Yan Kee Foundation and Claudio Teehankee Foundation, President of the Manila Metropolitan Cathedral-Basilica Foundation, a member of the Advisory Board of World Bank (Philippines), Chairman-Emeritus of the Philippine Dispute Resolution Center, Inc., Chairman of the Philippine National Committee of the Asean Law Association, a consultant of the Judicial and Bar Council, a member of the Permanent Court of Arbitration in The Hague, Netherlands, and a column writer of the Philippine Daily Inquirer.

Hon. Panganiban served the Supreme Court of the Philippines for more than 11 years, first as Associate Justice (October 10, 1995 to December 20, 2005) and later, as Chief Justice (December 21, 2005 to December 6, 2006) during which he sat concurrently as Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy. He has received over 250 awards in recognition of his role as jurist, practicing lawyer, professor, civic leader, Catholic lay worker and business entrepreneur, including as "The Renaissance Jurist of the 21st Century" given by the Supreme Court on the occasion of his retirement from the Court. Hon. Panganiban graduated cum laude from Far Eastern University with a Bachelor of Laws Degree in 1960, and was conferred a Doctor of Laws Degree (Honoris Causa) by the University of Iloilo (1997), Far Eastern University (2002), University of Cebu (2006), Angeles University (2006) and Bulacan State University (2006). He was co-founder and past president of the National Union of Students of the Philippines.

Ambassador Albert F. del Rosario, 78 years old, has been a director of PLDT since July 11, 2016 and is a member of the Technology Strategy Committee of the Board of Directors of PLDT. He was the former Secretary of Foreign Affairs of the Philippines from March 2011 to March 2016 and also served as Philippine Ambassador to the United States of America from October 2001 to August 2006. Prior to entering public service, he was on the Board of Directors of over 50 firms. His business career for over four decades has spanned the insurance, banking, real estate, shipping, telecommunications, advertising, consumer products, retail, pharmaceutical and food industries.

Ambassador del Rosario is the Chairman of Philippine Stratbase Consultancy, Inc., Gotuaco del Rosario Insurance Brokers, Inc., Stratbase ADR Institute, Inc., and a director of First Pacific Company, Indra Philippines, Inc., Metro Pacific Investments Corporation and Rockwell Land Corporation (both PSE-listed companies), Metro Pacific Tollways Corporation, Cavitex Infrastructure Corporation, Sarimonde Foods Corporation, Two Rivers Pacific Holdings Corporation, Metro Pacific Resources, Inc., Metro Pacific Holdings, Inc., Metro Pacific Asset Holdings, Inc., Philippine Telecommunications Investment Corporation, Enterprise Investments Holdings, Inc. and Asia Insurance (Phil.) Corp. He is also a trustee of the Carlos P. Romulo Foundation for Peace & Development and Philippine Cancer Society, Inc. and a member of the Advisory Board of CSIS Southeast Asia Program and Metrobank Foundation, Inc.

Ambassador del Rosario received numerous awards and recognition for his valuable contributions to the Philippines and abroad. In September 2004, he was conferred the Order of Sikatuna, Rank of Datu, by H.E. President Gloria Macapagal-Arroyo for his outstanding efforts in promoting foreign relations for the Philippines and the Order of Lakandula with a Rank of Grand Cross (Bayani) for acting as Co-Chair of the 2015 APEC in December 2015. He was a recipient of the EDSA II Presidential Heroes Award in recognition of his work in fostering Philippine democracy in 2001 and the Philippine Army Award from H.E. President Corazon Aquino for his accomplishments as Chairman of the Makati Foundation for Education in 1991. He was awarded as 2013 Professional Chair for Public Service and Governance by Ateneo School of Government and the Metrobank Foundation, 2014 Management Man of the Year by Management Association of the Philippines, 2016 Outstanding Government National Official by Volunteers Against Crime and Corruption (VACC), 2016 Asia CEO Awards as Life Contributor, and Manuel L. Quezon Gawad Parangal as Quezon City's Most Outstanding Citizens for 2016. He was elevated to the Xavier Hall of Fame in New York City in 2006. He received the AIM Washington Sycip Distinguished Management Leadership Award in 2011, Doctor of Laws (Honoris Causa) for "principled commitment to democracy, integrity and the rule of law both at home and around the globe" conferred by the College of Mount Saint Vincent, New York City in September 2015, Rotary Club Makati West's First "Albert del Rosario Award" (Tungo sa Makatarungang Pamumuhay) in August 2016, Outstanding Leadership in Diplomatic Service by Miriam College Department of International Studies and Philippine Tatler's Diamond Award both in November 2016. Ambassador del Rosario graduated from New York University with a Bachelor of Science Degree in Economics.

Mr. Pedro E. Roxas, 61 years old, has been a director of PLDT since March 1, 2001 and qualified as an independent director since 2002. He is the Chairman of the Audit Committee and serves as an independent member of the Risk, Governance and Nomination and Executive Compensation Committees of the Board of Directors of PLDT. He is the Chairman of Roxas Holdings, Inc. and Roxas and Company, Inc., and an independent director of Meralco, BDO Private Bank and CEMEX Holdings Phil. Inc., which are reporting or PSE-listed companies. He is also the Chairman, President or a director of companies or associations in the fields of agri-business, sugar manufacturing and real estate development including Brightnote Assets Corporation, Club Punta Fuego, Inc., Hawaiian-Philippine Co. and Philippine Sugar Millers Association, and a member of the Board of Trustees of Philippine Business for Social Progress and Fundacion Santiago (where he is also the President) and Roxas Foundation, Inc.. Mr. Roxas received his Bachelor of Science Degree in Business Administration from the University of Notre Dame, Indiana, U.S.A.

Mr. Atsuhisa Shirai, 56 years old, has been a director of PLDT since August 30, 2016. He is a member of the Governance and Nomination, Executive Compensation, Technology Strategy and Risk Committees, and an Advisor of the Audit Committee of the Board of Directors. From May 2015 to July 2016, he was the President of Mobile Innovation Co., Ltd., a company that provides fleet management services in Thailand, and through its subsidiaries, in Vietnam and Indonesia, and through dealers, in Myanmar. He served as Director of DOCOMO Wi-Fi Service, 2M2 Business Department and Director of International Roaming, Global Business Department of NTT DOCOMO from July 2013 to April 2015 and from April 2009 to June 2013, respectively. He also served as Director of Wireless Broadband Alliance from July 2010 to June 2015. Prior to that, he was the Director of Singapore Project, Global Business Office of NTT West Corporation from July 2007 to March 2009, Director of Housing Services and Data Center, IT Management Services Department and Director of Internal IT System, Global Business Department of NTT Communications Corporation from April 2005 to June 2007 and from January 2002 to March 2005, respectively. Mr. Shirai received his Master's Degree in Electrical and Electronic Engineering from Chiba University.

Ms. Marife B. Zamora, 64 years old, has been a director of PLDT since November 14, 2016. She is a member of the Board of Directors of Convergys Philippines, Inc., the Philippine branch of Convergys Corporation (NYSE:CVG), a global leader in customer management, and prior thereto its Chairperson from April 2014 to March 2018. She is the 3rd Woman President and the 68th President of the Management Association of the Philippines since its inception in 1950, a member of the Board of Directors of the American Chamber of Commerce of the Philippines, 2017-2018, Secretary and member of the Board of Trustees of the Integrity Initiative, and Board Adviser of ABS CBN Lingkod Kapamilya Foundation Inc. She co-founded and is Chair of the Filipina CEO Circle, an organization of Filipina CEOs who rose through the ranks to lead large corporations in the country's private sector. She served as the first country manager of Convergys Philippines, setting up its first contact center in 2003 and leading its growth into being the country's largest private employer. In 2011, she became managing director for Asia Pacific and EMEA, responsible for Convergys contact centers in the Philippines, India, United Kingdom, and Malaysia. Prior to her work at Convergys Philippines, Ms. Zamora served as managing director for Headstrong Incorporated, a global provider of integrated solutions and digital technologies. Previously, she was with IBM Philippines where she held a number of sales, marketing and management positions during her 18-year tenure with the company.

Ms. Zamora received her Bachelor of Arts Degree (major in Mathematics & History) from the College of the Holy Spirit and studied in the University of the Philippines and the Wharton School of the University of Pennsylvania. Honors conferred on Ms. Zamora include the Asia CEO Awards 2011 Global Filipino Executive of the Year, the 'Go Negosyo' Woman STARpreneuer Award 2012, and the 100 Most Influential Filipino Women in the World Award (Founders & Pioneers Category) 2013.

Ms. Ma. Lourdes C. Rausa-Chan, 64 years old, has been a director of PLDT since March 29, 2011 and is a non-voting member of the Governance and Nomination Committee of the Board of Directors of PLDT. She has been serving as Corporate Secretary, Corporate Affairs and Legal Services Head and Chief Governance Officer of PLDT since November 1998, January 1999 and March 2008, respectively. She is a director and the Corporate Secretary of ePLDT, PLDT Global Investments Holdings, Inc., PLDT Communications and Energy Ventures, Inc., ACeS Philippines Cellular Satellite Corporation and Mabuhay Investments Corporation and also serves as Corporate Secretary of several other subsidiaries of PLDT, and of PLDT-Smart Foundation Inc. and Philippine Disaster Resilience Foundation, Inc. Prior to joining PLDT, she was the Group Vice President for Legal Affairs of Metro Pacific Corporation and the Corporate Secretary of some of its subsidiaries. Ms. Rausa-Chan received her Bachelor of Arts Degree in Political Science and Bachelor of Laws Degree from the University of the Philippines.

Mr. Ernesto R. Alberto, Group Chief Revenue Officer for PLDT and Smart, and a member of PLDT and Smart top management team, is responsible for generating revenues from all the market segments of the group (Enterprise, International, Home, and Wireless businesses). Prior thereto, he was the Head of PLDT Group Enterprise, International and Carrier Business since January 2012. He also serves as Chairman, President and Chief Executive Officer of Asia Netcom Philippines Corporation, Digitel Crossing, Inc., Mabuhay Investment Corporation, and Telesat, Inc., President and Chief Executive Officer of ePLDT and Digitel Mobile Phils, Inc., and President of i-Contacts Corporation and Primeworld Digital Systems, Inc. He is the Chairman of ABM Global Solutions, Bonifacio Communications Corporation, Curo Teknika, ePDS, IP Converge Data Services, Inc. PLDT Clarktel, PLDT Malaysia Sdn. Bhd., PLDT Maratel, Inc., PLDT Philcom, PLDT Subictel, Rack IT Data Center, Inc., and Smart NTT Multi-Media, Inc., and a director of Asean Telecom Holdings Sdn. Bhd., Paymaya Philippines, Inc., PLDT Global, Smart, Talas Data Intelligence, Voyager Innovations, Inc. and WiFun, Inc.

Mr. Alberto has over thirty (30) years of extensive experience in telecommunications, corporate banking, relationship management and business development, having held key positions in the PLDT Group and leading local and foreign banks. Prior to joining PLDT in May 2003, he was Vice President, Senior Banker and Group Head of the National Corporate Group of Citibank, N.A., Manila from November 1996 to April 2003 and previously served as Vice President and Group Head of the Relationship Management Group of Citytrust Banking Corporation. He graduated with a Bachelor's Degree major in Economics and minor in Mathematics and Political Science from San Beda College and pursued his masters studies in Economics Research at the University of Asia and the Pacific.

Ms. Anabelle L. Chua, Chief Financial Officer of the PLDT Group, previously served as the Chief Financial Officer of Smart from 2006 and Chief Financial Officer of Digitel Mobile from 2013 until May 2015. She holds directorships in several subsidiaries of PLDT, Smart and Digitel. She is also a member of the Board of Directors of Philippine Stock Exchange, Securities Clearing Corporation of the Philippines and Philippine Telecommunications Investment Corporation and the Board of Trustees of the PLDT-Smart Foundation and PLDT Beneficial Trust Fund ("PLDT-BTF"), a director of the companies owned by PLDT-BTF, and a director and member of the Finance, Audit, Risk and Nomination and Governance Committees of the Board of Directors of Meralco. Ms. Chua has over 30 years of experience in the areas of corporate finance, treasury, financial control and credit risk management and was a Vice President at Citibank, N.A. where she worked for 10 years prior to joining PLDT in 1998. She graduated magna cum laude from the University of the Philippines with a Bachelor of Science Degree in Business Administration and Accountancy.

Ms. Maria Elizabeth S. Sichon, Chief People and Culture Officer, previously held HR roles in high tech, financial and health care industries across the Americas, Europe, Middle East and Africa, Asia Pacific and Latin America and had her own consulting company, Executive HR Coach, LLC based in Silicon Valley, California, where she worked with companies on their culture transformation and leadership development. Prior to this, she was VP Human Resources of Hewlett Packard, and VP Human Resources International of Avaya, Inc. She received her Master of Arts Degree in Organizational Psychology from Teachers College, Columbia University and BS Psychology from the University of the Philippines.

Mr. Victorico P. Vargas, Business Transformation Office Head, is an Assistant Director of First Pacific since January 2016, overseeing First Pacific Group businesses operating in the Philippines and its region, with particular focus on leading the Business Transformation of PLDT. Prior thereto, Mr. Vargas was the President and Chief Executive Officer of Maynilad Water Services, Inc. since August 2010. He joined PLDT in 2000 as its

Human Resources Group Head and through his stay at PLDT got involved in managing the PLDT Business Transformation Office, Asset Protection and Management Group, and the PLDT International Carrier Business. He has worked in senior roles at Union Carbide, Pepsi Cola, Colgate Palmolive and Citibank. He is the President of the Philippine Olympic Committee, a director of PLDT Subic Telecom, Inc. and PLDT Clark Telecom, Inc., President and Member of the Board of Trustees of the First Pacific Leadership Academy, Trustee of the MVP Sports Foundation, and Ideaspace Foundation and President of the PhilPop Music Fest Foundation. Mr. Vargas was educated at Ateneo de Manila and University of Santo Tomas with a Bachelor of Science Degree in Psychology.

Mr. Alejandro O. Caeg, Head of Consumer Business – Customer Development, previously served as Head of WCD Sales and Distribution of Smart from December 1, 2016 to July 2017 and as Head of International & Carrier Business from March 1, 2009 until November 30, 2016. He was Smart's representative to the Conexus Mobile Alliance (one of Asia's largest cellular roaming alliances), where he was also designated as its Deputy Chairman until 2012 and Conexus Chairman until 2014. Prior to joining PLDT in 2009, he worked in PT Smart Telecom (Indonesia) as its Chief Commercial Strategy Officer from July 2008 to December 2008 and as Chief Commercial Officer from January 2006 to June 2008. He also held various sales, marketing and customer service-related positions in Smart including that of Group Head of Sales and Distribution (2003-2005), Group Head of Customer Care and National Wireless Centers (1998-2001) and Marketing Head of International Gateway Facilities and Local Exchange Carrier (1997-1998). He also served as President and Chief Executive Officer of Telecommunications Distributors Specialist, Inc. in 2002 and as Chief Operations Adviser of I-Contacts Corporation (Smart's Call Center subsidiary) from 2001 to 2002. Mr. Caeg graduated with a Bachelor's Degree in AB Applied Economics and obtained MBA credits from De La Salle University Manila.

Mr. Jun R. Florencio, Internal Audit and Fraud Risk Management Head, handles the overall coordination of the internal audit function of the PLDT group of companies and is in-charge of the fraud risk management function of the PLDT Fixed Line business. He has over 25 years of work experience in the areas of external and internal audit, revenue assurance, credit management, information technology, financial management, and controllership. He was the Financial Controller of Smart for four years before he joined PLDT in April 1999 as Head of Financial Management Sector. He held various positions in the finance organization of another telecommunications company prior to joining Smart. Mr. Florencio, who is a Certified Public Accountant, received his Bachelor of Science Degree in Commerce, Major in Accounting from the University of Santo Tomas and attended the Management Development Program of the Asian Institute of Management.

Mr. Juan Victor I. Hernandez, Enterprise Business Head, is responsible for setting and driving the overall business directions for Corporate and SME businesses of the PLDT Group. He joined the Company in October 2000 as Executive Trainee under the Corporate Business Group and served as Head of Corporate Credit Management from August 2001 to February 2003, Head of PLDT Corporate Business Group –Visayas from 2003 to 2005, Convergence Business B Head from 2003 to July 2009 and Corporate Business Head from August 2009 to November 2016. He obtained his BS Agricultural Economics Degree from the University of the Philippines and Masters in Business Management Degree from the Asian Institute of Management.

Mr. Menardo G. Jimenez, Jr., Business Transformation Office Deputy Head, joined PLDT in December 2001 and has served in various capacities as Corporate Communications and Public Affairs Head, Retail Business Head, Human Resources Group Head and Fixed Line Business Transformation Office Head. He holds directorships in several subsidiaries of PLDT. Prior to joining PLDT, he had a stint at GMA Network, Inc., where he served as head of a creative services and network promotions. Mr. Jimenez received his AB Economics Degree from the University of the Philippines.

Mr. Oscar Enrico A. Reyes, Jr., Head of Consumer Business Market Development and concurrent Head of Consumer Digital Solutions, joined PLDT in February 2015 and was seconded to CignalTV as Chief Operating Officer until December 31, 2015. Thereafter, he served as Home Operations Head until December 2016 and as Home Business Head until July 2017. He holds directorships in some subsidiaries of PLDT. Mr. Reyes, Jr. has extensive experience in consumer marketing and sales both locally and globally and prior to joining PLDT, he served as General Manager-Consumer Products Division of L'Oreal Philippines Inc. from June 2012 until January 2015 and Deputy General Manager-Consumer Products Division from February 2012 until June 2012. He was the Marketing Director of Nutri-Asia Philippines, Inc. from April 2009 to January 2012 and worked for 11 years in Unilever companies, including Unilever Philippines, Inc. and Unilever Thai Trading Limited, handling marketing and brand management functions from 1998 to April 2009. Mr. Reyes obtained his Bachelor of Science Degree in Management Engineering from Ateneo De Manila University and attended an executive course on Culture Building in CEDEP, INSEAD and General Management in France, sponsored by L'Oreal.

Ms. June Cheryl A. Cabal-Revilla, Controller and Financial Reporting and Controllership Head, is concurrently the Chief Financial Officer of Smart since May 18, 2015. She is also a director and/or the Chief Financial

Officer/Treasurer of several subsidiaries of PLDT, the Co-Controller of Vega Telecom, Inc., Easter Telecommunications Phils, Inc. and Bell Telecommunication Phils, Inc., the Chief Financial Officer and/or Treasurer of PLDT-Smart Foundation, Philippine Disaster Recovery Foundation and TOYM Foundation, Comptroller of First Pacific Leadership Academy Foundation and director and trustee of Tahanan Mutual Building and Loan Association. Prior to joining PLDT in June 2000 as an executive trainee in the Finance Group, she was a senior associate in the business audit and advisory group of SGV & Co. Ms. Cabal-Revilla received her Bachelor of Science Degree in Accountancy from De La Salle University and Master's Degree in Business Management Major in Finance from Asian Institute of Management.

Mr. Leo I. Posadas, Treasurer and Treasury Head, has been in PLDT's service since September 2000. He handles the treasury management and treasury operations of the Company. He is a director and Vice President for Treasury of Mabuhay Investments Holdings, Inc., Treasurer and Head of Treasury of Smart, Treasurer of ePLDT and some other subsidiaries of PLDT. Prior to joining PLDT, he served as Treasury Manager of Total Petroleum Philippines, and as Manager for Foreign Exchange Management of San Miguel Corporation. Mr. Posadas received his Bachelor of Arts Degree in Economics and Bachelor of Science Degree in Commerce Major in Management of Financial Institutions from the De La Salle University.

Below is a list of directorships in other private and public companies of the director named below. All directorships of our other director are included in their respective biographies in the preceding pages.

Name of Director	Names of Companies	
	Public	**Private**
Helen Y. Dee	EEI Corporation (Regular Director/Chairman) House of Investments (Regular Director/Chairman) Petro Energy Resources Corporation (Regular Director/Chairman) Rizal Commercial Banking Corporation (Regular Director/Chairman)	AY Holdings, Inc. (Regular Director/Chairman) ET Yuchengco, Inc. (Regular Director/Chairman) Dee Yu Corporation (Regular Director/Chairman) GPL Holdings, Inc. (Regular Director) Hi-Eisai Pharmaceuticals, Inc. (Regular Director/Chairman) Honda Cars, Kaloocan (Regular Director) Honda Cars Philippines, Inc. (Regular Director) Hydee Management & Resource Corp. (Regular Director/Chairman) Isuzu Philippines, Inc. (Regular Director) La Funeraria Paz Sucat (Regular Director/Chairman) Landev Corp. (Regular Director/Chairman) Luis Miguel Foods (Regular Director) Luisita Industrial Park Corporation (Regular Director) Malayan Colleges, Inc. (Regular Director/Chairman) Malayan Colleges Mindanao (A. Mapua School) Inc. (Regular Director/Chairman) Malayan Insurance Company (Regular Director/Chairman) Malayan Insurance Co. (HK) Ltd (Regular Director/Chairman) Malayan High School of Science, Inc (Regular Director/Chairman) Manila Memorial Park Cemetery, Inc. (Regular Director/Chairman) Mapua Information Technology Center, Inc. (Regular Director/Chairman) MICO Equities, Inc. (Regular Director/Chairman) Mijo Holdings, Inc. (Regular Director/Chairman Moira Management, Inc. (Regular Director) Pan Malayan Express (Regular Director) Pan Malayan Management and Investment Corporation (Regular Director/Chairman) Pan Malayan Realty Corp. (Regular Director/ Chairman) Petrowind Energy, Inc. (Regular Director/ Chairman Philippine Integrated Advertising Agency, Inc. (Regular Director) Promotions Personalized Inc. (Regular Director/Chairman) RCBC Forex Brokers Corp (Regular Director) RCBC Leasing & Finance Corp (Regular Director/Chairman) RCBC Realty Corporation (Regular Director) RCBC Savings Bank (Regular Director/ Chairman) Shayamala Corporation (Regular Director/Chairman) Silver Falcon Insurance Agency, Inc. (Regular Director/Chairman) Sunlife Grepa Financial, Inc. (Regular Director/Chairman) Tameena Resources, Inc. (Regular Director/ Chairman) Xamdu Motors, Inc. (Regular Director/Chairman) YGC Corporate Services, Inc. (Regular Director/Chairman) Y Realty, Inc. (Regular Director)

Terms of Office

The directors of PLDT are elected each year to serve until the next annual meeting of stockholders and until their successors are elected and qualified, except in case of death, resignation, disqualification or removal from office. The term of office of all officers is coterminous with that of the board of directors that elected or appointed them.

Family Relationships

None of the directors/independent directors and officers of PLDT or persons nominated to such positions has any family relationships up to the fourth civil degree either by consanguinity or affinity, except Mr. James L. Go and Ms. Anabelle L. Chua who are relatives to the fourth civil degree by consanguinity.

Compensation of Key Management Personnel

The aggregate compensation paid to our executive officers and directors named above, as a group, for 2017 amounted to approximately Php330 million.

The following table below sets forth the aggregate amount of compensation paid in 2017 and 2016 and estimated amount of compensation expected to be paid in 2018 to: (1) the President and CEO and four most highly compensated officers of PLDT, as a group, namely, Anabelle L. Chua, Ernesto R. Alberto, Ma. Lourdes C. Rausa-Chan, and Menardo G. Jimenez, Jr.; and (2) all other executive officers, other officers and directors, as a group.

	2018	**2017**	**2016**
	Estimate	**Actual**	
		(Pesos in millions)	
President and CEO and four most highly compensated executive officers:			
Salary[(1)]	111	108	117
Bonus[(2)]	15	24	27
Other compensation[(3)]	55	35	78
	181	167	222
All other executive officers, other officers and directors as a group (excluding the President and CEO and four most highly compensated executive officers):			
Salary[(1)]	299	254	263
Bonus[(2)]	39	53	66
Other compensation[(3)]	95	200	223
	433	507	552

(1) *Basic monthly salary.*
(2) *Includes longevity pay, mid-year bonus, 13th month and Christmas bonus.*
(3) *Includes variable pay and other payments. Variable pay is based on an annual incentive system that encourages and rewards both the individual and group team performance and is tied to the achievement of corporate/unit/customer satisfaction objectives. It covers regular officers and executives of PLDT and is based on a percentage of their guaranteed annual cash compensation. See Note 26 – Employee Benefits – Defined Benefit Pension Plans to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for further discussion.*

Each of the directors of the Company is entitled to a director's fee of Php250 thousand for each meeting of the Board of Directors attended. In addition, the directors who serve in the committees of the Board of Directors, namely, the Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees, are each entitled to a fee of Php125 thousand for each committee meeting attended.

Except for the fees mentioned above, the directors are not compensated, directly or indirectly, for their services as such directors. The aggregate amount of *per diems* paid to the directors for their attendance in Board and Board Committee meetings is included in other compensation in the above table. The total amount of *per diems* paid in 2017 and 2016 were approximately Php72 million and Php57 million, respectively. The total amount of *per diems* estimated to be paid in 2018 is approximately Php68 million.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

Transformation Incentive Plan

As noted above, we have established the TIP to provide incentive compensation to key officers, executives and other eligible participants who are consistent performers and contributors to the Company's strategic and financial goals.

See Item 4. “Information on the Company – Recent Developments – Transformation Incentive Plan” and *Note 3 – Management’s Use of Judgments, Estimates and Assumptions*, *Note 5 – Income and Expenses*, *Note 24 – Accrued and Other Current Liabilities* and *Note 26 – Employee Benefits* to the accompanying audited consolidated financial statements in Item 18. “Financial Statements” for more information and related discussion.

Share Ownership

The following table sets forth information regarding ownership of our common stock, as at January 31, 2018 by our continuing directors and executive officers. Each individual below owns less than 1% of our outstanding common shares.

Name of Owner	Shares of Common Stock	Percentage of Class
Manuel V. Pangilinan	252,450	0.116845
Helen Y. Dee	25,080[2]	0.011608
Emmanuel F. Dooc[3]	1	0.000000
Ray C. Espinosa	18,743[4]	0.008675
James L. Go	135,914[4]	0.062907
Bernido H. Liu	1	0.000000
Shigeki Hayashi	1	0.000000
Ret. Chief Justice Artemio V. Panganiban	1,771[4]	0.000820
Ma. Lourdes C. Rausa-Chan	199[4]	0.000092
Albert F. del Rosario	142,410[4]	0.065914
Pedro E. Roxas	231[5]	0.000107
Atsuhisa Shirai	1	0.000000
Amado D. Valdez[6]	1	0.000000
Marife B. Zamora	5	0.000002
Ernesto R. Alberto	—	—
Anabelle L. Chua	12,028[4]	0.005567
Ma. Elizabeth S. Sichon	—	—
Victorico P. Vargas	1,470[7]	0.000680
Alejandro O. Caeg	200[7]	0.000093
Jun R. Florencio	515[4]	0.000238
Menardo G. Jimenez, Jr.	22	0.000010
June Cheryl A. Cabal-Revilla	—	—
Juan Victor I. Hernandez	—	—
Oscar Enrico A. Reyes, Jr.	—	—
Leo I. Posadas	10	0.000005

(1) *As at December 31, 2009, under PLDT’s ESOP, all of the options to purchase shares of common stock of executive officers and directors listed in the table above had been exercised. No options have been granted to non-executive directors. All outstanding options were exercisable at an exercise price of Php814 per share and expired on December 10, 2009. All outstanding options were fully vested as at December 10, 2004.*

(2) *Includes 2,780 shares thru RCBC Trust for the account of Michelle Y. Dee-Santos and 245 shares under the name of Helen Y. Dee, both under PCD Nominee Corporation and 21,957 shares owned by Hydee Management Corporation. As chairperson and president of Hydee Management Corporation, Ms. Dee may exercise the voting rights in respect of the 21,957 shares of Hydee Management Corporation.*

(3) *Elected as Director of the Company effective March 27, 2018.*

(4) *Includes PLDT common shares that have been lodged with the Philippine Depository and Trust Co., or PDTC.*

(5) *Includes 210 shares which were bought by a Trust controlled by Mr. Pedro E. Roxas for his children.*

(6) *Resigned as Director of the Company effective March 27, 2018 and replaced by Mr. Emmanuel F. Dooc.*

(7) *Lodged with the PDTC.*

The aggregate number of shares of common stock directly and indirectly owned by directors and executive officers listed above, as at January 31, 2018, was 591,053, or approximately 0.273565% of PLDT’s outstanding shares of common stock.

Board Practices

Board of Directors — Independent Directors

At least three of our directors, namely, Artemio V. Panganiban, Pedro E. Roxas and Bernido H. Liu, are independent directors who are neither officers nor employees of PLDT or any of its subsidiaries, and who are free from any business or other relationship with PLDT or any of its subsidiaries which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out their responsibilities as independent directors. The independence standards/criteria are provided in our By-Laws and PLDT’s Manual on Corporate Governance, or PLDT’s CG Manual pursuant to which, in general, a director may not be deemed independent if such director is, or in the past five years had been, employed in an executive capacity by us or any company controlling, controlled by or under common control with us or he is, or within the past five years had been, retained as a professional adviser by us or any of our related companies, or he is not free from any business or other relationships with us which could, or could reasonably be perceived, to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees

Our Board of Directors is authorized under the By-Laws to create committees, as it may deem necessary. We currently have five Board committees, namely, the Audit, Governance and Nomination, Executive Compensation, Technology Strategy, and Risk Committees, the purpose of which is to assist our Board of Directors. Each of these committees has a Board-approved written charter that provides for such committee's composition, membership qualifications, functions and responsibilities, conduct of meetings, and reporting procedure to the Board of Directors.

Audit Committee

Our Audit Committee, or AC, is composed of three members, all of whom are independent directors, and four advisors. The AC members are retired Supreme Court Chief Justice Artemio V. Panganiban, Mr. Pedro E. Roxas and Mr. Bernido H. Liu. The four AC advisors are Mr. Atsuhisa Shirai and Mr. James L. Go, who are non-independent members of our Board of Directors, Mr. Roberto R. Romulo, a member of our Advisory Board/Committee, and Ms. Corazon de la Paz-Bernardo, a former member of our Board of Directors. All of the members of our AC are financially literate and Ms. Corazon S. de la Paz-Bernardo has expertise in accounting and financial management. She was a former Chairman and Senior Partner of Joaquin Cunanan & Company, now Isla Lipana & Co., a member firm of Pricewaterhouse Coopers (PwC).

As provided for in the AC charter, the purpose of the AC is to assist our Board of Directors in fulfilling its oversight responsibility for: (i) PLDT's accounting and financial reporting principles and policies, and system of internal controls, including the integrity of PLDT's financial statements and the independent audit thereof; (ii) PLDT's compliance with legal and regulatory requirements; and (iii) the performance of the internal audit organization and the external auditors.

To carry its direct responsibility for the appointment, setting of compensation, retention and removal of the external auditors, the AC has the following duties and powers:

- review and evaluate the qualifications, performance and independence of the external auditors and its lead audit partner;
- select and appoint the external auditors and to remove or replace the external auditor;
- review and approve in consultation with the head of the internal audit organization and the head of the finance organization all audit and non-audit services to be performed by the external auditors and the fees to be paid to the external auditor for such services, and ensure disclosure of any allowed non-audit services in PLDT's annual report;
- periodically review fees for non-audit services paid to the external auditor and disallow non-audit services that will conflict with the external auditor's duties to PLDT or pose a threat to the external auditor's independence;
- ensure that the external auditor prepares and delivers annually a statement as to its independence, discuss with the external auditor any relationships or services disclosed in such statement that may impact the objectivity, independence or quality of services of said external auditor and take appropriate action in response to such statement to satisfy itself of the external auditor's independence;
- review the external auditor's internal quality-control procedures based on the external auditor's statement submitted at least annually, any material issues raised by recent internal quality-control review or peer review of the external auditor, or by any inquiry or investigation by governmental or professional authorities within the preceding five years, regarding one or more independent audits carried out by the external auditor and steps taken to deal with any such issues;
- ensure that the external auditor or its lead audit partner having the primary responsibility for the audit of PLDT's financial accounts is rotated at least once every five years or such shorter or longer period provided under applicable laws and regulations;
- advise the external auditor that it is expected to provide the AC a timely analysis of significant/critical financial reporting issues and practices;
- obtain assurance from the external auditors that the audit was conducted in a manner consistent with certain procedures to be followed in any audit of financial statements required under applicable rules; and
- resolve disagreements between management and the external auditor regarding financial reporting.

The AC has the authority to retain or obtain advice from special counsel or other experts or consultants in the discharge of their responsibilities without the need for board approval.

Governance and Nomination Committee

Our Governance and Nomination Committee, or GNC, is composed of five voting members, all of whom are regular members of our Board of Directors and two non-voting members. Three of the voting members are independent directors namely, retired Supreme Court Chief Justice Artemio V. Panganiban, Mr. Pedro E. Roxas and Mr. Bernido H. Liu. Two are non-independent directors namely, Mr. Atsuhisa Shirai and Mr. Manuel V. Pangilinan who is the chairman of this committee. Ms. Ma. Elizabeth S. Sichon[(1)] and Atty. Ma. Lourdes C. Rausa-Chan are the non-voting members.

(1) Replaced Mr. Menardo G. Jimenez, Jr. effective February 7, 2017.

The principal functions and responsibilities of our GNC are to:

1. Oversee the development and implementation of corporate governance principles and policies;
2. Review and evaluate the qualifications of the persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board;
3. Identify persons believed to be qualified to become members of the Board and/or the Board committees;
4. Assist the Board in making an assessment of the Board's effectiveness in the process of replacing or appointing new members of the Board and/or Board committees; and
5. Assist the Board in developing and implementing the Board's performance evaluation process.

Executive Compensation Committee

Our Executive Compensation Committee, or ECC, is composed of five voting members, all of whom are regular members of our Board of Directors, and one non-voting member. Three of the voting members are independent directors, namely retired Supreme Court Chief Justice Artemio V. Panganiban, Mr. Pedro E. Roxas and Mr. Bernido H. Liu, and two are non-independent directors, namely, Mr. Atsuhisa Shirai and Mr. Manuel V. Pangilinan, who is chairman of this committee. Ms. Ma. Elizabeth S. Sichon[(1)] is the non-voting member.

(1) Replaced Mr. Menardo G. Jimenez, Jr. effective February 7, 2017.

The principal functions and responsibilities of our ECC are to:

1. Provide guidance to and assist the Board in developing a compensation philosophy or policy consistent with the culture, strategy and control environment of PLDT;
2. Oversee the development and administration of PLDT's executive compensation programs, including long term incentive plans and equity based plans for officers and executives; and
3. Assist the Board in the performance evaluation of and succession planning for officers, including the CEO, and in overseeing the development and implementation of professional development programs for officers.

Technology Strategy Committee

Our Technology Strategy Committee, or TSC, is composed of five voting members and two non-voting members. The five voting members are non-independent directors Mr. Manuel V. Pangilinan, who serves as chairman, Ambassador Albert F. del Rosario, Atty. Ray C. Espinosa, Mr. James L. Go, and Mr. Atsuhisa Shirai, and the two non-voting members are Mr. Oscar S. Reyes and Mr. Orlando B. Vea who are members of our Advisory Board/Committee.

The principal functions and responsibilities of our TSC are to assist and enable the Board to:

1. Review and approve the strategic vision for the role of technology in PLDT's overall business strategy, including the technology strategy and roadmap of PLDT;
2. Fulfill its oversight responsibilities for PLDT's effective execution of its technology related strategies; and
3. Ensure the optimized use and contribution of technology to PLDT's business and strategic objectives and growth targets.

Risk Committee

Our risk committee, or RC, was created by the Board of Directors on June 9, 2015. The RC is composed of five voting members, all of whom are regular members of our Board of Directors. Three of the voting members are independent directors namely, retired Supreme Court Chief Justice Artemio V. Panganiban, Mr. Bernido H. Liu and Mr. Pedro E. Roxas who is the chairman of this committee. Two are non-independent directors namely, Mr. Atsuhisa Shirai and Mr. James L. Go.

The primary purpose of the Committee is to assist the Board in fulfilling its governance functions relating to risk management, which include the functions to:

1. Oversee management's adoption and implementation of a system for identifying, assessing, monitoring and managing key risk areas;
2. Review management's reports on the Company's major risk exposures; and
3. Review management's plans and actions to minimize, control or manage the impact of such risks.

Advisory Committee

Our Advisory Board/Committee is composed of Mr. Roberto R. Romulo, Mr. Benny S. Santoso, Mr. Orlando B. Vea, Mr. Christopher H. Young and Mr. Oscar S. Reyes. The Advisory Board/Committee provides guidance and suggestions, as necessary, on matters deliberated upon during Board meetings.

Employees and Labor Relations

As at December 31, 2017, we had 17,779 employees within the PLDT Group, with 7,042 and 10,737 employees in our wireless and fixed line businesses, respectively. PLDT had 6,499 employees as at December 31, 2017, of which 17% were rank and file employees, 75% were management/supervisory staff and 8% were executives.

We and our business units had the following employees as at December 31 of each of the following years:

	December 31,		
	2017	**2016**	**2015**
PLDT Group	17,779	18,038	17,176
Wireless	7,042	7,343	7,505
Fixed Line	10,737	10,695	9,671
LEC	6,832	7,205	7,039
Others	3,905	3,490	2,632
PLDT Only	6,499	6,858	6,705

PLDT has three employee unions, representing in the aggregate 5,328, or 30% of the employees of the PLDT Group. PLDT considers its relationship with our rank-and-file employees' union, our supervisors' union and our sales supervisors' union to be good.

PLDT received a Compliance Order dated July 3, 2017 from the National Capital Region Office of the DOLE asserting that PLDT and 48 of its third party service contractors (a) did not fully pay, and therefore are solidarily liable, to certain contract workers for various statutory monetary benefits totaling approximately Php78.6 million; and (b) violated DOLE Order No. 18-A on contracting out and, therefore, PLDT must issue regular employment positions to approximately 8,720 contractor workers.

On July 17, 2017, PLDT filed an Appeal with the DOLE Secretary contesting the conclusions set out in the Compliance Order. In accordance with the rules of procedure for these types of cases, the filing of the Appeal stays the execution of any aspect of the Order for the duration of the Appeal.

PLDT received a copy of a Resolution dated January 10, 2018 issued by the DOLE Secretary, which partially reverses the July 3, 2017 Compliance Order issued by the DOLE-NCR Regional Director. The Resolution reduces (a) the number of workers ordered to be regularized to 7,416 from the previous 8,720; and (b) the monetary liability of PLDT and its contractors to Php66.3 million from the previous Php78.2 million.

However, the Resolution did not address the fundamental jurisdictional and due process issues raised by PLDT in the Appeal to the DOLE Secretary. PLDT filed a Motion for Reconsideration within the 10-day prescribed period to contest the Resolution. The Resolution is not executory until reconsideration proceedings have been resolved.

Pension and Retirement Benefits

Defined benefit pension plans

PLDT has separate and distinct retirement plans for itself and majority of its Philippine-based operating subsidiaries, administered by the respective Funds' Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Defined contribution plans

Smart's and certain of its subsidiaries' contributions to the plan are made based on the employees' years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and certain of its subsidiaries regularly monitor compliance with R.A. 7641 which provides for qualified employees to receive a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. 7641. As at December 31, 2017 and 2016, Smart and certain of its subsidiaries were in compliance with the requirements of R.A. 7641.

See *Note 2 – Summary of Significant Accounting Policies – Retirement Benefits* and *Note 26 – Employee Benefits* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for a discussion of our defined benefit pension plans and defined contribution plans.

Item 7. Major Shareholders and Related Party Transactions

The following table sets forth information regarding ownership of shares of PLDT's voting stock (common and voting preferred stock) as at January 31, 2018, of all shareholders known to us to beneficially own 5% or more of PLDT's shares of voting stock, or, collectively, PLDT's Major Shareholders. All shares of PLDT's voting stock have one vote per share. PLDT's Major Shareholders do not have voting rights that are different from other holders of shares of PLDT's voting stock.

Shareholder	Common Shares	Percentage of Common Shares (%)	Voting Preferred Shares	Percentage of Voting Preferred Shares (%)	Percentage of Voting Securities (%)
1.First Pacific Company Limited's affiliates	55,244,642[(1)]	25.6	—	—	15.1
a. Philippine Telecommunications Investment Corporation	26,034,263	12.0	—	—	7.1
b. Metro Pacific Resources, Inc.	21,556,676	10.0	—	—	5.9
2. Nippon Telegraph and Telephone Corporation's affiliates	43,963,642[(2)]	20.3	—	—	12.0
a. NTT Communications Corporation	12,633,487	5.8	—	—	3.5
b. NTT DOCOMO, INC.	31,330,155[(3)]	14.5	—	—	8.6
3. JG Summit Holdings, Inc. and its affiliates	17,308,526[(4)]	8.0	—	—	4.7
4. Deutsche Bank AG Manila Branch – Clients A/C	10,881,941[(5)]	5.0	—	—	3.0
5. The Hongkong and Shanghai Banking Corporation Limited – Clients' Acct.	19,668,996[(5)]	9.1	—	—	5.4
6. BTF Holdings, Inc.[(6)]	—	—	150,000,000	100	41.0

(1) *Includes (a) 26,034,263 shares of common stock held by PTIC, a Philippine affiliate of First Pacific, (b) 21,556,676 shares of common stock held by MPRI, a Philippine affiliate of First Pacific and (c) 7,653,703 shares of common stock held by a non-Philippine wholly-owned subsidiary of First Pacific registered in the name of PCD Nominee Corporation.*

(2) *Includes (a) 22,796,902 shares of common stock held by NTT DOCOMO, a Japanese corporation which is a majority-owned and publicly traded subsidiary of NTT, (b) 8,533,253 ADRs held by NTT DOCOMO and (c) 12,633,487 shares of common stock held by NTT Communications, a Japanese corporation which is a wholly-owned subsidiary of NTT.*

(3) *Includes 8,533,253 ADRs held by NTT DOCOMO.*

(4) *Includes (a) 17,208,753 shares of common stock beneficially owned by JG Summit Holdings, Inc., (b) 86,723 shares of common stock beneficially owned by Express Holdings, Inc., and (c) 13,050 shares of common stock beneficially owned by Ms. Elizabeth Yu Gokongwei.*

(5) *Represents shares held on behalf of clients. PLDT has no knowledge if any client beneficial owners of common shares held 5% or more of PLDT's outstanding shares of common stock as at January 31, 2018.*

(6) *A wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT or PLDT Beneficial Trust Fund.*

As at January 31, 2018, approximately 70.37% of the outstanding voting stock and 83.72% of the outstanding capital stock of PLDT were owned by Philippine persons.

As a result of their respective stockholdings, the FP Parties and/or NTT Communications and/or NTT DOCOMO and/or BTFHI are able to influence our actions and corporate governance, including (i) elections of our directors; and (ii) approval of major corporate actions, which require the vote of holders of common and voting preferred stocks.

Additionally, the FP Parties, NTT Communications, NTT DOCOMO and PLDT entered into a Cooperation Agreement, dated January 31, 2006, pursuant to which, among other things, certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, or the Strategic Agreement, and the Shareholders Agreement dated March 24, 2000, or the Shareholders Agreement, were extended to NTT DOCOMO. As a result of the Cooperation Agreement, NTT Communications and NTT DOCOMO, in coordination with each other, have contractual rights relating to a number of major decisions and transactions that PLDT could make or enter into.

Specifically, PLDT may not take any of the following actions described without the approval of NTT DOCOMO and NTT Communications, acting in coordination with each other (however, NTT DOCOMO and NTT Communications may not withhold their consent to such actions in circumstances where PLDT proposes to invest in a business that competes with Nippon Telegraph and Telephone Corporation and its subsidiaries and where the board of directors of PLDT has among other things, approved the transaction):

- capital expenditures in excess of US$50 million;
- any investments, if the aggregate amount of all investments for the previous 12 months is greater than US$25 million in the case of all investments to any existing investees and US$100 million in the case of all investments to any new or existing investees, determined on a rolling monthly basis; and
- any investments in a specific investee, if the cumulative value of all investments made by us in that investee is greater than US$10 million in the case of an existing investee and US$50 million in the case of a new investee.

PLDT also may not issue common stock or stock that is convertible into common stock except where NTT Communications and NTT DOCOMO have first been offered the opportunity to purchase their pro rata portion of PLDT’s shares of common stock.

PLDT is also aware that each of NTT Communications and NTT DOCOMO has agreed (pursuant to the Shareholders Agreement in the case of NTT Communications and pursuant to the Cooperation Agreement in the case of NTT DOCOMO) to use its best efforts to procure that PLDT not take the following actions without the consent of First Pacific and certain of its affiliates, as well as other parties bound by the provisions of the Shareholders Agreement:

- new business activities other than those we currently engage in;
- merger or consolidation;
- winding up or liquidation of PLDT; and
- applying to a court to order a meeting of creditors or to sanction any compromise or arrangement between creditors and shareholders of PLDT.

As PLDT is not a party to the Shareholders Agreement, these contractual rights held by NTT Communications, NTT DOCOMO, First Pacific and certain of First Pacific’s affiliates are not directly enforceable against PLDT.

Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT’s shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT’s shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement. See *Note 25 – Related Party Transactions – Transactions with Major Stockholders, Directors and Officers – Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO* to the accompanying audited consolidated financial statements in Item 18. “Financial Statements”.

Related Party Transactions

PLDT, in the ordinary course of business, engages in transactions with stockholders, its subsidiaries and affiliates, and directors and officers and their close family members. For PLDT's Guidelines on the Proper Handling of Related Party Transactions, please refer to:

http://pldt.com/docs/default-source/policies/pldt-code-of-business-conduct-and-ethics.pdf?sfvrsn=4

This website does not form part of this annual report on Form 20-F.

Except for the transactions discussed in Item 4. "Information on the Company – Recent Developments" and *Note 25 – Related Party Transactions* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements", there were no other material related party transactions during the last three financial years, nor are there any material transactions currently proposed between PLDT and any: (i) director, officer, direct or indirect owner of 10% or more of the outstanding shares in PLDT; (ii) close family member of such director, officer or owner; (iii) associates of PLDT; (iv) enterprises controlling, controlled by or under common control with PLDT; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any director, officer or owner of 10% or more of the outstanding shares in PLDT or any close family member of such director, key officer or owner, or collectively, the Related Parties.

Item 8. Financial Information

Consolidated Financial Statements and Other Financial Information

See "Item 18 – Financial Statements."

Legal Proceedings

Except as disclosed in *Note 27 – Provisions and Contingencies* and *Note 10 – Investment in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare – Notice of Transaction filed with the Philippine Competition Commission* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements", neither PLDT nor any of its subsidiaries is a party to, and none of their respective properties is subject to, any pending legal proceedings that PLDT considers to be potentially material to its and its subsidiaries' business.

Foreign Ownership Requirements

Two long-lasting proceedings, *In the Matter of Wilson Gamboa* and the *Jose M. Roy III Petition*, which challenged our compliance with foreign ownership restrictions were finally decided by the Philippines Supreme Court in a manner not adverse to PLDT. See *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. Although we currently believe we are in compliance with the foreign ownership restrictions under the Philippine Constitution, if the Philippine SEC or the other relevant authorities in the Philippines determine otherwise, we could be subject to penalties.

While the law is still unsettled on this issue, PLDT has been advised by its Philippine counsel that once a sufficient number of PLDT's shares are issued or transferred to or are otherwise acquired by qualified Philippine nationals so as to result in PLDT's foreign ownership percentage being in compliance with the foreign ownership restriction threshold, such a *quo warranto* case would not have merit, and if already initiated, would be subject to dismissal prior to the time that a judgment becomes final and executory.

Taxation

Local Business and Franchise Taxes

Pursuant to a decision of the Supreme Court on March 25, 2003 in the case of *PLDT vs. City of Davao* declaring PLDT not exempt from the local franchise tax, PLDT started paying local franchise tax to various Local Government Units, or LGUs. As at December 31, 2017, PLDT has no contested LGU assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT filed a protest on November 3, 2017 against the imposition of local business tax in addition to the local franchise tax issued by the City of Roxas covering the years 2013 to 2017. On February 19, 2018, the City of Roxas cancelled the previously issued notice of business tax assessment.

See *Note 27 – Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for further discussion.

Dividend Distribution Policy

See Item 3. "Key Information – Dividends Declared" for a description of our dividend distribution policy, and *Note 20 – Equity* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for tables that show dividends declared in 2017.

Item 9. The Offer and Listing

Common Capital Stock and ADSs

The shares of common stock of PLDT are listed and traded on the PSE. On October 19, 1994, an ADR facility was established, pursuant to which Citibank, N.A., as the depositary, issued ADRs evidencing ADSs with each ADS representing one PLDT common share with a par value of Php5.00 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary of PLDT's ADR facility. The ADSs are listed on the NYSE and are traded on the NYSE under the symbol of "PHI".

The public ownership level of PLDT common shares listed on the PSE as at January 31, 2018 is 53.80%.

As at January 31, 2018, 10,205 stockholders were Philippine persons and held approximately 49.80% of PLDT's common capital stock. In addition, as at January 31, 2018, there were a total of approximately 31 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 260 holders.

For the period from January 1 to January 31, 2018, a total of 3.26 million shares of PLDT's common capital stock were traded on the PSE. During the same period, the volume of trading was 2.11 million ADSs on the NYSE.

High and low sales prices for PLDT's common shares on the PSE and ADSs on the NYSE for each of the five most recent fiscal years, each full quarterly period during the two most recent fiscal years, and each month in the most recent six months were as follows:

	Philippine Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
	(in Pesos)		(in US $)	
2018				
First Quarter	1,601.00	1,384.00	32.66	26.97
January	1,601.00	1,384.00	32.66	27.82
February	1,597.00	1,500.00	30.98	28.51
Through March 26	1,575.00	1,450.00	29.94	26.97
2017				
First Quarter	1,655.00	1,360.00	32.59	27.60
Second Quarter	1,944.00	1,602.00	38.54	31.49
Third Quarter	1,796.00	1,603.00	35.05	30.71
Fourth Quarter	1,762.00	1,437.00	34.38	28.09
October	1,762.00	1,638.00	33.92	31.49
November	1,755.00	1,481.00	34.38	29.10
December	1,550.00	1,437.00	31.64	28.09
2016				
First Quarter	2,360.00	1,675.00	50.48	35.52
Second Quarter	2,150.00	1,621.00	45.88	34.26
Third Quarter	2,170.00	1,666.00	46.13	34.64
Fourth Quarter	1,740.00	1,260.00	36.11	25.50
2015	3,214.00	1,959.00	72.93	39.70
2014	3,292.00	2,604.00	79.04	56.88
2013	3,290.00	2,530.00	78.63	58.63

Item 10. Additional Information

Share Capital

Not applicable.

Amended Articles of Incorporation and By-Laws

Summaries of certain provisions of PLDT's Articles of Incorporation and By-Laws and amendments thereto and applicable Philippine laws as previously disclosed in Item 10 of our annual reports on Form 20-F for the calendar years ended December 31, 2010 and December 31, 2014 filed on March 30, 2011 and March 26, 2015, respectively, are herein incorporated by reference.

On April 12, 2016 and June 14, 2016, the Board of Directors and stockholders of PLDT, respectively, approved amendments to our Articles of Incorporation to reflect the change in the name of the Company from Philippine Long Distance Telephone Company to PLDT Inc. and an expansion of the purposes of the Company. On August 30, 2016, the Board of Directors also approved amendments to our By-Laws to reflect the change in the name of the Company. See *Note 1 – Corporate Information – Amendments to the Articles of Incorporation of PLDT* and *– Amendments to the By-Laws of PLDT* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for a further discussion of the amendments to the Articles of Incorporation and By-Laws.

A copy of each of the Articles of Incorporation and By-Laws, each as amended, is furnished under Item 19. "Exhibits".

Issuance and Redemption of Preferred Stock

All outstanding shares of PLDT 10% Cumulative Convertible Preferred Stock Series A to Series FF, Series GG and Series HH, which were issued in 2007 and 2008, were redeemed and retired effective on January 19, 2012, August 30, 2012, May 16, 2013 and May 16, 2014, respectively.

On January 26, 2016, the Board authorized and approved effective May 11, 2016, the redemption of shares of the Company's Series II 10% Cumulative Convertible Preferred Stock (also known as the Subscriber Investment Plan, or SIP, Shares), which were issued in 2010. The record date for the determination of the holders of outstanding SIP Shares available for redemption is February 10, 2016. The Board also approved the creation of 20,000 shares of Non-Voting Preferred Stock constituting Series KK 10% Cumulative Convertible Preferred Stock of the Company, for issuance in the implementation of the SIP from January 1, 2016 through December 31, 2020.

Material Contracts

Other than the contracts described below and in Item 7. "Major Shareholders and Related Party Transactions," we have not entered into any material contract that is not in the ordinary course of business within the two years preceding the date of this annual report.

On May 30, 2016, PLDT executed the following agreements in connection with the SMC Transactions:

- Sale and Purchase Agreement, by and among SMC, PLDT, Globe, and VTI, pursuant to which PLDT and Globe agreed to acquire from SMC 100% of the equity interests in VTI and advances made by SMC to VTI for an aggregate consideration of approximately Php52.1 billion, as amended on July 27, 2016 by the First Amendment to the Sale and Purchase Agreement.
- Sale and Purchase Agreement, by and among Grace Patricia W. Vilchez-Custodio, PLDT, Globe, and Brightshare, pursuant to which PLDT and Globe agreed to acquire from Grace Patricia W. Vilchez-Custodio 100% of the equity interests in Brightshare and advances made by Grace Patricia W. Vilchez-Custodio to Brightshare for an aggregate consideration of approximately Php191 million.
- Sale and Purchase Agreement, by and among Schutzengel Telecom, Inc., PLDT, Globe, and Bow Arken, pursuant to which PLDT and Globe agreed to acquire from Schutzengel Telecom, Inc. 100% of the equity interests in Bow Arken and advances made by Schutzengel Telecom, Inc. to Bow Arken for an aggregate consideration of approximately Php576 million.

On May 30, 2016, PCEV entered into a Share Purchase Agreement with MPIC, pursuant to which it agreed to sell to MPIC 646 million shares of common stock and 458 million shares of preferred stock of Beacon.

On May 19, 2017, AOGL entered into a Share Purchase Agreement with Partners Group, relating to the acquisition of SPi Global for an enterprise value of US$370 million. The transaction was completed on August 25, 2017, copies of which are furnished as Exhibit 4n.

On June 13, 2017, PCEV entered into a Share Purchase Agreement with MPIC to sell its remaining 25% equity interest in Beacon, consisting of 646 million shares of common stock and 458 million shares of preferred stock, for a total consideration of Php21,800 million, copies of which are furnished as Exhibit 4o.

Exchange Controls and Other Limitations Affecting Securities Holders

In Circular No. 1389 dated November 10, 1993, as amended by Circular No. 224 dated January 26, 2000, of the BSP, foreign investments in the shares of stock of Philippine companies listed in the PSE may be registered either with the BSP or with an investor's designated custodian bank. The foreign investments in listed shares of stock, which are duly registered with the BSP or with a custodian bank duly designated by the foreign investor, are entitled to full and immediate capital repatriation and dividend and interest remittance privileges. Without the need to obtain prior BSP approval, commercial banks are authorized to sell and to remit the equivalent foreign exchange (at the exchange rate prevailing at the time of actual remittance) representing sales and divestment proceeds or dividends of a duly registered foreign equity investment upon presentation of a BSP Registration Document, or BSRD, together with other supporting documents. The BSRD is issued by the BSP or the custodian bank upon registration of the foreign investment and serves as the authority to repatriate such divestment and sales proceeds or remittance of cash dividends. Effective April 3, 2000, only pre-numbered BSRD forms, printed on BSP security paper may be used and issued as proof of registration of foreign investments in accordance with existing BSP rules. The remitting commercial bank must submit to the BSP a statement of remittance together with the supporting documents within two banking days from date of actual remittance. Foreign investments not duly registered with the BSP or with the investor's designated custodian bank are not entitled to repatriation and remittance privileges through the banking system except capital repatriation or dividend remittance of direct foreign equity investments made prior to March 15, 1973 when BSP registration was not yet required. The BSP should be notified of the transfer of sale of foreign investments in equity or securities already registered with the BSP, in order that the registration of the foreign investment may be transferred in the name of the transferee or purchaser.

Cash dividends on PLDT's stock are paid in Philippine peso, except dividends on the Series VI Convertible Preferred Stock, which were paid in U.S. dollars. PLDT's Transfer Agent for its common stock, The Hong Kong and Shanghai Banking Corporation, which also acts as dividend paying agent, converts and remits in U.S. dollars, at the prevailing exchange rate, cash dividends due to all common shareholders residing outside the Philippines. Under the above-mentioned regulations, PLDT has been able to remit the cash dividends due to shareholders residing outside the Philippines. As at December 31, 2017, approximately 87% of PLDT's outstanding shares of common and preferred stock were held by Philippine persons. For certain restrictions on the declaration and payment of dividends by PLDT, see *Note 20 –Equity* and *Note 21 – Interest-bearing Financial Liabilities* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".

Taxation

The following is a description of the material Philippine and United States federal income tax consequences to United States Holders (as defined below) of owning shares of common stock and ADSs. It applies to you only if you hold your common stock or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including a dealer in securities, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, a tax-exempt organization, a life insurance company, a person liable for alternative minimum tax, a person that actually or constructively owns 10% or more of the combined voting power of PLDT's voting stock or of the total value of PLDT's stock, a person that holds common stock or ADSs as part of a straddle or a hedging or conversion transaction, or a person whose functional currency is not the U.S. dollar.

This section is based on the United States Internal Revenue Code of 1986, as amended (the "U.S. Tax Code"), its legislative history, existing and proposed regulations, published rulings and court decisions, and the laws of the Philippines including the Philippine National Internal Revenue Code of 1997, or the Philippine Tax Code, all as currently in effect, as well as on the Convention between the Philippines and the United States, or the Philippines-United States Tax Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part on the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed according to its terms.

You are a United States Holder if you are a beneficial owner of common stock or ADSs and you are a citizen or resident of the United States, a domestic corporation, an estate whose income is subject to United States federal income tax regardless of its source, or a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

This discussion addresses only United States federal income taxation and Philippine income taxation, estate and donor's taxation, stock transaction taxation and documentary stamp taxes.

Philippine Taxation

Taxes on Exchange of ADSs for Common Stock

Philippine capital gains or stock transaction taxes and documentary stamp taxes may be payable upon the transfer of shares of common stock to a holder of ADRs or to a holder of Global Depository Receipts. See "— Capital Gains Tax and Stock Transaction Tax" and "— Documentary Stamp Taxes."

Taxation of Dividends

Under the Philippine Tax Code, dividends paid by a Philippine corporation to citizens of the Philippines and resident aliens in the Philippines are subject to a final withholding tax of 10% while those paid to non-resident aliens engaged in trade or business within the Philippines are subject to a final withholding tax of 20%. Dividends paid to non-resident aliens not engaged in trade or business within the Philippines are subject to a final withholding tax of 25%. Dividends paid by a Philippine corporation to other Philippine corporations or to resident non-Philippine corporations are not subject to tax. Dividends paid by Philippine corporations to non-resident non-Philippine corporations not engaged in a trade or business in the Philippines shall be subject to a final withholding tax of 15% ("tax sparing"), subject to the condition that the country in which the non-resident non-Philippine corporation is domiciled either: (i) allows a credit against the tax due from the non-resident non-Philippine corporation taxes deemed to have been paid in the Philippines equivalent to 15% effective January 1, 2009 (which represents the difference between the regular income tax on non-resident non-Philippine corporations of 30% effective January 1, 2009 and the 15% tax on dividends) (this condition is not satisfied in the case of corporations domiciled in the United States if such corporations own less than 10% of the voting stock of PLDT) or (ii) imposes no income taxes on dividends received by such non-resident non-Philippine corporations from Philippine corporations (this condition is not satisfied in the case of corporations domiciled in the United States). If neither of the foregoing conditions are met, the dividends paid to the non-resident non-Philippine corporation shall be subject to the regular income tax (in the form of final withholding tax) at the rate of 30% effective January 1, 2009. Under rulings issued by Philippine tax authorities, Hong Kong is viewed as falling within clause (ii) and, thus, companies that are organized in Hong Kong that are not engaged in trade or business in the Philippines may be entitled to the benefit of the 15% rate. Such rulings, however, were based upon the laws of Hong Kong as in effect at the time such rulings were issued, and any subsequent changes in the relevant laws of Hong Kong may affect the validity of such rulings. PLDT reserves the right to change the rate at which it makes payments of withholding tax whenever it deems it appropriate under applicable law.

If the holder of common stock is a non-resident foreign partnership, which is treated as a corporation for Philippine tax purposes, dividends on the common stock should be subject to a final withholding tax of 30% effective January 1, 2009. Cede & Co., the partnership nominee of Depository Trust Company, should qualify as a non-resident foreign partnership that would be treated as a corporation for Philippine tax purposes.

In certain circumstances where the holder has common stock, a tax treaty rate may be applicable with respect to the Philippine withholding tax. For instance, holders under such circumstances and as to which the Philippines-United States Tax Treaty would be applicable would be eligible for a treaty rate of 25% (or 20% in certain instances). The 20% treaty rate is generally not applicable in the case of non-resident non-Philippine corporations domiciled in the United States which own less than 10% of the voting stock of PLDT.

The BIR has prescribed certain procedures, through an administrative issuance, for availment of tax treaty relief. The application for tax treaty relief has to be filed with the BIR by the non- resident shareholder (or a duly authorized representative) prior to the first taxable event, or prior to the first and only time the income tax payor is required to withhold the tax thereon or should have withheld taxes thereon had the transaction been subject to tax. The "first taxable event" has been construed by the BIR as "payment of the dividend." Failure to file the application for tax treaty relief with the BIR prior to the first taxable event may disqualify the said application. A corporation may withhold taxes at a reduced rate on dividends paid to a non-resident holder of the common shares if such non-resident holder submits to the domestic corporation proof of the filing of the tax treaty relief application with the BIR prior to the payment of dividends. However, the Philippine Supreme Court in Deutsche Bank AG Manila Branch v. CIR, G.R. No. 188550, ruled that the period of application for the availment of tax treaty relief should not operate to divest the taxpayer the entitlement to the tax relief as it would constitute a violation of the duty required by good faith to comply with the treaty. The application for a tax treaty relief to be filed with the BIR operates to confirm the entitlement of the taxpayer to such relief. While the Supreme Court has ruled that the failure to file an application for tax treaty relief shall not disqualify an otherwise eligible taxpayer, in practice, some withholding agents strictly require the income earners (payees) to show an approved tax treaty relief application before availing of lower treaty tax rates to avoid controversy. On March 28, 2017, the BIR issued BIR Revenue Memorandum Order, or RMO, No. 08-2017 ("RMO 08-2017"), which simplified the procedures for applying preferential tax treaty rates for dividends, interests and royalties. This RMO provides that the preferential treaty rates shall be applied and used outright by the withholding agent upon submission by the non-resident payor of a Certificate of Residence for Tax Treaty Relief Form, which shall serve as proof of residency of such non-resident payor. RMO No. 08-2017 does not cover non-resident foreign corporations invoking the tax sparing provision (or the reduced tax rate of 15 percent on intercorporate dividends paid to nonresident foreign corporations).

Capital Gains Tax and Stock Transaction Tax

The Philippine Tax Code provides that gain from the sale of shares of stock in a Philippine corporation shall be treated as derived entirely from sources within the Philippines, regardless of where the shares are sold. Subject to applicable tax treaty rates, the rate of tax on such gain, where the share is not disposed of through the PSE, is a final tax (i.e., capital gains tax) of 5% for gains not exceeding Php100,000 and 10% for gains in excess of that amount.[2] The rate is the same for both non-resident individuals and non-resident non-Philippine corporations. While this tax is not collected through withholding, the Philippine Tax Code prohibits a sale or transfer of shares of stock from being recorded in the Stock and Transfer Books of the corporation unless the Philippine Commissioner of Internal Revenue certifies that the tax has been paid or certain other conditions are met.

The sale of shares which are listed in and sold through the PSE are subject to the stock transaction tax imposed at the rate of 1/2 of 1% of the gross selling price.[3] This tax is required to be collected and paid to the government by the selling stockbroker on behalf of his client. In a letter from the BIR dated December 28, 2010 and addressed to the SEC, the BIR sets out the policy that, for tax purposes: (i) listed companies should continually maintain, if not surpass, their initial public ownership requirement (the minimum public ownership, or MPO) in order to continually enjoy the preferential tax rate of 1/2 of 1% of the gross selling price or gross value on money arising from the disposal by the stockholders of their listed shares through the PSE; and (ii) failure of listed companies to do so exposes the stockholders selling their shares to the 5%/10% capital gains tax as these companies are no longer compliant with their "public ownership" status and will, thus, not be considered publicly-listed companies for taxation purposes. On November 7, 2012, the BIR issued Revenue Regulations No. 16-2012 prescribing the tax treatment of sales, barters, exchanges or other dispositions of shares of stock of publicly-listed companies that do not meet the MPO. The salient provisions of such BIR issuance are as follows: (i) publicly-listed companies which are not compliant with the MPO level were allowed up to December 31, 2012 to comply; (ii) from and after January 1, 2013, the sale, barter, transfer or assignment of shares of stock of publicly-listed companies which is not compliant with the MPO shall be subject to the 5%/10% capital gains tax; and (iii) listed companies are required to submit to the BIR certain reportorial requirements to enable the BIR to monitor compliance with the MPO requirement. As of the date of this report, the MPO required to be complied with by publicly-listed companies is 10% of the publicly-listed companies' issued and outstanding shares, exclusive of any treasury shares.

Sales of shares other than through a Philippine stock exchange will be subject to Philippine capital gains tax in the manner described above.

Under the Philippines-United States Tax Treaty, gains derived by a United States resident from the sale of shares of stock of a Philippine corporation will not be subject to capital gains tax (i.e., where the share is not disposed of through the PSE), unless the shares are those of a corporation of which over 50% of the assets (in terms of value) consist of real property interests located in the Philippines. PLDT does not believe that it currently is such a corporation. Holders are required, however, to establish to the Philippine taxing authorities their eligibility for such treaty exemption. Philippine tax authorities have prescribed, through an administrative issuance, procedures for availment of tax treaty relief.

Documentary Stamp Taxes

The Philippines imposes a documentary stamp tax upon transfers of shares of stock issued by a Philippine corporation at a rate of Php0.75 on each Php200, or fractional part thereof, of the par value of the shares.[4] The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred, when the obligation or right arises from Philippine sources or the property is situated in the Philippines. The sale, barter, transfer or exchange of shares of stock of a Philippine Corporation which is listed and traded through the facilities of the PSE is exempt from the documentary stamp tax. However, Revenue Regulations No. 16-2012 provides that transfers of shares of stock of publicly-listed companies which are not compliant with the MPO requirement shall be subject to documentary stamp tax.

[2] R.A. No. 10963 or the Tax Reform for Acceleration and Inclusion ("TRAIN") was signed into law on December 19, 2017 and became effective on January 1, 2018. The TRAIN amended several provisions of Republic Act No. 8424, as amended, or the National Internal Revenue Code ("NIRC"). Under the TRAIN, capital gains tax shall be 15% of the net capital gains realized during the taxable year.

[3] Under the TRAIN, stock transaction tax shall be 6/10 of 1% of the gross selling price or gross value in money.

[4] Under the TRAIN, documentary stamp tax upon transfers of shares of stock issued by a Philippine corporation shall be Php1.50 on each Php200, or fractional part thereof, of the par value of the shares.

Estate and Donor's Taxes

Shares of stock issued by a corporation organized or constituted in accordance with Philippine law are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and gift taxes. The transfer of shares of stock by a deceased individual to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over Php200,000.[5] Individual shareholders, whether or not citizens or residents of the Philippines, who transfer the Equity Securities by way of gift or donation will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15%, if the net gifts made during the calendar year exceed Php100,000. The rate of tax with respect to net gifts made to a stranger, who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship of the donor, is a flat rate of 30%.[6] Donations to or from corporations are considered donations from a stranger for donor's tax purposes. Estate and gift taxes will not be collected in respect of intangible personal property such as the Equity Securities:

- if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or
- if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Shares of stock of a deceased shareholder or shares that have been donated may not be transferred on the books of the corporation without a certificate from the Philippine Commissioner of Internal Revenue that the applicable estate or donor's taxes have been paid. In the case of ADRs, however, there is no corresponding requirement, unless a transfer of the ADRs would also entail a change in the registration of the underlying shares.

United States Federal Taxation

In general, taking into account the earlier assumptions that each obligation of the Deposit Agreement and any related agreement will be performed according to its terms, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares of common stock for ADRs, and ADRs for shares of common stock, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a United States Holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a non-corporate United States Holder, dividends paid to you that constitute qualified dividend income will be taxable to you at the preferential rates applicable to long-term capital gains provided that, in the case of common stock or ADSs you hold the common stock or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. Dividends we pay with respect to the common stock or ADSs generally will be qualified dividend income.

You must include any Philippine tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of common stock, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a United States Holder will be the U.S. dollar value of the Philippine peso payments made, determined at the spot Philippine peso/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally

[5] Under the TRAIN, estate tax shall be at the rate of 6% of the net estate.
[6] Under the TRAIN, donor's tax shall be at the rate of 6% of the total gifts in excess of Php250,000.00. With the amendment of the NIRC by the TRAIN, the relationship between the donor and donee becomes irrelevant since all donations shall now be subject to the same tax rate of 6%.

will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the common stock or ADSs and thereafter as capital gain. However, we do not expect to calculate earnings and profits in accordance with United States federal income tax principles. Accordingly, you should expect to generally treat distributions we make as dividends.

Subject to certain limitations, the Philippine tax withheld in accordance with the Philippines-United States Tax Treaty and paid over to the Philippines will be creditable or deductible against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential rates applicable to long-term capital gains.

Dividends will be income from sources outside the United States. Dividends will generally be "passive" income for purposes of computing the foreign tax credit allowable to you.

Sale or Other Disposition of Equity Securities

Subject to the PFIC rules discussed below, a United States Holder will recognize capital gain or loss upon the sale of common stock or ADSs in an amount equal to the difference between such United States Holder's basis in the common stock or ADSs and the amount realized upon the sale, determined in U.S. dollars. Such gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or retirement, the common stock or ADSs have been held for more than one year. Capital gain of a non-corporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. Generally, any such gain or loss will be treated as realized income or loss from sources within the United States for foreign tax credit limitation purposes. United States Holders may not be eligible to credit against their United States federal income tax liability amounts paid in respect of the Philippine stock transaction tax. See Item 10. "Additional Information — Philippine Taxation — Capital Gains Tax and Stock Transaction Tax."

The U.S. Tax Code does not authorize a comparable credit for foreign gift or donor's taxes such as those imposed by the Philippines. See Item 10. "Additional Information — Philippine Taxation — Estate and Donor's Taxes."

Passive Foreign Investment Company Rules

We believe that the common stock and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, gain realized on the sale or other disposition of your common stock or ADSs would in general not be treated as capital gain. Instead, unless you elect to be taxed annually on a mark-to-market basis with respect to your common stock or ADSs, you would be treated as if you had realized such gain and certain "excess distributions" ratably over your holding period for the common stock or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your shares of ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your shares or ADSs. Dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are a PFIC (or are treated as a PFIC with respect to you) either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

Dividends and Paying Agents

Not applicable.

Statement by Experts

Not applicable.

Documents on Display

We are subject to the informational requirements of the Exchange Act, and file reports and other information with the Commission, as required by this Act. Reports and other information filed by us with the Commission may be inspected and copied at the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a website that contains reports, proxy statements and other information regarding registrants that file electronically with the Commission. Copies of these materials may be obtained by mail from the public reference section of the Commission, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. These reports and other information may also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005, on which the ADSs representing our common stock are listed.

Item 11. Quantitative and Qualitative Disclosures About Market Risks

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. We also monitor the market price risk arising from all financial instruments.

See *Note 28 – Financial Assets and Liabilities – Financial Risk Management Objectives and Policies* to the accompanying consolidated financial statements in Item 18. "Financial Statements" for a detailed discussion.

Item 12. Description of Securities Other than Equity Securities

Fees and Charges for Holders of American Depositary Receipts

JP Morgan Chase Bank, N.A., or the depositary, as depositary of our ADS collects fees from each person to whom ADS are issued, US$5.00 for each 100 ADS (or portion thereof) issued, delivered, reduced, cancelled or surrendered.

The depositary also collects the following fees from holders of ADRs or intermediaries acting in their behalf:

- US$0.02 or less per ADS (or portion thereof) for any cash distribution made;
- US$1.50 per ADR for transfers made (to the extent such fee is not prohibited by the rules of the primary stock exchange upon which the ADSs are listed);
- a fee in an amount equal to the fee for the execution and delivery of ADSs for the distribution or sale of securities, which would have been charged as a result of the deposit of such securities but which securities or the net proceeds from the sale thereof are instead distributed by the depositary to the holders entitled thereto;
- US$0.02 per ADS (or a portion thereof) per year for the services rendered by the depositary for administering the ADR program (which fee shall be assessed as of the record date or dates set by the depositary not more than once each calendar year and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distribution);
- such fees and expenses as are incurred by the depositary (including without limitation expenses incurred on behalf of holders in compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in the delivery of the common stock or otherwise in connection with the depositary's or its custodian's compliance with applicable laws, rules or regulations;

- stock transfer and other taxes and governmental charges (which are payable by the holder or person depositing the common stock), cable, telex and facsimile transmission and delivery charges incurred at the request of the person depositing the common stock or holder delivering the common stock, ADRs or deposited common stock (which are payable by such person or holder), transfer or registration fees for the registration or transfer of deposited common stock in connection with the deposit or withdrawal of the deposited common stock (which are payable by the person depositing or withdrawing deposited common stock), expense by the depositary in the conversion of foreign currency into U.S. dollars; and
- any other charge payable by the depositary or its agents in connection with its service as depositary in implementation of the Company's ADR Program pursuant to Section 4.02, 4.03, 4.04, or 4.05 of the Deposit Agreement, as amended.

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse certain reasonable expenses of PLDT related to PLDT's ADR program and incurred by PLDT in connection with the ADR program. The amounts reimbursable by the depositary are not necessarily related to the fees collected by the depositary from ADR holders. For the year ended December 31, 2017, we were not entitled to any reimbursement from our depositary.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, carried out an evaluation on the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as at December 31, 2017. Based on this evaluation, our CEO and principal financial officer concluded that our disclosure controls and procedures were effective as at December 31, 2017.

Management's Annual Report on Internal Control Over Financial Reporting. The Management of the PLDT Group is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the U.S. Securities Exchange Act of 1934, as amended.

Our internal control over financial reporting is designed and implemented under the supervision of our principal executive officers and principal finance officers, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the PLDT Group; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the PLDT Group are being made only in accordance with authorizations of our management and board of directors; and (iii) provide reasonable assurance regarding prevention or timely detection of any unauthorized acquisition, use or disposition of the PLDT Group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to financial statements preparation and presentation, and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the PLDT Group's internal control over financial reporting as at December 31, 2017, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013.

Based on this assessment, management has determined that the internal control over financial reporting of the PLDT Group was effective as at December 31, 2017.

We reviewed the results of management's assessment with the AC of the Board of Directors.

SyCip Gorres Velayo & Co., or SGV & Co., (a member firm of the Ernst & Young Global Limited), an independent registered public accounting firm, has audited our consolidated financial statements included in this Annual Report and has issued an attestation report on our internal control over financial reporting as at December 31, 2017. This attestation report is dated March 27, 2018 and is set forth in Item 18 "Financial Statements" of the Annual Report on Form 20-F for the year ended December 31, 2017.

Changes in Internal Control Over Financial Reporting

In 2017, no change to our internal control over financial reporting occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our Board of Directors has determined that currently none of the members of the AC is an audit committee financial expert as defined under the applicable rules of the U.S. SEC issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Because our Board of Directors believes that the AC members along with its advisors, possess sufficient financial knowledge and experience, our Board of Directors has not separately appointed an audit committee member who qualifies as an audit committee financial expert. Our Board of Directors has appointed Ms. Corazon de la Paz-Bernardo, a former member of our Board of Directors, as AC advisor to render advice on complex financial reporting or accounting issues that may be raised in our AC's evaluation of our financial statements and other related matters. Formerly the Chairman and Senior Partner of Joaquin Cunanan & Co., now Isla Lipana & Co., a member firm of PricewaterhouseCoopers Worldwide, Ms. Corazon de la Paz-Bernardo is a certified public accountant and possesses in-depth knowledge of accounting principles (including IFRS), internal controls and procedures for financial reporting and audit committee functions, as well as extensive experience in overseeing or actively supervising the preparation, audit, analysis or evaluation of financial statements and in addressing complex and general financial reporting, accounting and audit issues.

Item 16B. Code of Business Conduct and Ethics

PLDT has adopted a Code of Business Conduct and Ethics, or PLDT's Code of Ethics, which constitutes a "code of ethics" as defined in Item 16.B of Form 20-F. PLDT's Code of Ethics applies to its directors, officers, including its principal executive officer, principal financial officer and principal accounting officer or controller, and employees.

A copy of the PLDT's Code of Ethics is posted on our website at *http://www.pldt.com/docs/default-source/policies/pldt-code-of-business-conduct-and-ethics.pdf?sfvrsn=4* under the Corporate Governance section. This website does not form part of this annual report on Form 20-F. The Company has undertaken to provide a copy, without charge, to any person requesting for a copy of PLDT's Code of Ethics from our Chief Governance Officer, Atty. Ma. Lourdes C. Rausa-Chan, who can be reached at e-mail address lrchan@pldt.com.ph or telephone number +632-816-8556.

Item 16C. Principal Accountant Fees and Services

The following table summarizes the fees paid or accrued for services rendered by SGV & Co., our independent auditors for the years ended December 31, 2017 and 2016:

	2017	2016
	(Pesos in millions)	
Audit Fees	48	43
All Other Fees	24	23
Total	72	66

Audit Fees. This category includes the audit of our annual financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years.

Audit-Related Fees. Other than the audit fees, we did not have any other audit-related fees for the years ended December 31, 2017 and 2016.

Tax Fees. We did not have any tax fees for the years ended December 31, 2017 and 2016.

All Other Fees. This category consists primarily of fees with respect to our Sarbanes-Oxley Act 404 assessment in 2017 and 2016, and other non-audit engagements.

The fees presented above include out-of-pocket expenses incidental to our independent auditors' work, amount of which do not exceed 5% of the agreed-upon engagement fees.

Our AC pre-approved all audit and non-audit services as these are proposed or endorsed before these services are performed by our independent auditors.

Audit Committee's Pre-approval Policies and Procedures

AC pre-approval of services rendered by our independent auditor follows:

- The AC has adopted a policy for pre-approval of audit, audit-related and permitted non-audit services to be rendered by our independent auditor, that should be interpreted in conjunction with the ACs' policy on auditor independence.
- The AC does not engage our independent auditor for "prohibited services" at any point during the audit and professional engagement period.
- To ensure the prompt handling of unexpected matters, the AC may delegate its authority to specifically pre-approve services to one or more of its members. The member(s) to whom such authority is delegated must report any pre-approval decisions to the AC at its next regularly scheduled meeting.
- The AC is directly responsible for the appointment, setting of compensation, retention, removal and oversight of the work of our independent auditor.

Item 16D. Exemption from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchaser

On September 26, 2017, PLDT publicly announced a grant of 860,000 Performance Shares in connection with the TIP. On March 7, 2018, the ECC of the Board approved the acquisition of additional 54,000 shares, increasing the total Performance Shares to 914,000. The Performance Shares will be released in three annual grants on the condition, that pre-defined consolidated core net income targets are successfully achieved over three-year annual vesting period starting January 1, 2017 to December 31, 2019.

The following table presents information related to our repurchase of our ordinary shares during the year ended December 31, 2017:

Period	Total number of shares purchased	Weighted average price per share	Number of shares purchased as part of publicly announced program	Number of shares yet to be purchased under the TIP
		(in Pesos)		
January 2017	—	—	—	—
February 2017	—	—	—	—
March 2017	—	—	—	—
April 2017	—	—	—	—
May 2017	—	—	—	—
June 2017	—	—	—	—
July 2017	—	—	—	—
August 2017	—	—	—	—
September 2017	—	—	—	—
October 2017(1)	520,295	1,708	520,295	339,705
November 2017(2)	22,870	1,608	22,870	316,835
December 2017(3)	10,270	1,456	10,270	306,565
	553,435		553,435	963,105

(1) *On various dates in October 2017, Metrobank, as the Trustee of the program, repurchased our 520,295 shares from the market, including 23,398 shares from the PLDT Employee Benefit Trust Fund, at the prevailing market price on the date of purchase.*

(2) *On various dates in November 2017, Metrobank, as the Trustee of the program, repurchased our 22,870 shares from the market at the prevailing market price on the date of purchase.*

(3) *On various dates in December 2017, Metrobank, as the Trustee of the program, repurchased our 10,270 shares from the market at the prevailing market price on the date of purchase.*

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

PLDT is a Philippine company with its shares of common stock listed on the PSE and ADSs listed on the NYSE. As a foreign private issuer, PLDT is permitted under the NYSE listing standards to follow Philippine corporate governance practices on most corporate governance matters, and, accordingly, PLDT complies with the requirements of the Philippine Securities Regulation Code and Philippine Corporation Code, and, as appropriate, the recommended practices under Philippine SEC Code of Corporate Governance for Publicly-Listed Companies ("CG Code for PLCs") in respect of corporate governance matters as well as with the NYSE listing standards applicable to foreign private issuers. The CG Code for PLCS, which was issued by the Philippine SEC and which took effect on January 1, 2017, contains Code provisions with recommended corporate governance practices. In accordance with its "comply or explain" approach, the CG Code for PLCs requires publicly-listed companies to state in their respective annual corporate governance reports whether they comply with the Code provisions or, in case of non-compliance, explain the reason for such non-compliance.

PLDT's corporate governance practices are generally consistent with the NYSE listing standards, except that PLDT's corporate governance practices differ from U.S. companies under the NYSE listing standards in the significant ways summarized below.

- ***Number of Independent Directors***. The NYSE listing standards require a majority of the board of directors to be independent. We have three independent directors out of 13 directors, which meets the requirement under Section 38 of the Philippine Securities Regulation Code that at least two (2) or twenty percent (20%) of the total members of the board, whichever is the lesser, must be independent.
- ***Director Independence Tests***. There are differences between the director independence tests applied in PLDT's corporate governance practice and those under the NYSE listing standards. In some cases the independence tests set forth in the NYSE listing standards are more stringent than those under PLDT's corporate governance practice, and in other cases the independence tests set forth in the NYSE listing standards are less stringent than those under PLDT's corporate governance practice.
- An example where the NYSE listing standards impose more stringent standards than PLDT's corporate governance practices include the "auditor affiliation" test. In contrast to the NYSE listing standards, under PLDT's By-Laws and Board Committee charters, present or previous affiliation or employment of a director's immediate family member with the external auditors does not preclude a determination that such director is independent.
- An example where PLDT's corporate governance practices impose more stringent standards than NYSE listing standards is the "material relationship with the listed company" test. PLDT's Manual on Corporate Governance ("PLDT's CG Manual") provides that a director who owns more than 2% of the shares of stock of PLDT, or whose relative is a substantial shareholder of PLDT, any of its related companies or any of its substantial shareholders cannot be considered as independent.
- ***Meetings of non-management/independent directors***. The NYSE listing standards require regularly scheduled executive sessions of non-management directors without management participation or regularly scheduled executive sessions consisting of only independent directors. PLDT's CG Manual mandates that the Board shall hold executive sessions with the independent directors and non-executive directors, excluding executive directors, at least once a year and at such other times as the Board may deem necessary or appropriate, and that such executive sessions shall be presided by the chairman of the Governance and Nomination Committee, except if said chairman is an executive director, in which case, by an independent director or non-executive director designated by the Board.
- ***Nominating/Corporate Governance Committee and Compensation Committee***. The NYSE listing standards require a listed company to maintain a nominating/corporate governance committee and a compensation committee, both composed entirely of independent directors. Our GNC and our ECC is each normally composed of five voting members, a majority of whom are normally independent directors.

- The NYSE listing standards require the compensation committee to conduct an independent assessment with respect to any compensation consultant, legal counsel or other adviser that provides advice to the compensation committee. There is no such requirement under PLDT's CG Manual.
- ***Audit Committee***. As required by NYSE listing standards, PLDT maintains an audit committee in full compliance with Rule 10A-3 promulgated under the U.S. Securities Exchange Act of 1934, as amended, and Section 303A.06 of the NYSE Listed Company Manual. All of the members of PLDT's AC are independent directors meeting the independence requirements of Rule 10A-3 as well as those under Section 303A.07 of the NYSE Listed Company Manual, except in those areas where our independence tests adopted pursuant to the CG Code for PLCs differ from those under the NYSE listing standards, as discussed above.

PLDT's disclosure containing a summary of differences on corporate governance practices based on requirements of Philippine law on one hand, and U.S. law on the other, is found in this link: http://www.pldt.com/docs/default-source/NYSE/nyse-section-303a-11-disclosure.pdf?sfvrsn=0. This website does not form part of this annual report on Form 20-F.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

PLDT has elected to provide the financial statements and related information specified in Item 18. "Financial Statements" in lieu of Item 17.

Item 18. Financial Statements

Index to Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and the Stockholders
PLDT Inc.

Opinion on Internal Control over Financial Reporting

We have audited PLDT Inc. and its subsidiaries' (collectively referred to as "PLDT Group") internal control over financial reporting as at December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework (the "COSO criteria"). In our opinion, the PLDT Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the PLDT Group as at December 31, 2017 and 2016, and the related consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2017, and the related notes and our report dated March 27, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The PLDT Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the PLDT Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the PLDT Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perfom the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ SyCip Gorres Velayo & Co.
Makati City, Philippines
March 27, 2018

Report of Independent Registered Public Accounting Firm

The Board of Directors and the Stockholders
PLDT Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of PLDT Inc. and its subsidiaries (collectively referred to as "PLDT Group") as at December 31, 2017 and 2016, and the related consolidated income statements, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017 and the related notes. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the PLDT Group as at December 31, 2017 and 2016, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the PLDT Group's internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework and our report dated March 27, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the PLDT Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the PLDT Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to fraud or error. Our audits include performing procedures to assess the risks of material misstatements of the financial statements, whether due to fraud or error, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audits provide a reasonable basis for our opinion.

/s/ SyCip Gorres Velayo & Co.

We have served as the PLDT Group's auditor since 2002.

Makati City, Philippines
March 27, 2018

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2017 AND 2016
AND FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2017 and 2016
(in million pesos)

	2017	2016
ASSETS		
Noncurrent Assets		
Property and equipment (Notes 9 and 22)	**186,907**	203,188
Investments in associates and joint ventures (Note 10)	**46,130**	56,858
Available-for-sale financial investments (Notes 6 and 11)	**15,165**	12,189
Investment in debt securities and other long-term investments – net of current portion (Note 12)	**150**	374
Investment properties (Notes 6 and 13)	**1,635**	1,890
Goodwill and intangible assets (Note 15)	**69,583**	70,280
Deferred income tax assets – net (Note 7)	**30,466**	27,348
Derivative financial assets – net of current portion (Note 28)	**215**	499
Prepayments – net of current portion (Note 19)	**5,370**	7,056
Advances and other noncurrent assets – net of current portion (Note 25)	**14,154**	9,473
Total Noncurrent Assets	**369,775**	389,155
Current Assets		
Cash and cash equivalents (Note 16)	**32,905**	38,722
Short-term investments (Note 28)	**1,074**	2,738
Trade and other receivables (Note 17)	**33,761**	24,436
Inventories and supplies (Note 18)	**3,933**	3,744
Current portion of derivative financial assets (Note 28)	**171**	242
Current portion of investment in debt securities and other long-term investments (Note 12)	**100**	326
Current portion of prepayments (Note 19)	**9,633**	7,505
Current portion of advances and other noncurrent assets (Note 20)	**8,092**	8,251
Total Current Assets	**89,669**	85,964
TOTAL ASSETS	**459,444**	475,119
EQUITY AND LIABILITIES		
Equity		
Non-voting serial preferred stock (Notes 8 and 20)	**360**	360
Voting preferred stock (Note 20)	**150**	150
Common stock (Notes 8 and 20)	**1,093**	1,093
Treasury stock (Notes 8 and 20)	**(6,505)**	(6,505)
Treasury shares under employee benefit trust (Note 26)	**(940)**	—
Capital in excess of par value (Note 20)	**130,374**	130,488
Other equity reserves (Note 26)	**827**	—
Retained earnings (Note 20)	**634**	3,483
Other comprehensive loss (Note 6)	**(19,151)**	(20,894)
Total Equity Attributable to Equity Holders of PLDT (Note 28)	**106,842**	108,175
Noncontrolling interests (Note 6)	**4,341**	362
TOTAL EQUITY	**111,183**	108,537

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (*continued)*
As at December 31, 2017 and 2016
(in million pesos)

	2017	2016
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 21 and 25)	**157,654**	151,759
Deferred income tax liabilities – net (Note 7)	**3,366**	3,567
Derivative financial liabilities – net of current portion (Note 28)	**8**	2
Customers' deposits (Note 28)	**2,443**	2,431
Pension and other employee benefits (Note 26)	**8,997**	11,206
Deferred credits and other noncurrent liabilities (Note 22)	**7,702**	15,604
Total Noncurrent Liabilities	**180,170**	184,569
Current Liabilities		
Accounts payable (Note 23)	**60,445**	52,950
Accrued expenses and other current liabilities (Notes 24 and 27)	**90,740**	93,116
Current portion of interest-bearing financial liabilities (Notes 21 and 25)	**14,957**	33,273
Dividends payable (Note 20)	**1,575**	1,544
Current portion of derivative financial liabilities (Note 28)	**141**	225
Income tax payable (Note 7)	**233**	905
Total Current Liabilities	**168,091**	182,013
TOTAL LIABILITIES	**348,261**	366,582
TOTAL EQUITY AND LIABILITIES	**459,444**	475,119

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
For the Years Ended December 31, 2017, 2016 and 2015
(in million pesos, except earnings per common share amounts which are in pesos)

	2017	2016	2015
REVENUES			
Service revenues	**151,165**	157,210	162,930
Non-service revenues (Note 5)	**8,761**	8,052	8,173
	159,926	165,262	171,103
EXPENSES			
Selling, general and administrative expenses (Note 5)	**68,990**	67,196	70,289
Depreciation and amortization (Note 9)	**51,915**	34,455	31,519
Cost of sales and services (Note 5)	**13,633**	18,293	17,453
Asset impairment (Note 5)	**8,258**	11,042	9,690
Interconnection costs	**7,619**	9,573	10,317
	150,415	140,559	139,268
	9,511	24,703	31,835
OTHER INCOME (EXPENSES) (Note 5)	**5,058**	(2,632)	(5,197)
INCOME BEFORE INCOME TAX	**14,569**	22,071	26,638
PROVISION FOR INCOME TAX (Note 7)	**1,103**	1,909	4,563
NET INCOME	**13,466**	20,162	22,075
ATTRIBUTABLE TO:			
Equity holders of PLDT (Note 8)	**13,371**	20,006	22,065
Noncontrolling interests	**95**	156	10
	13,466	20,162	22,075
Earnings Per Share Attributable to Common Equity Holders of PLDT (Note 8)			
Basic	**61.61**	92.33	101.85
Diluted	**61.61**	92.33	101.85

Certain expenses in 2016 and 2015 were reclassified to conform with the 2017 presentation.

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2017, 2016 and 2015
(in million pesos)

	2017	2016	2015
NET INCOME	**13,466**	20,162	22,075
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)			
Net gains (losses) on available-for-sale financial investments:	**3,364**	860	(8,135)
Unrealized gains (losses) from changes in fair value adjustments recognized during the year (Note 11)	**2,826**	(4,520)	(13,258)
Impairment recognized in profit or loss (Note 11)	**540**	5,381	5,124
Income tax related to fair value adjustments charged directly to equity (Note 7)	**(2)**	(1)	(1)
Share in the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Note 10)	**112**	151	(14)
Foreign currency translation differences of subsidiaries	**(18)**	79	45
Net transactions on cash flow hedges:	**(376)**	10	31
Net fair value gains (losses) on cash flow hedges (Note 28)	**(411)**	76	5
Income tax related to fair value adjustments charged directly to equity (Note 7)	**35**	(66)	26
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent years	**3,082**	1,100	(8,073)
Share in the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Note 10)	**194**	—	(235)
Revaluation increment on investment properties:	**1**	17	(1)
Fair value adjustment to property and equipment transferred to investment properties during the year (Note 13)	**4**	26	—
Depreciation of revaluation increment in investment properties transferred to property and equipment (Note 9)	**(2)**	(2)	(2)
Income tax related to revaluation increment charged directly to equity (Note 7)	**(1)**	(7)	1
Actuarial losses on defined benefit obligations:	**(1,091)**	(3,571)	(1,598)
Remeasurement in actuarial losses on defined benefit obligations	**(1,566)**	(5,112)	(2,356)
Income tax related to remeasurement adjustments (Note 7)	**475**	1,541	758
Net other comprehensive loss not to be reclassified to profit or loss in subsequent years	**(896)**	(3,554)	(1,834)
Total Other Comprehensive Income (Loss) – Net of Tax	**2,186**	(2,454)	(9,907)
TOTAL COMPREHENSIVE INCOME	**15,652**	17,708	12,168
ATTRIBUTABLE TO:			
Equity holders of PLDT	**15,550**	17,557	12,148
Noncontrolling interests	**102**	151	20
	15,652	17,708	12,168

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2017, 2016 and 2015
(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Treasury Shares under Employee Benefit Trust	Capital in Excess of Par Value	Other Equity Reserves	Retained Earnings	Other Comprehensive Income (Loss)	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
Balances as at January 1, 2017	**510**	**1,093**	**(6,505)**	**—**	**130,488**	**—**	**3,483**	**(20,894)**	**108,175**	**362**	**108,537**
Total comprehensive income:	—	—	—	—	—	—	**13,807**	**1,743**	**15,550**	**102**	**15,652**
Net income (Note 8)	—	—	—	—	—	—	**13,371**	—	**13,371**	**95**	**13,466**
Other comprehensive income (Note 6)	—	—	—	—	—	—	**436**	**1,743**	**2,179**	**7**	**2,186**
Cash dividends (Note 20)	—	—	—	—	—	—	**(16,479)**	—	**(16,479)**	**(66)**	**(16,545)**
Perpetual notes (Note 20)	—	—	—	—	—	—	—	—	—	**4,165**	**4,165**
Distribution charges on perpetual notes (Note 20)	—	—	—	—	—	—	**(177)**	—	**(177)**	—	**(177)**
Other equity reserves (Note3)	—	—	—	—	—	**827**	—	—	**827**	—	**827**
Treasury shares under employee benefit trust (Note 3)	—	—	—	**(940)**	—	—	—	—	**(940)**	—	**(940)**
Acquisition and dilution of noncontrolling interests	—	—	—	—	**(114)**	—	—	—	**(114)**	**(222)**	**(336)**
Balances as at December 31, 2017	**510**	**1,093**	**(6,505)**	**(940)**	**130,374**	**827**	**634**	**(19,151)**	**106,842**	**4,341**	**111,183**
Balances as at January 1, 2016	510	1,093	(6,505)	—	130,517	—	6,195	(18,202)	113,608	290	113,898
Total comprehensive income (loss):	—	—	—	—	—	—	20,249	(2,692)	17,557	151	17,708
Net income (Note 8)	—	—	—	—	—	—	20,006	—	20,006	156	20,162
Other comprehensive income (loss) (Note 6)	—	—	—	—	—	—	243	(2,692)	(2,449)	(5)	(2,454)
Cash dividends (Note 20)	—	—	—	—	—	—	(22,961)	—	(22,961)	(81)	(23,042)
Acquisition and dilution of noncontrolling interests	—	—	—	—	(29)	—	—	—	(29)	2	(27)
Balances as at December 31, 2016	510	1,093	(6,505)	—	130,488	—	3,483	(20,894)	108,175	362	108,537
Balances as at January 1, 2015	510	1,093	(6,505)	—	130,521	—	17,030	(8,285)	134,364	304	134,668
Total comprehensive income (loss):	—	—	—	—	—	—	22,065	(9,917)	12,148	20	12,168
Net income (Note 8)	—	—	—	—	—	—	22,065	—	22,065	10	22,075
Other comprehensive income (loss) (Note 6)	—	—	—	—	—	—	—	(9,917)	(9,917)	10	(9,907)
Cash dividends (Note 20)	—	—	—	—	—	—	(32,900)	—	(32,900)	(21)	(32,921)
Acquisition and dilution of noncontrolling interests	—	—	—	—	(4)	—	—	—	(4)	(13)	(17)
Balances as at December 31, 2015	510	1,093	(6,505)	—	130,517	—	6,195	(18,202)	113,608	290	113,898

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017, 2016 and 2015
(in million pesos)

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**14,569**	22,071	26,638
Adjustments for:			
Depreciation and amortization (Note 9)	**51,915**	34,455	31,519
Asset impairment (Note 5)	**8,258**	11,042	9,690
Interest on loans and other related items – net (Note 5)	**7,014**	6,956	5,919
Impairment of investments (Notes 10 and 11)	**2,562**	5,515	5,166
Pension benefit costs (Notes 5 and 26)	**1,607**	1,775	1,888
Amortization of intangible assets (Notes 5 and 15)	**835**	929	1,076
Incentive plans (Notes 5 and 26)	**827**	—	—
Foreign exchange losses – net (Notes 9 and 27)	**411**	2,785	3,036
Accretion on financial liabilities – net (Note 5)	**219**	230	231
Losses (gains) on disposal of property and equipment (Note 9)	**159**	(1,360)	298
Gains on disposal of investment property (Note 13)	**(80)**	—	—
Gains on derivative financial instruments – net (Notes 5 and 28)	**(533)**	(996)	(420)
Interest income (Note 5)	**(1,412)**	(1,046)	(799)
Equity share in net earnings of associates and joint ventures (Notes 5 and 10)	**(2,906)**	(1,181)	(3,241)
Gain on disposal of investment in associates and joint ventures (Note 10)	**(6,512)**	(7,365)	(2,838)
Others	**(2,443)**	(400)	(1,968)
Operating income before changes in assets and liabilities	**74,490**	73,410	76,195
Decrease (increase) in:			
Trade and other receivables	**(10,674)**	(7,060)	(1,863)
Inventories and supplies	**(542)**	(917)	(1,122)
Prepayments	**(212)**	(5,634)	(617)
Advances and other noncurrent assets	**162**	(99)	147
Increase (decrease) in:			
Accounts payable	**4,622**	1,358	11,242
Accrued expenses and other current liabilities	**(1,392)**	755	4,969
Pension and other employee benefits	**(5,841)**	(5,863)	(10,642)
Customers' deposits	**13**	1	(8)
Other noncurrent liabilities	**38**	(10)	(13)
Net cash flows generated from operations	**60,664**	55,941	78,288
Income taxes paid	**(4,550)**	(6,965)	(8,544)
Net cash flows from operating activities	**56,114**	48,976	69,744
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	**1,217**	947	939
Dividends received (Note 10)	**833**	4,409	5,544
Proceeds from:			
Maturity of short-term investments	**20,254**	1,557	1,469
Disposal of investments in associates and joint ventures	**14,884**	17,000	—
Collection of notes receivable	**2,001**	—	—
Disposal of available-for-sale financial investments	**1,000**	2,502	—
Disposal of property and equipment (Note 9)	**484**	1,889	334
Redemption of investment in debt securities	**456**	609	292
Disposal of investment properties	**290**	—	8
Payments for:			
Purchase of available-for-sale financial investments	**(76)**	(3,500)	(925)
Acquisition of intangible assets (Note 15)	**(137)**	(159)	(318)
Purchase of shares of noncontrolling interests – net of cash acquired	**(266)**	(22)	(2)
Interest capitalized to property and equipment (Note 9)	**(816)**	(566)	(370)
Purchase of investments in associates and joint ventures (Note 10)	**(5,633)**	(21,524)	(1,274)
Purchase of short-term investments	**(18,424)**	(2,734)	(2,194)
Purchase of property and equipment (Note 9)	**(36,616)**	(42,259)	(42,805)
Purchase of investment properties	—	(6)	—
Purchase of investment in debt securities	—	(20)	—
Purchase of subsidiaries – net of cash acquired	—	—	(151)
Decrease (increase) in advances and other noncurrent assets	**(511)**	(105)	215
Net cash flows used in investing activities	**(21,060)**	(41,982)	(39,238)

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (*continued)*
For the Years Ended December 31, 2017, 2016 and 2015
(in million pesos)

	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of long-term debt (Note 21)	**26,255**	40,569	44,367
Issuance of perpetual notes (Note 20)	**4,165**	—	—
Availments of long-term financing for capital expenditures	**359**	—	311
Derivative financial instruments (Note 28)	**218**	—	—
Issuance of capital stock	—	5	—
Payments for:			
Debt issuance costs (Note 21)	**(153)**	(185)	(396)
Distribution charges on perpetual notes (Note 20)	**(177)**	—	—
Interest – net of capitalized portion (Notes 5 and 21)	**(7,076)**	(6,512)	(5,407)
Long-term financing for capital expenditures	**(8,094)**	(6,040)	—
Cash dividends (Note 20)	**(16,617)**	(22,987)	(32,532)
Long-term debt (Note 21)	**(39,199)**	(19,650)	(17,084)
Derivative financial instruments (Note 28)	—	(541)	(638)
Redemption of shares	—	—	(1)
Obligations under finance lease	—	—	(5)
Net cash flows used in financing activities	**(40,319)**	(15,341)	(11,385)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(552)**	614	675
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(5,817)**	(7,733)	19,796
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (Note 16)	**38,722**	46,455	26,659
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 16)	**32,905**	38,722	46,455

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

PLDT Inc. (formerly Philippine Long Distance Telephone Company), which we refer to as PLDT or the Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, certain subsidiaries of First Pacific Company Limited, or First Pacific, and its Philippine affiliates (collectively the First Pacific Group and its Philippine affiliates), acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DOCOMO, Inc., or NTT DOCOMO, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT, and together with NTT Communications beneficially owned approximately 20% of PLDT's outstanding common stock as at December 31, 2017. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at December 31, 2017. On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., or JGSHI, and its affiliates, or JG Summit Group. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at December 31, 2017, the JG Summit Group beneficially owned approximately 8% of PLDT's outstanding common shares.

On October 16, 2012, BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, or PLDT Beneficial Trust Fund, created pursuant to PLDT's Benefit Plan, subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement between BTFHI and PLDT dated October 15, 2012. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2017. See *Note 20 – Equity – Voting Preferred Stock* and *Note 27 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition*.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, Inc., or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5.00 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". There were approximately 30.5 million ADSs outstanding as at December 31, 2017.

PLDT and our Philippine-based fixed line and wireless subsidiaries operate under the jurisdiction of the Philippine National Telecommunications Commission, or NTC, which jurisdiction extends, among other things, to approving major services offered and certain rates charged to customers.

We are the largest and most diversified telecommunications company in the Philippines which delivers data and multi-media services nationwide. We have organized our business into business units based on our products and services and have three reportable operating segments which serve as the bases for management's decision to allocate resources and evaluate operating performance. Our principal activities are discussed in *Note 4 – Operating Segment Information*.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

Our consolidated financial statements as at December 31, 2017 and 2016, and for the years ended December 31, 2017, 2016 and 2015 were approved and authorized for issuance by the Board of Directors on March 27, 2018 as reviewed and recommended for approval by the Audit Committee on March 23, 2018.

Amendments to the Articles of Incorporation of PLDT

On April 12, 2016 and June 14, 2016, the Board of Directors and stockholders of PLDT, respectively, approved the following actions: (i) change in the name of the Company from Philippine Long Distance Telephone Company to PLDT Inc.; (ii) expansion of the purpose clause to expressly provide for such other purposes and powers incidental to or in furtherance of the primary purpose, including the power to do or engage in such activities required, necessary or expedient in the pursuit of lawful businesses or for the protection or benefit of the Company; and (iii) corresponding amendments to the First Article and Second Article of the Articles of Incorporation of the Company.

On July 29, 2016, the Amended Articles of Incorporation of the Company containing the aforementioned amendments was approved by the Philippine Securities and Exchange Commission, or Philippine SEC.

Amendments to the By-Laws of PLDT

On August 30, 2016, the Board of Directors, exercising its own power and the authority duly delegated to it by the stockholders of PLDT to amend the By-Laws, authorized and approved the following amendments: (i) change in the name of the Parent Company from Philippine Long Distance Telephone Company to PLDT Inc. both in the heading and Section 1, Article XV of the By-Laws; and (ii) change in the logo of the Company as stated in Section 1, Article XV of the By-Laws from desk telephone to the current triangle-shaped logo of the corporation. On November 14, 2016, the Amended By-Laws of the Parent Company containing the aforementioned amendments was approved by the Philippine SEC.

2. Summary of Significant Accounting Policies

Basis of Preparation

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, or IFRSs, as issued by the International Accounting Standards Board, or IASB.

Our consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments, certain available-for-sale financial investments, certain short-term investments and investment properties that are measured at fair values.

We changed the presentation of our consolidated income statements for the years ended December 31, 2016 and 2015 to conform with the 2017 presentation and classification. We did not present a consolidated statement of financial position at the beginning of the earliest comparative period since these certain reclassifications do not have any impact on our consolidated statements of financial position as at December 31, 2016 and January 1, 2016.

Our consolidated financial statements are presented in Philippine peso, PLDT's functional currency, and all values are rounded to the nearest million, except when otherwise indicated.

Basis of Consolidation

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group") as at December 31, 2017 and 2016:

			2017		2016	
			Percentage of Ownership			
Name of Subsidiary	**Place of Incorporation**	**Principal Business Activity**	**Direct**	**Indirect**	Direct	Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	**100.0**	—	100.0	—
Smart Broadband, Inc., or SBI, and Subsidiary	Philippines	Internet broadband distribution services	—	**100.0**	—	100.0
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services	—	**100.0**	—	100.0
I-Contacts Corporation	Philippines	Operations support servicing business	—	**100.0**	—	100.0
Smart Money Holdings Corporation, or SMHC	Cayman Islands	Investment company	—	**100.0**	—	100.0
Far East Capital Limited, or FECL, and Subsidiary, or FECL Group	Cayman Islands	Cost effective off shore financing and risk management activities for Smart	—	**100.0**	—	100.0
PH Communications Holdings Corporation	Philippines	Investment company	—	**100.0**	—	100.0
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services	—	**100.0**	—	100.0
Francom Holdings, Inc.:	Philippines	Investment company	—	**100.0**	—	100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Content provider, mobile applications development and services	—	**100.0**	—	100.0
Voyager Innovations, Inc., or Voyager	Philippines	Mobile applications and digital platforms developer	—	**100.0**	—	100.0
Voyager Innovations Holdings, Pte. Ltd., or VIH, (formerly eInnovations Holdings Pte. Ltd., or eInnovations)[a]	Singapore	Investment company	—	**100.0**	—	100.0
Voyager Innovations Investments Pte. Ltd., or VII, (formerly Takatack Holdings Pte. Ltd., or Takatack Holdings)[b]	Singapore	Investment company	—	**100.0**	—	100.0
Voyager Innovations Singapore Pte. Ltd., or VIS, (formerly Takatack Technologies Pte. Ltd., or Takatack Technologies)[c]	Singapore	Development and maintenance of IT-based solutions for communications and e-Commerce platforms	—	**100.0**	—	100.0
Takatack Malaysia Sdn. Bhd., or Takatack Malaysia[d]	Malaysia	Development,maintenance and support services to enable the digital commerce ecosystem	—	**100.0**	—	100.0
iCommerce Investments Pte. Ltd., or iCommerce[e]	Singapore	Investment company	—	—	—	100.0
Voyager Fintech Ventures Pte. Ltd., or Fintech Ventures (formerly eInnovations Ventures Pte. Ltd., or eVentures)[f]	Singapore	Investment company	—	**100.0**	—	100.0
Fintqnologies Corporation, or FINTQ[g]	Philippines	Development of financial technology innovations	—	**100.0**	—	100.0
Fintq Inventures Insurance Agency Corporation[h]	Philippines	Insurance company	—	**100.0**	—	100.0
ePay Investments Pte. Ltd., or ePay	Singapore	Investment company	—	**100.0**	—	100.0
PayMaya Philippines, Inc. or PayMaya	Philippines	Provide and market certain mobile payment services	—	**100.0**	—	100.0
PayMaya Operations Philippines, Inc., or PayMaya Ops	Philippines	Market, sell and distribute payment solutions and other related services	—	**100.0**	—	100.0
ePay Investments Myanmar, Ltd., or ePay Myanmar[i]	Myanmar	Investment company	—	**100.0**	—	—
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services	—	**85.0**	—	85.0
Wifun, Inc., or Wifun[j]	Philippines	Software developer and selling of WiFi access equipment	—	**100.0**	—	100.0
Telesat, Inc.[k]	Philippines	Satellite communications services	**100.0**	—	100.0	—
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	**88.5**	**11.5**	88.5	11.5
Digitel Mobile Philippines, Inc., or DMPI, (a wholly-owned subsidiary of Digitel)	Philippines	Cellular mobile services	—	**99.6**	—	99.6
Fixed Line						
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	**100.0**	—	100.0	—
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	**100.0**	—	100.0	—
PLDT Global Corporation, or PLDT Global, and Subsidiaries	British Virgin Islands	Telecommunications services	**100.0**	—	100.0	—
Smart-NTT Multimedia, Inc.[k]	Philippines	Data and network services	**100.0**	—	100.0	—
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	**100.0**	—	100.0	—

Talas Data Intelligence, Inc., or Talas	Philippines	Business infrastructureand solutions; intelligent data processing and implementation services and data analytics insight generation	**100.0**	—	100.0	—
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	**100.0**	—	100.0	—
IP Converge Data Services, Inc., or IPCDSI, and Subsidiary, or IPCDSI Group	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	—	**100.0**	—	100.0
Curo Teknika, Inc., or Curo	Philippines	Managed IT outsourcing	—	**100.0**	—	100.0
ABM Global Solutions, Inc., or AGS, and Subsidiaries, or AGS Group	Philippines	Internet-based purchasing, IT consulting and professional services	—	**100.0**	—	100.0
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	—	**67.0**	—	67.0
netGames, Inc.[l]	Philippines	Gaming support services	—	**57.5**	—	57.5
Digitel:	Philippines	Telecommunications services	**99.6**	—	99.6	—
Digitel Information Technology Services, Inc.[k]	Philippines	Internet services	—	**99.6**	—	99.6
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	**98.0**	—	98.0	—
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	**75.0**	—	75.0	—
Pacific Global One Aviation Company, Inc., or PG1	Philippines	Air transportation business	**65.0**	—	65.0	—
Pilipinas Global Network Limited, or PGNL, and Subsidiaries	British Virgin Islands	Internal distributor of Filipino channels and content	**64.6**	—	64.6	—
Others						
PLDT Global Investments Holdings, Inc., or PGIH	Philippines	Investment company	**100.0**	—	100.0	—
PLDT Digital Investments Pte. Ltd., or PLDT Digital, and Subsidiaries	Singapore	Investment company	**100.0**	—	100.0	—
Mabuhay Investments Corporation, or MIC[k]	Philippines	Investment company	**67.0**	—	67.0	—
PLDT Global Investments Corporation, or PGIC	British Virgin Islands	Investment company	—	**100.0**	—	100.0
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment company	—	**99.9**	—	99.9

(a) *On July 11, 2017, the Accounting and Corporate Regulatory Authority, or ACRA, of Singapore approved the change in business name of eInnovations Holdings Pte. Ltd. to Voyager Innovations Holdings Pte. Ltd.*

(b) *On December 29, 2017, the ACRA of Singapore approved the change in business name of Takatack Holdings Pte. Ltd. to Voyager Innovations Investments Pte. Ltd.*

(c) *On March 6, 2018, the ACRA of Singapore approved the change in business name of Takatack Technologies Pte. Ltd. to Voyager Innovations Singapore Pte. Ltd.*

(d) *On April 12, 2016, Takatack Malaysia was incorporated in Malaysia to provide development, maintenance and support services and sales and marketing.*

(e) *On December 14, 2017, VIH sold its 10 thousand ordinary shares in iCommerce to PLDT Online for a total purchase price of SGD1.00.*

(f) *On January 12, 2016, the ACRA of Singapore approved the change in business name of eVentures to Voyager Fintech Ventures Pte. Ltd.*

(g) *On April 27, 2016, Voyager incorporated its financial technology unit FINTQ to focus on mobile-first financial technology platforms.*

(h) *On December 19, 2016, Fintq Inventures Insurance Agency Corporation was incorporated in the Philippines to engage in business as an insurance agent for the distribution, marketing and sale of insurance products such as life, non-life, accident and health insurance and pre-need projects and services.*

(i) *On July 25, 2017, ePay Investments Myanmar, Ltd. was incorporated in Myanmar to engage in the business of providing support services on the development and provision of digital technology.*

(j) *On November 25, 2015, Smart acquired the remaining 13% noncontrolling shares of Wifun for a total purchase price of Php10 million, of which Php7 million and Php3 million were paid on November 25, 2015 and February 29, 2016, respectively.*

(k) *Ceased commercial operations.*

(l) *Ceased commercial operations and under liquidation due to shortened corporate life to August 31, 2015.*

Subsidiaries are fully consolidated from the date of acquisition, being the date on which PLDT obtains control, and continue to be consolidated until the date that such control ceases. We control an investee when we are exposed, or have rights, to variable returns from our involvement with the investee and when we have the ability to affect those returns through our power over the investee.

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Noncontrolling interests share in losses even if the losses exceed the noncontrolling equity interest in the subsidiary.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and impact is presented as part of other equity reserves.

If PLDT loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any noncontrolling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Divestment of CURE

On October 26, 2011, PLDT received the Order issued by the NTC approving the application jointly filed by PLDT and Digitel for the sale and transfer of approximately 51.6% of the outstanding common stock of Digitel to PLDT. The approval of the application was subject to conditions which included the divestment by PLDT of CURE, in accordance with the Divestment Plan, as follows:

- CURE is obligated to sell its *Red Mobile* business to Smart consisting primarily of its subscriber base, brand and fixed assets; and
- Smart is obligated to sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 Megahertz, or MHz, of 3G frequency in the 2100 band and related permits.

In compliance with the commitments in the divestment plan, CURE completed the sale and transfer of its *Red Mobile* business to Smart on June 30, 2012 for a total consideration of Php18 million through a series of transactions, which included: (a) the sale of CURE's *Red Mobile* trademark to Smart; (b) the transfer of CURE's existing *Red Mobile* subscriber base to Smart; and (c) the sale of CURE's fixed assets to Smart at net book value.

In a letter dated July 26, 2012, Smart informed the NTC that it has complied with the terms and conditions of the divestment plan as CURE had rearranged its assets, such that, except for assets necessary to pay off obligations due after June 30, 2012 and certain tax assets, CURE's only remaining assets as at June 30, 2012 were its congressional franchise, the 10 MHz of 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum Cost Recovery Amount, or CRA, to enable PLDT to recover its investment in CURE includes, among others, the total cost of equity investments in CURE, advances from Smart for operating requirements, advances from stockholders and associated funding costs. In a letter dated January 21, 2013, the NTC referred the computation of the CRA to the Commissioners of the NTC.

In a letter dated March 5, 2018, PLDT informed the NTC that it is waiving its right to recover any and all cost related to the 10MHz of 3G radio frequency previously assigned to CURE. Accordingly, CURE will not claim any cost associated with it in the event of subsequent assignment by the NTC to another qualified telecommunication company. With the foregoing, PLDT is deemed to have fully complied with its obligation to divest in CURE as a condition to the sale and transfer of DTPI shares to PLDT.

Incorporation of Talas

On June 9, 2015, the PLDT's Board of Directors approved the incorporation of Talas, a wholly-owned subsidiary of PLDT. Total subscription in Talas amounted to Php250 million, of which Php62.5 million was paid on May 25, 2015, for purposes of incorporation, and the balance of Php187.5 million was paid on May 16, 2016. PLDT provided Talas an additional equity investment of Php120 million, Php150 million and Php115 million on January 31, 2017, February 28, 2017 and March 31, 2017, respectively, as approved by the PLDT's Board of Directors in June 2016.

Talas is tasked with unifying the digital data assets of the PLDT Group which involves the implementation of the Intelligent Data Fabric, exploration of revenue opportunities and the delivery of the big data capability platform.

Incorporation of PLDT Capital Pte. Ltd., or PLDT Capital

PLDT Capital was incorporated as a wholly-owned subsidiary of PLDT Online Investments Pte. Ltd., or PLDT Online, on August 12, 2015. As an investment arm, PLDT Capital is envisioned to be an important pillar in supporting the PLDT Group's digital pivot through collaboration with world-class pioneering companies in Silicon Valley, USA and around the world.

In 2015, PLDT Capital made the following investments:

- Investment in Phunware, Inc., or Phunware;
- Investment in AppCard, Inc., or AppCard; and
- Investment in Matrixx Software, Inc., or Matrixx.

See *Note 10 – Investments in Associates and Joint Ventures* and *Note 11 – Available-for-Sale Financial Investments*.

Agreement between PLDT Capital and Gohopscotch, Inc., or Hopscotch

On April 15, 2016, PLDT Capital and Hopscotch entered into an agreement to market and exclusively distribute Hopscotch's mobile solutions in Southeast Asia through Gohopscotch Southeast Asia Pte. Ltd., a Singapore company incorporated on March 1, 2016, of which PLDT Capital and Hopscotch own 90% and 10% of the equity interests, respectively. The Hopscotch mobile-platform technology allows for the rapid development of custom mobile applications for sports teams, live events, and brands to create a memorable and monetizable fan experience and also increase mobile advertising revenue.

Transfer of DMPI's Sun Postpaid Cellular and Broadband Subscription Assets to Smart

On August 1, 2016, the Board of Directors of Smart and DMPI approved the sale/transfer of DMPI's trademark and subscribers (both individual and corporate) including all of DMPI's assets, rights and obligations directly or indirectly connected to its postpaid cellular and broadband subscribers. The transfer is in accordance with the integration of the wireless business to simplify business operations, as well as to provide flexibility in offering new bundled/converged products and enhanced customer experience. The transfer was completed on November 1, 2016, after which only its prepaid cellular business remains with DMPI.

Extension of Smart's Congressional Franchise

On March 27, 1992, Philippine Congress granted a legislative franchise to Smart under Republic Act, or R.A., No. 7294, to establish, install, maintain, lease and operate integrated telecommunications, computer, electronic services, and stations throughout the Philippines for public domestic and international telecommunications, and for other purposes. R.A. No. 7294 took effect on April 15, 1992, or 15 days from the date of its publication in at least two newspapers of general circulation in the Philippines.

On April 21, 2017, R.A. No. 10926, which effectively extends Smart's franchise until 2042, was signed into law by the President of the Republic of the Philippines. The law was published in a newspaper of general circulation on May 4, 2017 and took effect on May 19, 2017.

Decrease in Authorized Capital Stock and Amendment of the Articles of Incorporation of MIC

On May 30, 2017, the Board of Directors of MIC approved the (a) reduction of MIC's authorized capital stock from Php2,028 million divided into 20 million shares to Php1,602 million by decreasing the par value per share from Php100.00 to Php79.00, or the Decrease in Capital, and (b) the corresponding amendment to the Seventh Article of the Articles of Incorporation of MIC, or the Amendment of Articles. On the same date, the Decrease in Capital and Amendment of Articles were approved by the stockholders representing at least two thirds of the outstanding shares of MIC. The application for approval of the Decrease in Capital and Amendments of Articles was filed with the Philippine SEC on July 11, 2017 and was apporoved on December 18, 2017.

Transfer of SBI's Home Broadband Subscription Assets to PLDT

On September 26, 2017, the Board of Directors of PLDT and SBI, a PLDT subsidiary providing wireless broadband service, approved the sale and transfer of SBI's trademark and subscribers (both individual and corporate), and all of SBI's assets, rights and obligations directly or indirectly connected to its HOME Ultera and HOMEBRO Wimax businesses to PLDT. The transfer was effective January 1, 2018. Subscription assets and trademark are amortized over two years and 10 years, respectively, using the straight-line method of accounting.

SBI's businesses are currently being managed by PLDT pursuant to the Operations Maintenance and Management Agreement between PLDT and SBI effective October 1, 2012. Subsequent to the transfer, SBI will continue to provide broadband services to its existing Canopy subscribers using a portion of Smart's network. The transfer is in accordance with the said agreement and in order to achieve the expected benefits, as follows:

- Seamless upgrades of PLDT products;
- Flexibility for business in cross-selling of PLDT products; and
- Enhanced customer experience.

On December 18, 2017, PLDT paid the partial consideration to SBI amounting to Php1,294 million. The remaining balance of Php1,152 million is payable in December 2018.

This transaction was eliminated in our consolidated financial statements.

Transfer of iCommerce to PLDT Online

On December 14, 2017, VIH and PLDT Online entered into a Sale and Purchase Agreement, or SPA, whereby VIH sold all of its 10 thousand ordinary shares in iCommerce to PLDT Online for a total purchase price of SGD1.00. On the same date, VIH assigned its loans receivables from iCommerce to PLDT Online amounting to US$8.6 million. In consideration, PLDT Online paid VIH US$8.9 million inclusive of interest as at November 30, 2017. See *Note 10 – Investments in Associates and Joint Ventures – Investments in Joint Ventures – iCommerce's Investment in PHIH.*

Perpetual Notes

In 2017, Smart issued various perpetual notes, including Php1,100 million perpetual notes to Rizal Commercial Banking Corporation, or RCBC, Trustee of PLDT's Redemption Trust Fund. See *Note 20 – Equity – Perpetual Notes*.

Agreement between PLDT and Smart and Amdocs

On January 24, 2018, PLDT and Smart entered into a seven-year, US$300 million Managed Transformation Agreement with Amdocs, a leading provider of software and services to communications and media companies, to upgrade PLDT's business IT systems and improve its business processes and services, aimed at enhancing consumer satisfaction, reducing costs and generating increased revenues.

New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except that the PLDT Group has adopted the following amendments starting January 1, 2017. Except for amendments to International Accounting Standards, or IAS, 7 and early adoption of amendments to IFRS 2, the adoption of these amendments did not have any significant impact on PLDT Group's financial position or performance.

- Amendments to IFRS 12, *Disclosure of Interests in Other Entities: Clarification of the Scope of the Standard* (Part of Annual Improvements to IFRSs 2014 - 2016 Cycle)
- Amendments to IAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*
- Amendments to IAS 7, *Statement of Cash Flows, Disclosure Initiative*

We have provided the required information in Note 29 – Notes to the Statement of Cash Flows to our consolidated financial statements. As allowed under the transition provisions of the standard, we did not present comparative information for the year ended December 31, 2016.

- Amendments to IFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

On January 1, 2017, the PLDT Group elected to adopt early the June 2016 amendments to IFRS 2, *Share-based Payment*. The amendments to IFRS 2 which are effective beginning on or after January 1, 2018 apply where tax laws or regulations oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf. The exception in IFRS 2 applies and the transaction is accounted for as equity-settled in its entirety (rather than being divided into an equity-settled portion and a cash-settled portion) if the transaction would have been classified as equity-settled in the absence of the net settlement feature. Since the PLDT Group is under the tax regime where it is required to withhold an amount to meet the tax liability, the amendment to IFRS 2 regarding the classification of a share-based payment transaction with net settlement features for withholding tax obligations applies to the arrangement. We treat the Transformation Incentive Plan, or the TIP, as equity-settled in its entirety.

Summary of Significant Accounting Policies

The following is the summary of significant accounting policies we applied in preparing our consolidated financial statements:

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any noncontrolling interest in the acquiree. For each business combination, we elect whether to measure the components of the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. The fair value of previously held equity interest is then included in the amount of total consideration transferred.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, we reassess whether we correctly identified all of the assets acquired and all of the liabilities assumed and review the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain on a bargain purchase is recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which is no longer than one year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, we also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units, or CGUs, that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill acquired in a business combination has yet to be allocated to identifiable CGUs because the initial accounting is incomplete, such provisional goodwill is not tested for impairment unless indicators of impairment exist and we can reliably allocate the carrying amount of goodwill to a CGU or group of CGUs that are expected to benefit from the synergies of the business combination.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Investments in Associates

An associate is an entity in which we have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control nor joint control over those policies. The existence of significant influence is presumed to exist when we hold 20% or more, but less than 50% of the voting power of another entity. Significant influence is also exemplified when we have one or more of the following: (a) a representation on the board of directors or the equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions with the investee; (d) interchange of managerial personnel with the investee; or (e) provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The cost of the investments includes directly attributable transaction costs. The details of our investments in associates are disclosed in *Note 10 – Investments in Associates and Joint Ventures – Investments in Associates*.

Under the equity method, an investment in an associate is carried at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized nor individually tested for impairment. Our consolidated income statement reflects our share in the financial performance of our associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our consolidated statement of comprehensive income and consolidated statement of changes in equity. Unrealized gains and losses resulting from our transactions with and among our associates are eliminated to the extent of our interests in those associates.

Our share in the profits or losses of our associates is included under “Other income (expenses)” in our consolidated income statement. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and net of noncontrolling interest in the subsidiaries of the associate.

When our share of losses exceeds our interest in an associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that we have an obligation or have made payments on behalf of the investee.

Our reporting dates and that of our associates are identical and our associates’ accounting policies conform to those used by us for like transactions and events in similar circumstances. When necessary, adjustments are made to bring such accounting policies in line with our policies.

After application of the equity method, we determine whether it is necessary to recognize an additional impairment loss on our investments in associates. We determine at the end of each reporting period whether there is any objective evidence that our investment in associate is impaired. If this is the case, we calculate the amount of impairment as the difference between the recoverable amount of our investment in the associate and its carrying value and recognize the amount in our consolidated income statement.

Upon loss of significant influence over the associate, we measure and recognize any retained investment at its fair value. Any difference between the carrying amounts of our investment in the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in our consolidated financial statements.

Joint Arrangements

Joint arrangements are arrangements with respect to which we have joint control, established by contracts requiring unanimous consent from the parties sharing control for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

- Joint operation – when we have rights to the assets, and obligations for the liabilities, relating to an arrangement, we account for each of our assets, liabilities and transactions, including our share of those held or incurred jointly, in relation to the joint operation in accordance with the IFRS applicable to the particular assets, liabilities and transactions.
- Joint venture – when we have rights only to the net assets of the arrangements, we account for our interest using the equity method, the same as our accounting for investments in associates.

The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies of the joint venture in line with our policies. The details of our investments in joint ventures are disclosed in *Note 10 – Investments in Associates and Joint Ventures – Investments in Joint Ventures*.

Adjustments are made in our consolidated financial statements to eliminate our share of unrealized gains and losses on transactions between us and our joint venture. Our investment in the joint venture is carried at equity method until the date on which we cease to have joint control over the joint venture.

Upon loss of joint control over the joint venture, we measure and recognize our retained investment at fair value. Any difference between the carrying amount of the former joint venture upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate with no remeasurement.

Current Versus Noncurrent Classifications

We present assets and liabilities in our consolidated statements of financial position based on current or noncurrent classification.

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

We classify all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Foreign Currency Transactions and Translations

Our consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. The Philippine peso is the currency of the primary economic environment in which we operate. This is also the currency that mainly influences the revenue from and cost of rendering products and services. Each entity in our Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for the subsidiaries discussed below) is the Philippine peso.

Transactions in foreign currencies are initially recorded by entities under our Group at the respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the end of the reporting period. All differences arising on settlement or translation of monetary items are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising from transactions of non-monetary items measured at fair value is treated in line with the recognition of this gain or loss on the change in fair value of the items (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

The functional currency of SMHC, FECL Group, PLDT Global and certain of its subsidiaries, Digitel Capital Philippines Ltd., or DCPL, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC is the U.S. dollar; the functional currency of eInnovations, Takatack Holdings, VIS, iCommerce, Fintech Ventures, ePay, 3rd Brand, Chikka Pte. Ltd., or CPL, and ABM Global Solutions Pte. Ltd., or AGSPL, is the Singaporean dollar; the functional currency of Chikka Communications Consulting (Beijing) Co. Ltd., or CCCBL, is the Chinese renminbi; the functional currency of AGS Malaysia and Takatack Malaysia, is the Malaysian ringgit; the functional currency of AGS Indonesia is the Indonesian rupiah; and the functional currency of ePay Myanmar is the Myanmar kyat. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. Upon disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries is recognized in our consolidated income statement.

When there is a change in an entity’s functional currency, the entity applies the translation procedures applicable to the new functional currency prospectively from the date of the change. The entity translates all assets and liabilities into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as the new historical cost. Exchange differences arising from the translation of a foreign operation previously recognized in other comprehensive income are not reclassified from equity to profit or loss until the disposal of the operation.

Foreign exchange gains or losses of the Parent Company and our Philippine-based subsidiaries are treated as taxable income or deductible expenses in the period such exchange gains or losses are realized.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Financial Instruments – Initial recognition and subsequent measurement

Financial Assets

Initial recognition and measurement

Financial assets within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*, are classified as financial assets at fair value through profit or loss, or FVPL, loans and receivables, held-to-maturity, or HTM, investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each reporting date.

Financial assets are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset, except in the case of financial assets recorded at FVPL.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases or sales) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on the classification as described below:

Financial assets at FVPL

Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivative assets, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at FVPL are carried in our consolidated statement of financial position at fair value with net changes in fair value recognized in our consolidated income statement under "Other income (expenses) - Gains (losses) on derivative financial instruments – net" for derivative instruments (negative net changes in fair value) and "Other income (expenses) – net" for non-derivative financial assets (positive net changes in fair value). Interest earned and dividends received from financial assets at FVPL are recognized in our consolidated income statement under "Interest income" and "Other income (expenses) – net", respectively.

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on different bases; (ii) the assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the entity's key management personnel; or (iii) the financial assets contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in our consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Our financial assets at FVPL include certain short-term investments and derivative financial assets as at December 31, 2017 and 2016. See *Note 28 – Financial Assets and Liabilities.*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial measurement, such financial assets are carried at amortized cost using the effective interest rate, or EIR, method less impairment. This method uses an EIR that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Gains and losses are recognized in our consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our loans and receivables include portions of investment in debt securities and other long-term investments, short-term investments, trade and other receivables and portions of advances and other noncurrent assets as at December 31, 2017 and 2016. See *Note 12 – Investment in Debt Securities and Other Long-term Investments, Note 16 – Cash and Cash Equivalents, Note 17 – Trade and Other Receivables* and *Note 28 – Financial Assets and Liabilities.*

HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when we have the positive intention and ability to hold it to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR method. Gains or losses are recognized in our consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process. Interest earned is recorded in "Other income (expenses) – Interest income" in our consolidated income statement. Assets in this category are included in current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our HTM investments include portions of investment in debt securities and other long-term investments as at December 31, 2017 and 2016. See *Note 12 – Investment in Debt Securities and Other Long-term Investments* and *Note 28 – Financial Assets and Liabilities.*

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held-for-trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to liquidity requirements or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income in the "Net gains (losses) on available-for-sale financial investments – net of tax" account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in our consolidated income statement; or the investment is determined to be impaired, at which time the cumulative loss recorded in other comprehensive income is recognized in "Other income (expenses) – net" in our consolidated income statement. Available-for-sale investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured shall be measured at cost.

Interest earned on holding available-for-sale financial investments are included under "Other income (expenses) – Interest income" using the EIR method in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under "Other income (expenses) – net" when the right to receive payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months from the end of the reporting period.

We evaluate whether the ability and intention to sell our available-for-sale financial investments in the near term is still appropriate. When, in rare circumstances, we are unable to trade these financial investments due to inactive markets and management's intention to do so significantly changes in the foreseeable future, we may elect to reclassify these financial investments. Reclassification to loans and receivables is permitted when the financial investments meet the definition of loans and receivables and we have the intent and ability to hold these assets for the foreseeable future. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial investment to maturity accordingly.

For a financial investment reclassified from the available-for-sale category, the fair value at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in other comprehensive income is amortized to profit or loss over the remaining life of the investment using the EIR method. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in other comprehensive income is reclassified to our consolidated income statement.

Our available-for-sale financial investments include listed and unlisted equity securities as at December 31, 2017 and 2016. See *Note 11 – Available-for-Sale Financial Investments* and *Note 28 – Financial Assets and Liabilities.*

Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVPL, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

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

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative liabilities, including separated embedded derivatives are also classified as at FVPL unless they are designated as effective hedging instruments as defined by IAS 39. Financial liabilities at FVPL are carried in our consolidated statement of financial position at fair value with gains or losses on liabilities held-for-trading recognized in our consolidated income statement under “Gains (losses) on derivative financial instruments – net” for derivative instruments and “Other income (expenses) – net” for non-derivative financial liabilities.

Financial liabilities may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on different bases; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial liabilities is provided internally on that basis to the entity’s key management personnel; or (iii) the financial liabilities contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Our financial liabilities at FVPL include long-term principal only-currency swaps and interest rate swaps as at December 31, 2017 and 2016. See *Note 28 – Financial Assets and Liabilities.*

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in our consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included under “Other income (expenses) – Financing costs – net” in our consolidated income statement.

Our other financial liabilities include interest-bearing financial liabilities, customers’ deposits, dividends payable and accrual for long-term capital expenditures, accounts payable, and accrued expenses and other current liabilities” (except for statutory payables) as at December 31, 2017 and 2016. See *Note 21 –*

Interest-bearing Financial Liabilities, Note 22 – Deferred Credits and Other Noncurrent Liabilities, Note 23 – Accounts Payable and *Note 24 – Accrued Expenses and Other Current Liabilities.*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in our consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Amortized cost of financial instruments

Amortized cost is computed using the EIR method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the EIR.

"Day 1" difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique which variables include only data from observable market, we recognize the difference between the transaction price and fair value (a "Day 1" difference) in our consolidated income statement unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in our consolidated income statement when the inputs become observable or when the instrument is derecognized. For each transaction, we determine the appropriate method of recognizing the "Day 1" difference amount.

Impairment of Financial Assets

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment of Trade and Other Receivables

Individual impairment

Retail subscribers

We recognize impairment losses for the whole amount of receivables from permanently disconnected wireless and fixed line subscribers. Subscribers are permanently disconnected after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnection usually occurs within a predetermined period from the last statement date.

We also recognize impairment losses for accounts with extended credit arrangements or promissory notes.

Corporate subscribers

Receivables from corporate subscribers are provided with impairment losses when they are specifically identified as impaired. Full allowance is generally provided for the whole amount of receivables from corporate accounts based on aging of individual account balances. In making this assessment, we take into account normal payment cycle, payment history and status of the account.

Foreign administrations and domestic carriers

For receivables from foreign administration and domestic carriers, impairment losses are recognized when they are specifically identified as impaired regardless of the age of balances. Full allowance is generally provided after quarterly review of the status of settlement with the carriers. In making this assessment, we take into account normal payment cycle, counterparty carrier's payment history and industry-observed settlement periods.

Dealers, agents and others

Similar to carrier accounts, we recognize impairment losses for the full amount of receivables from dealers, agents and other parties based on our specific assessment of individual balances based on age and payment habits, as applicable.

Collective impairment

Postpaid wireless and fixed line subscribers

We estimate impairment losses for temporarily disconnected accounts for both wireless and fixed line subscribers based on the historical trend of temporarily disconnected accounts which eventually become permanently disconnected. Temporary disconnection is initiated after a series of collection activities is implemented, including the sending of a collection letter, call-out reminders and collection messages via text messaging. Temporary disconnection generally happens 90 days after the due date of the unpaid balance. If the account is not settled within 60 days from temporary disconnection, the account is permanently disconnected.

We recognize impairment losses on our postpaid wireless and fixed line subscribers through net flow-rate methodology which is derived from account-level monitoring of subscriber accounts between different age brackets, from current to 120 days past due. The criterion adopted for making the allowance for doubtful accounts takes into consideration the calculation of the actual percentage of losses incurred on each range of accounts receivable.

Other subscribers

Receivables that have been assessed individually and found not to be impaired are then assessed collectively based on similar credit risk characteristics to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual impairment assessment. Retail subscribers are provided with collective impairment based on a certain percentage derived from historical data/statistics.

See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Allowance for Doubtful Accounts, Note 17 – Trade and Other Receivables* and *Note 28 – Financial Assets and Liabilities – Impairment Assessments* for further disclosures relating to impairment of financial assets.

Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses, or ECL, that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "Asset impairment" in our consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. The financial asset together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in our consolidated income statement, to the extent that the carrying value of the asset does not exceed its original amortized cost at the reversal date. If a write-off is later recovered, the recovery is recognized in profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, we assess at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale financial investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. We treat "significant" generally as decline of 20% or more below the original cost of investment, and "prolonged" as greater than 12 months assessed against the period in which the fair value has been below its original cost. When a decline in the fair value of an available-for-sale financial investment has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. If available-for-sale equity security is impaired, any further decline in the fair value at subsequent reporting date is recognized as impairment. Therefore, at each reporting period, for an equity security that was determined to be impaired, additional impairments are recognized for the difference between fair value and the original cost, less any previously recognized impairment. Impairment losses on equity investments are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale financial investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in our consolidated income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Other income (expenses) – Interest income" in our consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in our consolidated income statement, the impairment loss is reversed in profit or loss.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or where applicable as part of a financial asset or part of a group of similar financial assets) is primarily derecognized when: (1) the right to receive cash flows from the asset has expired; or (2) we have transferred the right to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred the right to receive cash flows from an asset or have entered into a "pass-through" arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of our continuing involvement in the asset.

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

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

The financial liability is also derecognized when equity instruments are issued to extinguish all or part of the financial liability. The equity instruments issued are recognized at fair value if it can be reliably measured, otherwise, it is recognized at the fair value of the financial liability extinguished. Any difference between the fair value of the equity instruments issued and the carrying value of the financial liability extinguished is recognized in profit or loss.

Derivative Financial Instruments and Hedge Accounting

Initial recognition and subsequent measurement

We use derivative financial instruments, such as long-term currency swaps, foreign currency options, forward currency contracts and interest rate swaps to hedge our risks associated with foreign currency fluctuations and interest rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options, forward currency contracts and interest rate swap contracts is determined using applicable valuation techniques. See *Note 28 – Financial Assets and Liabilities*.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the "Other income (expenses) – Gains (losses) on derivative financial instruments – net" in our consolidated income statement.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign currency risk); or (2) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized financial asset or liability, a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. In a situation when that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect our consolidated income statement.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging instrument is recognized in the consolidated income statement as financing cost. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated income statement.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in the consolidated income statement.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement. See *Note 28 – Financial Assets and Liabilities* for more details.

Amounts taken to other comprehensive income are transferred to our consolidated income statement when the hedged transaction affects our consolidated income statement, such as when the hedged financial income or financial expense is recognized or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to our consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

We use an interest rate swap agreement to hedge our interest rate exposure and a long-term principal only-currency swap agreement to hedge our foreign exchange exposure on certain outstanding loan balances. See *Note 28 – Financial Assets and Liabilities*.

Current versus noncurrent classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where we expect to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as effective hedging instruments are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

We recognize transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

Property and Equipment

Property and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. Land is stated at cost less any impairment in value. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing component parts of the property and equipment when the cost is incurred, if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized as expense as incurred. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the asset if the recognition criteria for a provision are met.

Depreciation and amortization commence once the property and equipment are available for their intended use and are calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in depreciating our property and equipment are disclosed in *Note 9 – Property and Equipment*.

The residual values, estimated useful lives, and methods of depreciation and amortization are reviewed at least at each financial year-end and adjusted prospectively, if appropriate.

An item of property and equipment and any significant part initially recognized are derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognized.

Property under construction is stated at cost less any impairment in value. This includes cost of construction, plant and equipment, capitalizable borrowing costs and other direct costs associated to construction. Property under construction is not depreciated until such time that the relevant assets are completed and available for its intended use.

Property under construction is transferred to the related property and equipment when the construction or installation and related activities necessary to prepare the property and equipment for their intended use have been completed, and the property and equipment are ready for operational use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalized until the assets are substantially completed for their intended use or sale.

All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Asset Retirement Obligations

We are legally required under various lease agreements to dismantle the installation in leased sites and restore such sites to their original condition at the end of the lease contract term. We recognize the liability measured at the present value of the estimated costs of these obligations and capitalize such costs as part of the balance of the related item of property and equipment. The amount of asset retirement obligations are accreted and such accretion is recognized as interest expense. See *Note 9 – Property and Equipment* and *Note 22 – Deferred Credits and Other Noncurrent Liabilities*.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an amount evaluation performed by a Philippine SEC accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognized when they are disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in our consolidated income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, we account for such property in accordance with the policy stated under property and equipment up to the date of change in use. The difference between the carrying amount of the owner-occupied property and its fair value at the date of change is accounted for as revaluation increment recognized in other comprehensive income. On subsequent disposal of the investment property, the revaluation increment recognized in other comprehensive income is transferred to retained earnings.

No assets held under operating lease have been classified as investment properties.

Intangible Assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired from business combinations is initially recognized at fair value on the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed at the individual asset level as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At the minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually either individually or at the CGU level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The estimated useful lives used in amortizing our intangible assets are disclosed in *Note 15 – Goodwill and Intangible Assets*.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in our consolidated income statement when the asset is derecognized.

Internally generated intangibles are not capitalized and the related expenditures are charged against operations in the period in which the expenditures are incurred.

Inventories and Supplies

Inventories and supplies, which include cellular and landline phone units, materials, spare parts, terminal units and accessories, are valued at the lower of cost and net realizable value.

Costs incurred in bringing inventories and supplies to its present location and condition are accounted for using the weighted average cost method. Net realizable value is determined by either estimating the selling price in the ordinary course of business, less the estimated cost to sell or determining the prevailing replacement costs.

Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that an asset may be impaired. If any indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the 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. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses are recognized in our consolidated income statement.

For assets, excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, we make an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in our consolidated income statement. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

The following assets have specific characteristics for impairment testing:

Property and equipment and intangible assets with definite useful lives

For property and equipment, we also assess for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets, Note 9 – Property and Equipment* and *Note 15 – Goodwill and Intangible Assets* for further disclosures relating to impairment of non-financial assets.

Investments in associates and joint ventures

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income statement. See *Note 10 – Investments in Associates and Joint Ventures* for further disclosures relating to impairment of non-financial assets.

Goodwill

Goodwill is tested for impairment annually as at December 31, and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU, or group of CGUs, is less than the carrying amount of the CGU, or group of CGUs, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible asset with indefinite useful life

Intangible asset with indefinite useful life is not amortized but is tested for impairment annually either individually or at the CGU level, as appropriate. We calculate the amount of impairment as being the difference between the recoverable amount of the intangible asset or the CGU, and its carrying amount and recognize the amount of impairment in our consolidated income statement. Impairment losses relating to intangible assets can be reversed in future periods.

See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets* and *Note 15 – Goodwill and Intangible Assets – Impairment testing of goodwill and intangible assets with indefinite useful life* for further disclosures relating to impairment of non-financial assets.

Investment in Debt Securities

Investment in debt securities consists of time deposits and government securities which are carried at amortized cost using the EIR method. Interest earned from these securities is recognized under "Other income (expenses) – Interest income" in our consolidated income statement.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents, which include temporary cash investments, are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition, and for which there is an insignificant risk of change in value.

Short-term Investments

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from the date of acquisition.

Fair Value Measurement

We measure financial instruments such as derivatives, available-for-sale financial investments and certain short-term investments and non-financial assets such as investment properties, at fair value at each reporting date. The fair values of financial instruments measured at amortized cost are disclosed in *Note 28 – Financial Assets and Liabilities*. The fair values of investment properties are disclosed in *Note 13 – Investment Properties*.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to us.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in our consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: (i) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities; (ii) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and (iii) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in our consolidated financial statements on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

We determine the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted available-for-sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for valuation of significant assets, such as certain short-term investments and investment properties. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. At each reporting date, we analyze the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per our accounting policies. For this analysis, we verify the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

We, in conjunction with our external valuers, also compare the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. This includes a discussion of the major assumptions used in the valuations. For the purpose of fair value disclosures, we have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding value-added tax, or VAT, or overseas communication tax, or OCT, where applicable. When deciding the most appropriate basis for presenting revenue and cost of revenue, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. We are acting as a principal when we have the significant risks and rewards associated with the rendering of telecommunication services. When our role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

Service revenues from continuing operations

Our revenues are principally derived from providing the following telecommunications services: cellular voice and data services in the wireless business; and local exchange, international and national long distance, data and other network, and information and communications services in the fixed line business. When determining the amount of revenue to be recognized in any period, the overriding principle followed is to match the revenue with the provision of service. Services may be rendered separately or bundled with goods or other services. The specific recognition criteria are as follows:

Subscribers

We provide telephone, cellular and data communication services under prepaid and postpaid payment arrangements as follows:

Postpaid service arrangements include fixed monthly charges (including excess of consumable fixed monthly service fees) generated from postpaid cellular voice, short messaging services, or SMS, and data services through the postpaid plans of *Smart* and *Sun*, from cellular and local exchange services primarily through wireless, landline and related services, and from data and other network services primarily through broadband and leased line services, which we recognize on a straight-line basis over the customer's subscription period. Services provided to postpaid subscribers are billed throughout the month according to the billing cycles of subscribers. Services availed by subscribers in addition to these fixed fee arrangements are charged separately and recognized as the additional service is provided or as availed by the subscribers.

Our prepaid service revenues arise from the usage of airtime load from channels and prepaid cards provided by *Smart, TNT, SmartBro* and *Sun Broadband* brands. Proceeds from over-the-air reloading channels and prepaid cards are initially recognized as unearned revenue and realized upon actual usage of the airtime value (i.e., the pre-loaded airtime value of subscriber identification module, or SIM, cards and subsequent top-ups) for voice, SMS, multimedia messaging services, or MMS, content downloading (inclusive of browsing), infotext services and prepaid unlimited and bucket-priced SMS and call subscriptions, net of free SMS allocation and bonus credits (load package purchased, i.e., free additional SMS or minute calls or Peso credits), or upon expiration of the usage period, whichever comes earlier. Interconnection fees and charges arising from the actual usage of airtime value or subscriptions are recorded as incurred.

Revenue from international and national long distance calls carried via our network is generally based on rates which vary with distance and type of service (direct dial or operator-assisted, paid or collect, etc.). Revenue from both wireless and fixed line long distance calls is recognized as the service is provided.

Non-recurring upfront fees such as activation fees charged to subscribers for connection to our network are deferred and are recognized as revenue throughout the estimated average length of customer relationship. The related incremental costs are similarly deferred and recognized over the same period in our consolidated income statement.

Connecting carriers

Interconnection revenues for call termination, call transit and network usages are recognized in the period in which the traffic occurs. Revenues related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided and the equivalent amounts charged to us by other carriers are recorded under interconnection costs in our consolidated income statement. Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers.

Value-Added Services, or VAS

Revenues from VAS include MMS, downloading and streaming of content, applications and other digital services and infotext services. The amount of revenue recognized is net of payout to content provider's share in revenue. Revenue is recognized upon service availment.

Incentives

We operate customer loyalty programmes in our wireless business which allows customers to accumulate points when they purchase services or prepaid credits from us. The points can then be redeemed for free services and discounts, subject to a minimum number of points being obtained. Consideration received is allocated between the services and prepaid credits sold and the points issued, with the consideration allocated to the points equal to their value. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Product-based incentives provided to retailers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

Multiple-deliverable arrangements

In revenue arrangements, which involve bundled sales of mobile devices, SIM cards/packs and accessories (non-service component) and telecommunication services (service component), the total arrangement consideration is allocated to each component based on their relative fair value to reflect the substance of the transaction. Revenue from the sale of non-service component are recognized when the goods are delivered while revenues from telecommunication services component are recognized when the services are provided to subscribers. When fair value is not directly observable, the total consideration is allocated using residual method.

Other services

Revenue from server hosting, co-location services and customer support services are recognized as the service are performed.

Non-service revenues

Revenues from handset and equipment sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. The related cost or net realizable value of handsets or equipment, sold to customers is presented as "Cost of sales" in our consolidated income statement.

Interest income

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the EIR.

Dividend income

Revenue is recognized when our right to receive the payment is established.

Expenses

Expenses are recognized as incurred.

Provisions

We recognize a provision when we have a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain to be received if the entity settles the obligation. The expense relating to any provision is presented in our consolidated income statement, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense in our consolidated income statements.

Retirement Benefits

PLDT and certain of its subsidiaries are covered under R.A. 7641 otherwise known as "The Philippine Retirement Law".

Defined benefit pension plans

PLDT has separate and distinct retirement plans for itself and majority of its Philippine-based operating subsidiaries, administered by the respective Funds' Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement costs consist of the following:

- Service cost;
- Net interest on the net defined benefit asset or obligation; and
- Remeasurements of net defined benefit asset or obligation.

Service cost (which includes current service costs, past service costs and gains or losses on curtailments and non-routine settlements) is recognized as part of "Selling, general and administrative expenses – Compensation and employee benefits" account in our consolidated income statement. These amounts are calculated periodically by an independent qualified actuary.

Net interest on the net defined benefit asset or obligation is the change during the period in the net defined benefit asset or obligation that arises from the passage of time which is determined by applying the discount rate based on the government bonds to the net defined benefit asset or obligation. Net deferred benefit asset is recognized as part of advances and other noncurrent assets and net defined benefit obligation is recognized as part of pension and other employee benefits in our consolidated statement of financial position.

Remeasurements, comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they occur. Remeasurements are not classified to profit or loss in subsequent periods.

The net defined benefit asset or obligation comprises the present value of the defined benefit obligation (using a discount rate based on government bonds, as explained in *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating pension benefit costs and other employee benefits*), net of the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by a long-term employee benefit fund or qualifying insurance policies and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, the published bid price and in the case of unquoted securities, the discounted cash flow using the income approach. The value of any defined benefit asset recognized is restricted to the asset ceiling which is the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. See *Note 26 – Employee Benefits – Defined Benefit Pension Plans* for more details.

Defined contribution plans

Smart and certain of its subsidiaries maintain a defined contribution plan that covers all regular full-time employees under which it pays fixed contributions based on the employees' monthly salaries and provides for qualified employees to receive a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. 7641.

Accordingly, Smart and certain of its subsidiaries account for their retirement obligation under the higher of the defined benefit obligation related to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. Smart and certain of its subsidiaries determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense (income) and other expenses (income) related to the defined benefit plan are recognized in our profit or loss.

The defined contribution liability, on the other hand, is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in our other comprehensive income.

When the benefits of the plan are changed or when the plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in our profit or loss. Gains or losses on the settlement of the defined benefit plan are recognized when the settlement occurs. See *Note 26 – Employee Benefits – Defined Contribution Plans* for more details.

Other Long-term Employee Benefits

Employee benefit costs include current service cost, net interest on the net defined benefit obligation, and remeasurements of the net defined benefit obligation. Past service costs and actuarial gains and losses are recognized immediately in our profit or loss.

The long-term employee benefit liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds) at the end of the reporting period and is determined using the projected unit credit method. See *Note 26 – Employee Benefits – Other Long-term Employee* for more details.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A reassessment is made after the inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the agreement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

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

As a Lessor. Leases where we retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Rental income is recognized in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest income is accrued over the lease term using the EIR and lease amortization is accounted for as reduction of lease receivable.

As a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. A finance lease gives rise to the recognition of a leased asset and finance lease liability. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term. Interest expense is recognized over the lease term using the EIR.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period where we operate and generate taxable income.

Deferred income tax

Deferred income tax is provided on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward benefits of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized, except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting period.

Deferred income tax relating to items recognized in "Other comprehensive income" account is included in our statement of comprehensive income and not in our consolidated income statement.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in our profit or loss.

VAT

Revenues, expenses and assets are recognized net of the amount of VAT except: (1) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and (2) where receivables and payables are stated with the amount of VAT included.

Contingencies

Contingent liabilities are not recognized in our consolidated financial statements. They are disclosed in the notes to our consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in our consolidated financial statements but are disclosed in the notes to our consolidated financial statements when an inflow of economic benefits is probable.

Events After the End of the Reporting Period

Post period-end events up to the date of approval of the Board of Directors that provide additional information about our financial position at the end of the reporting period (adjusting events) are reflected in our consolidated financial statements. Post period-end events that are not adjusting events are disclosed in the notes to our consolidated financial statements when material.

Equity

Preferred and common stocks are measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value are recognized as capital in excess of par value in our consolidated statement of changes in equity.

Treasury stocks are our own equity instruments which are reacquired and recognized at cost and presented as reduction in equity. No gain or loss is recognized in our consolidated income statement on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value in our consolidated statement of changes in equity and statement of financial position.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and any impact is presented as part of capital in excess of par value in our consolidated statement of changes in equity.

Retained earnings represent our net accumulated earnings less cumulative dividends declared.

Other comprehensive income comprises of income and expense, including reclassification adjustments that are not recognized in our profit or loss as required or permitted by IFRS.

Standards Issued But Not Yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are listed below. We will adopt these standards and amendments to existing standards which are relevant to us when these become effective. Except for IFRS 9, *Financial Instruments*, IFRS 15, *Revenue from Contracts with Customers,* and IFRS 16, *Leases,* as discussed further below, we do not expect the adoption of these standards and amendments to IFRS to have a significant impact on our consolidated financial statements.

Effective beginning on or after January 1, 2018

- Amendments to IFRS 4, *Insurance Contracts, Applying* IFRS 9, *Financial Instruments,* with IFRS 4
- Amendments to IAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to IFRSs 2014 - 2016 Cycle)
- Amendments to IAS 40, *Investment Property, Transfers of Investment Property*
- Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*
- IFRS 1, *First-time Adoption of International Financial Reporting Standards* (Part of Annual Improvements to IFRSs 2014 - 2016 Cycle)
- IFRS 9, *Financial Instruments*

In July 2014, the FRSC issued the final version of IFRS 9 Financial Instruments that replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

We will adopt the new standard on the required effective date and will not restate comparative information. During 2017, we have performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available in 2018 when we adopt IFRS 9.

Classification and measurement

IFRS 9 requires that we classify financial assets based on the assessment of the contractual cash flows assessment characteristics and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

We assessed that the contractual cash flows of our debt financial assets are solely payments of principal and interest, and are expected to be under a hold-to-collect business model, with the exception of one portfolio which is expected to be under a hold-to-collect-and-sell business model. Consequently, debt financial assets under a business model of hold-to-collect and hold-to-collect-and-sell are expected to be measured at amortized cost and fair value through other comprehensive income, respectively.

We expect to continue measuring at fair value all financial assets currently held at fair value. However, quoted equity shares currently held as available-for-sale with gains and losses recorded in other comprehensive income will, instead, be measured at fair value through profit or loss, which will increase volatility in recorded profit or loss. The equity shares in non-listed companies are intended to be held for the foreseeable future.

Impairment

IFRS 9 requires to record expected credit losses, or ECL, for all debt securities not classified as at fair value through profit or loss, together with contract assets, loan commitments and financial guarantee contracts. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. In comparison, the present incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment. The ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL is recognized earlier under IFRS 9.

The objective of the new impairment model is to record lifetime losses on all financial assets which have experienced a significant increase in credit risk from initial recognition. As a result, ECL allowances will be measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on our internal credit assessment, the counterparty is determined to require close monitoring or with well-defined credit weakness.

Financial assets have the following staging assessment, depending on the quality of the credit exposures:

For non-credit-impaired financial assets:

- Stage 1 financial assets are comprised of all non-impaired financial instruments which have not experienced a significant increase in credit risk since initial recognition. We recognize a 12-month ECL for Stage 1 financial assets.
- Stage 2 financial assets are comprised of all non-impaired financial assets which have experienced a significant increase in credit risk since initial recognition. We recognize a lifetime ECL for Stage 2 financial assets.

For credit-impairment financial assets:

- Financial assets are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial assets.

IFRS 9 provides some operational simplifications for short-term trade receivables, lease receivables and contract assets by introducing an alternative simplified approach. Under the simplified approach, there is no more requirement to determine at reporting date whether a credit exposure has significantly increased in credit risk or not. Credit exposures under the simplified approach will be subject only to lifetime ECL. In addition, IFRS 9 allows the use of a provision matrix approach or a loss rate approach as a practical expedient when measuring ECL, so long as these methodologies reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

ECL is a function of the risk of a default occurring and the magnitude of default, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The risk of a default occurring represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 assets or lifetime horizon for Stages 2 and 3 assets. The risk of a default occurring for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. We segmented the credit exposures based on homogenous risk characteristics and applied a specific ECL methodology for each. The methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

The magnitude of default represents the amount that may not be recovered in the event of default and is determined based on the historical cash flow recoveries and reasonable and supportable information about future economic conditions, where appropriate.

We will incorporate forward-looking information into both assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and measurement of ECL. A broad range of forward-looking information will be considered as economic inputs such as the Philippine Gross Domestic Product, Retail Price Index, Unemployment Rates and other economic indicators.

We plan to apply the simplified approach and record lifetime ECL on all trade receivables and contract assets. For other debt financial assets measured at amortized cost, the general approach will be applied, measuring either a 12-month or lifetime ECL, depending on the extent of the deterioration of the credit quality from origination. The new impairment requirements will impact the current impairment methodologies of the debt securities classified as at amortized cost or at fair value through other comprehensive income and the corresponding impairment allowance levels.

Hedge accounting

The new hedge accounting model under IFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting.

We determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. We have chosen not to retrospectively apply IFRS 9 on transition to the hedges where we excluded the forward points from the hedge designation under IAS 39. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on the consolidated financial statements.

We have implemented existing governance framework, ensuring appropriate controls and validations are in place over key processes and judgments in implementing IFRS 9. We are continuously refining our internal controls and processes which are relevant in the proper implementation of IFRS 9.

- IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

We will adopt the new standard using the modified retrospective approach, i.e. contracts that are not completed by January 1, 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of the equity. Therefore, prior-year comparative information has not been restated and continues to be reported under IAS 18, *Revenue Recognition*. We have assessed the estimated impact that the initial application of IFRS 15 will have on our consolidated financial statements. The estimated impact of the adoption of this standard on our consolidated financial statement as at January 1, 2018 is based on assessments undertaken to date and is summarized below.

Consolidated Statements of Financial Position	**December 31, 2017 As Reported**	**Estimated adjustments due to adoption of IFRS 15**	**Estimated adjusted opening balance at January 1, 2018**
		(in million pesos)	
Noncurrent Assets			
Contract assets – net of current portion	—	1,094	1,094
Deferred income tax assets – net	**30,466**	54	30,520
Current Assets			
Contract assets	—	2,783	2,783
Equity			
Retained earnings	**634**	2,588	3,222
Noncurrent Liabilities			
Contract liabilities – net of current portion	—	82	82
Deferred income tax liabilities – net	**3,366**	1,164	4,530
Current Liabilities			
Contract liabilities	—	97	97

Sale of goods

For contracts with customers in which the sale of non-service component is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on our revenue and profit or loss. We expect the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Multiple-deliverable arrangements

In revenue arrangements involving bundled sales of non-service and service components, revenue is currently recognized by allocating the total consideration to each component based on their relative fair value. Revenue from the sale of non-service component are recognized when the goods are delivered while revenues from the provision of service component are recognized when the services are provided to subscribers. When fair value is not directly observable, the total consideration is allocated using residual method.

Under IFRS 15, the total consideration in multiple-deliverable arrangements will be allocated to each performance obligation based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which we sell the non-service component or rendering of the service component in separate transactions. We concluded that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by us. Consequently, under IFRS 15, we will continue to recognize revenue for these service contracts/service components of bundled contracts over time rather than at a point of time.

We assessed that when IFRS 15 is adopted using modified retrospective approach, the opening balance of our retained earnings, contract assets and deferred income tax liabilities – net will increase by Php2,979 million, Php4,256 million and Php1,277 million, respectively, due to early recognition of revenue from non-service component as at January 1, 2018.

The opening balance of our retained earnings will decrease by Php125 million, and contract liabilities and deferred income tax assets – net will increase by Php179 million and Php54 million, respectively, due to contracts without subsidies as at January 1, 2018.

Currently, we do not account for the significant financing component since most of the handsets are subsidized and has insignificant allocated transaction price using residual method. Under IFRS 15, we must determine whether there is a significant financing component in its contracts. An entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. The opening balance of our retained earnings, contract assets and deferred income tax liabilities – net will decrease byPhp266 million, Php379 million and Php113 million, respectively, due to financing component of existing contracts as at January 1, 2018.

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in our consolidated financial statements. Many of the disclosure requirements in IFRS 15 are new and we have assessed that the impact of some of these disclosures requirements will be significant. In particular, we expect that the notes to the consolidated financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. In addition, as required by IFRS 15, we will disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

Deferred effectivity

- Amendments to IFRS 10 and IAS 28, *Long-term Interests in Associates and Joint Ventures*

Effective beginning on or after January 1, 2019

- Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

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

The interpretation specifically addresses the following:

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

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

We are currently assessing the impact of adopting this interpretation.

- Amendments to IFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to IFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost at fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

  We are currently assessing the impact of adopting this amendment.

- IFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17, *Leases.* Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt IFRS 16 but not before an entity applies IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. We are currently assessing the impact of adopting this standard.

- Amendments to IAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to IAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- IFRS 17, *Insurance Contracts*

  IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issued them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements of IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by: a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

  IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

3. Management's Use of Accounting Judgments, Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with IFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the end of each reporting period. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future years.

Judgments

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

Determination of functional currency

The functional currencies of the entities under the PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue from and cost of rendering products and services.

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso, except for (a) SMHC, FECL Group, PLDT Global and certain of its subsidiaries, DCPL, PGNL and certain of its subsidiaries, Chikka and certain of its subsidiaries and PGIC, which uses the U.S. dollar; (b) eInnovations, Takatack Holdings, VIS, iCommerce, Fintech Ventures, ePay, 3rd Brand, CPL and AGSPL, which uses the Singaporean dollar; (c) CCCBL, which uses the Chinese renminbi; (d) AGS Malaysia and Takatack Malaysia, which uses the Malaysian ringgit; (e) AGS Indonesia, which uses the Indonesian rupiah; and (f) ePay Myanmar, which uses the Myanmar kyat.

Accounting for investments in MediaQuest Holdings, Inc., or MediaQuest, through Philippine Depositary Receipts, or PDRs

ePLDT made various investments in PDRs issued by MediaQuest in relation to its direct interest in Satventures, Inc., or Satventures, and Hastings Holdings, Inc., or Hastings, and indirect interest in Cignal TV, Inc., or Cignal TV.

Based on our judgment, at the PLDT Group level, ePLDT's investments in PDRs gives ePLDT a significant influence over Satventures, Hastings and Cignal TV as evidenced by provision of essential technical information and material transactions among PLDT, Smart, Satventures, Hastings and Cignal TV, and thus are accounted for as investments in associates using the equity method.

See related discussion on *Note 10 – Investments in Associates and Joint Ventures – Investments in Associates – Investment in MediaQuest PDRs*.

Leases

As a lessee, we have various lease agreements in respect of certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on IAS 17. Total lease expense amounted to Php7,016 million, Php6,632 million and Php6,078 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total finance lease obligations amounted to Php679 thousand and Php994 thousand as at December 31, 2017 and 2016, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 21 – Interest-bearing Financial Liabilities – Obligations under Finance Leases* and *Note 28 – Financial Assets and Liabilities – Liquidity Risk*.

Accounting for investments in Phunware and AppCard

In 2015, PLDT Capital subscribed to preferred shares of Phunware and AppCard. See *Note 10 – Investments in Associates and Joint Ventures*. The investments in Phunware and AppCard allow PLDT Capital to designate one director to the five-seat board of each of Phunware and AppCard for as long as PLDT Capital beneficially owns a specified percentage of Phunware or AppCard shares, as applicable.

Based on our judgment, at the PLDT Group Level, PLDT Capital's investments in preferred shares give PLDT a significant influence over Phunware and AppCard as evidenced by the board seats assigned to us. This gives us the authority to participate in the financial and operating policy decisions of Phunware and AppCard but neither control nor joint control of those policies. Hence, the investments are accounted for as investment in associates.

Accounting for investments in Vega Telecom Inc., or VTI, Bow Arken Holdings Company, or Bow Arken, and Brightshare Holdings, Inc., or Brightshare

On May 30, 2016, PLDT acquired a 50% equity interest in each of VTI, Bow Arken and Brightshare. See related discussion on *Note 10 – Investments in Associates and Joint Ventures – Investments in Joint Ventures*. Based on the Memorandum of Agreement, PLDT and Globe Telecom, Inc., or Globe, each have the right to appoint half the members of the Board of Directors of each of VTI, Bow Arken and Brightshare, as well as the (i) co-Chairman of the Board; (ii) co-Chief Executive Officer and President; and (iii) co-Controller where any matter requiring their approval shall be deemed passed or approved if the consents of both co-officers holding the same position are obtained. All decisions of each Board of Directors may only be approved if at least one director nominated by each of PLDT and Globe votes in favor of it.

Based on these rights, PLDT and Globe have joint control over VTI, Bow Arken and Brightshare, which is defined in IFRS 11, *Joint Arrangements,* as a contractually agreed sharing of control of an arrangement and exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Consequently, PLDT and Globe classified the joint arrangement as a joint venture in accordance with IFRS 11 given that PLDT and Globe each have the right to 50% of the net assets of VTI, Bow Arken and Brightshare and their respective subsidiaries.

Accordingly, PLDT accounted for the investment in VTI, Bow Arken and Brightshare using the equity method of accounting in accordance with IAS 28*, Measuring an Associate or Joint Venture*. Under the equity method of accounting, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor’s share of the investee’s net assets.

Impairment of available-for-sale equity investments

For available-for-sale financial investments, we assess at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale financial investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is “significant” or “prolonged” requires judgment. We treat “significant” generally as decline of 20% or more below the original cost of investment, and “prolonged” as greater than 12 months assessed against the period in which the fair value has been below its original cost.

Based on our judgment, the continuing decline in fair value of our investment in Rocket Internet SE, or Rocket Internet, is considered significant as the cumulative net losses from changes in fair value represents more than 20% decline in value below cost. As a result, total cumulative impairment losses recognized on our investment in Rocket Internet amounted to Php11,045 million and Php10,505 million as at December 31, 2017 and 2016, respectively. Impairment losses charged in our consolidated income statements amounted to Php540 million, Php5,381 million and Php5,124 million for the years ended December 31, 2017, 2016 and 2015, respectively. See related discussion on *Note 11 – Available-for-Sale Financial Investments – Investment of PLDT Online in Rocket Internet.*

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in our consolidated financial statements within the next financial year are discussed below. We based our estimates and assumptions on parameters available when our consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond our control. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

IFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill and intangible assets with indefinite useful life, at a minimum, such assets are subject to an impairment test annually and whenever there is an indication that such assets may be impaired. This requires an estimation of the value in use of the CGUs to which these assets are allocated. The value in use calculation requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. See *Note 15 – Goodwill* *and Intangible Assets – Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Life* for the key assumptions used to determine the value in use of the relevant CGUs.

Determining the recoverable amount of property and equipment, investments in associates and joint ventures, intangible assets, prepayments and other noncurrent assets, requires us to make estimates and assumptions in the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause us to conclude that property and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial position and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future impairment charges under IFRS.

Total asset impairment on noncurrent assets amounted to Php3,913 million, Php1,074 million and Php5,788 million for the years ended December 31, 2017, 2016 and 2015, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment* and *Note 9 – Property and Equipment – Impairment of Certain Wireless Network Equipment and Facilities*.

The carrying values of our property and equipment, investments in associates, joint ventures and deposits, goodwill and intangible assets, and prepayments are separately disclosed in *Note 9 – Property and Equipment, Note 10 – Investments in Associates and Joint Ventures, Note 15 – Goodwill and Intangible Assets* and *Note 19 – Prepayments,* respectively.

Estimating useful lives of property and equipment

We estimate the useful lives of each item of our property and equipment based on the periods over which our assets are expected to be available for use. Our estimation of the useful lives of our property and equipment is also based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of each assets are reviewed every year-end and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property and equipment would increase our recorded depreciation and decrease the carrying amount of our property and equipment.

In 2017, we shortened the estimated useful lives of certain data network platform and other technology equipment resulting from the transformation projects to improve and simplify the network and systems applications. Additional depreciation recognized in 2017 amounted to Php19,481 million.

The total depreciation and amortization of property and equipment amounted to Php51,915 million, Php34,455 million and Php31,519 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php186,907 million and Php203,188 million as at December 31, 2017 and 2016, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information* and *Note 9 – Property and Equipment*.

Estimating useful lives of intangible assets with finite lives

Intangible assets with finite lives are amortized over their expected useful lives using the straight-line method of amortization. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

The total amortization of intangible assets with finite lives amounted to Php835 million, Php929 million and Php1,076 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total carrying values of intangible assets with finite lives amounted to Php3,699 million and Php4,396 million as at

December 31, 2017 and 2016, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information* and *Note 15 – Goodwill and Intangible Assets*.

Business combinations

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method, which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in our consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance and position. See *Note 14 – Business Combination*.

Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. Based on this, management expects that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php5,495 million and Php5,829 million as at December 31, 2017 and 2016, respectively. Total consolidated benefit from deferred income tax amounted to Php2,738 million, Php4,134 million and Php4,710 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total consolidated recognized net deferred income tax assets amounted to Php30,466 million and Php27,348 million as at December 31, 2017 and 2016, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 4 – Operating Segment Information* and *Note 7 – Income Taxes*.

Estimating allowance for doubtful accounts

If we assessed that there was objective evidence that an impairment loss was incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The amount of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. In these cases, we use judgment based on all available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affects the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristics, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total provision for doubtful accounts for trade and other receivables recognized in our consolidated income statements amounted to Php3,438 million, Php8,027 million and Php3,391 million for the years ended December 31, 2017, 2016 and 2015, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php33,761 million and Php24,436 million as at December 31, 2017 and 2016, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment* and *Note 17 – Trade and Other Receivables*.

Estimating pension benefit costs and other employee benefits

The cost of defined benefit and present value of the pension obligation are determined using the projected unit credit method. An actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. Further, our accrued benefit cost is affected by the fair value of the plan assets. Key assumptions used to estimate fair value of the unlisted equity investments included in the plan assets consist of revenue growth rate, direct costs, capital expenditures, discount rates and terminal growth rates. See *Note 26 – Employee Benefits*. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed every year-end.

Net consolidated pension benefit costs amounted to Php1,610 million, Php1,775 million and Php1,895 million for the years ended December 31, 2017, 2016 and 2015, respectively. The prepaid benefit costs amounted to Php400 million and Php261 million as at December 31, 2017 and 2016, respectively. The accrued benefit costs amounted to Php8,997 million and Php11,206 million as at December 31, 2017 and 2016, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 19 – Prepayments* and *Note 26 – Employee Benefits*.

On September 26, 2017, the Board of Directors of PLDT approved the TIP, which intends to provide incentive compensation to key officers, executives and other eligible participants who are consistent performers and contributors to the Company's strategic and financial goals. The incentive compensation will be in the form of Performance Shares, PLDT common shares of stock, which will be released in three annual grants on the condition, among others, that pre-determined consolidated core net income targets are successfully achieved over three annual performance periods from January 1, 2017 to December 31, 2019. On September 26, 2017, the Board of Directors approved the acquisition of 860 thousand Performance Shares to be awarded under the TIP, of which approximately 211 thousand shares are allotted for the 2017 annual grant and will be released to selected participants subject to the achievement of the consolidated core net income target for the year 2017. On March 7, 2018, the Executive Compensation Committee, or ECC, of the Board approved the acquisition of additional 54 thousand shares, increasing the total Performance Shares to 914 thousand. Metropolitan Bank and Trust Company, or Metrobank, through its Trust Banking Group, is the appointed Trustee of the trust established for purposes of the TIP. The Trustee is designated to acquire the PLDT common shares in the open market through the facilities of the PSE, and administer their distribution to the eligible participants subject to the terms and conditions of the TIP. As at March 27, 2018, a total of 553 thousand PLDT common shares have been acquired by the Trustee. The TIP will be administered by the ECC of the Board. The expense accrued for the TIP amounted to Php827 million as at December 31, 2017 and is presented as equity reserves in our consolidated statement of financial position.. See *Note 5 – Income and Expenses – Compensation and Employee Benefits* and *Note 26 – Employee Benefits – Other Long-term Employee Benefits*.

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which these are incurred if a reasonable estimate can be made. This requires an estimation of the cost to restore or dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration or dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php1,630 million and Php1,582 million as at December 31, 2017 and 2016, respectively. See *Note 22 – Deferred Credits and Other Noncurrent Liabilities*.

Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings and tax assessments. Our estimates 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 are based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial position and performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 27 – Provisions and Contingencies*.

Based on management's assessment, appropriate provisions were made; however, management has decided not to disclose further details of these provisions as they may prejudice our position in certain legal proceedings.

Revenue recognition

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation.

Revenues earned from multiple element arrangements offered by our fixed line and wireless businesses are split into separately identifiable components based on their relative fair value in order to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method. We account for mobile contracts in accordance with IAS 18, *Revenue Recognition,* and have concluded that the handset and the mobile services may be accounted for as separate identifiable components. The handset (with activation) is delivered first, followed by the mobile service (which is provided over the contract/lock-in period, generally one or two years). Because some amount of the arrangement consideration that may be allocated to the handset generally is contingent on providing the mobile service, the amount that is allocated to the handset is limited to the cash received (i.e., the amount paid for the handset) at the time of the handset delivery.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and only to such amount as determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn rate analysis.

Determination of fair values of financial assets and financial liabilities

Where the fair value of financial assets and financial liabilities recorded in our consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Other than those whose carrying amounts are reasonable approximations of fair values, total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2017 amounted to Php13,846 million and Php157,711 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2016 amounted to Php8,120 million and Php160,990 million, respectively. See *Note 28 – Financial Assets and Liabilities*.

4. Operating Segment Information

Operating segments are components of the PLDT Group that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT Group). The operating results of these operating segments are regularly reviewed by the Management Committee to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

For management purposes, we are organized into business units based on our products and services and based on the reorganization as discussed below. We have three reportable operating segments, as follows:

- Wireless – wireless telecommunications services provided by Smart and DMPI, our mobile service providers; Voyager and certain subsidiaries, our mobile applications and digital platforms developer and mobile financial services provider; SBI and PDSI, our wireless broadband service providers; ACeS Philippines, our satellite information and messaging services provider; and certain subsidiaries of PLDT Global, our mobile virtual network operations, or MVNO, provider;
- Fixed Line – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, ClarkTel, SubicTel, Philcom Group, Maratel, SBI, BCC, PLDT Global and certain subsidiaries, and Digitel, all of which together account for approximately 4% of our consolidated fixed line subscribers; data center, cloud, big data, managed security services, managed information technology services and resellership through ePLDT, IPCDSI Group, AGS Group, Curo and ePDS; business infrastructure and solutions, intelligent data processing and implementation services and data analytics insight generation through Talas; and distribution of Filipino channels and content through PGNL and its subsidiaries; and
- Others – PCEV, PGIH, PLDT Digital and its subsidiaries, MIC and PGIC, our investment companies.

See *Note 2 – Summary of Significant Accounting Policies* and *Note 14 – Business Combination* for further discussion.

The Management Committee monitors the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income for the year; earnings before interest, taxes, and depreciation and amortization, or Adjusted EBITDA; Adjusted EBITDA margin; and core income. Net income for the year is measured consistent with net income in our consolidated financial statements.

Adjusted EBITDA for the year is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs – net, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) – net.

Adjusted EBITDA margin for the year is measured as Adjusted EBITDA divided by service revenues.

Core income for the year is measured as net income attributable to equity holders of PLDT (net income less net income attributable to noncontrolling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, other non-recurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures.

Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated in full upon consolidation.

Core earnings per common share, or core EPS, for the year is measured as core income divided by the weighted average number of outstanding common shares. See *Note 8 – Earnings Per Common Share* for the weighted average number of common shares.

Adjusted EBITDA, Adjusted EBITDA margin, core income and core EPS are non-IFRS measures.

The amounts of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in our consolidated financial statements, which is in accordance with IFRS.

The segment revenues, net income, and other segment information of our reportable operating segments as at December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 are as follows:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
			(in million pesos)		
December 31, 2017					
Revenues					
External customers	**92,534**	**67,389**	**3**	**—**	**159,926**
Service revenues	**87,351**	**63,811**	**3**	**—**	**151,165**
Non-service revenues	**5,183**	**3,578**	**—**	**—**	**8,761**
Inter-segment transactions	**1,301**	**10,952**	**13**	**(12,266)**	**—**
Service revenues	**1,301**	**10,946**	**13**	**(12,260)**	**—**
Non-service revenues	**—**	**6**	**—**	**(6)**	**—**
Total revenues	**93,835**	**78,341**	**16**	**(12,266)**	**159,926**
Results					
Depreciation and amortization	**36,914**	**15,001**	**—**	**—**	**51,915**
Asset impairment	**6,155**	**2,098**	**5**	**—**	**8,258**
Impairment of investments	**439**	**1,583**	**540**	**—**	**2,562**
Equity share in net earnings (losses) of associates and joint ventures	**(129)**	**44**	**2,991**	**—**	**2,906**
Interest income	**307**	**695**	**653**	**(243)**	**1,412**
Financing costs – net	**2,260**	**5,106**	**201**	**(197)**	**7,370**
Provision for (benefit from) income tax	**(2,784)**	**3,680**	**207**	**—**	**1,103**
Net income (loss) / Segment profit (loss)	**(3,510)**	**7,474**	**10,120**	**(618)**	**13,466**
Adjusted EBITDA	**35,151**	**29,478**	**(63)**	**1,608**	**66,174**
Adjusted EBITDA margin	**40%**	**39%**	**—**	**—**	**44%**
Core income	**8,514**	**8,846**	**10,926**	**(618)**	**27,668**
Assets and liabilities					
Operating assets	**211,983**	**174,217**	**34,504**	**(37,856)**	**382,848**
Investments in associates and joint ventures	**—**	**44,867**	**1,263**	**—**	**46,130**
Deferred income tax assets – net	**18,826**	**11,994**	**—**	**(354)**	**30,466**
Total assets	**230,809**	**231,078**	**35,767**	**(38,210)**	**459,444**
Operating liabilities	**153,622**	**196,451**	**13,624**	**(18,802)**	**344,895**
Deferred income tax liabilities – net	**2,656**	**286**	**424**	**—**	**3,366**
Total liabilities	**156,278**	**196,737**	**14,048**	**(18,802)**	**348,261**
Other segment information					
Capital expenditures, including capitalized interest	**27,305**	**12,994**	**—**	**—**	**40,299**
December 31, 2016					
Revenues					
External customers	103,447	61,806	9	—	165,262
Service revenues	99,115	58,086	9	—	157,210
Non-service revenues	4,332	3,720	—	—	8,052
Inter-segment transactions	1,467	10,922	11	(12,400)	—
Service revenues	1,467	10,920	11	(12,398)	—
Non-service revenues	—	2	—	(2)	—
Total revenues	104,914	72,728	20	(12,400)	165,262
Results					
Depreciation and amortization	18,984	15,471	—	—	34,455
Asset impairment	9,284	1,758	—	—	11,042
Impairment of investments	134	—	5,381	—	5,515
Equity share in net earnings (losses) of associates and joint ventures	(237)	(40)	1,458	—	1,181
Interest income	270	707	306	(237)	1,046
Financing costs – net	2,487	4,917	187	(237)	7,354
Provision for income tax	(1,270)	3,018	161	—	1,909
Net income / Segment profit	9,463	8,134	2,565	—	20,162

Adjusted EBITDA	32,661	26,950	(22)	1,572	61,161
Adjusted EBITDA margin	32%	39%	—	—	39%
Core income	11,402	7,746	8,709	—	27,857
Assets and liabilities					
Operating assets	217,964	183,533	22,804	(33,388)	390,913
Investments in associates and joint ventures	1,945	40,874	14,039	—	56,858
Deferred income tax assets – net	13,985	13,363	—	—	27,348
Total assets	233,894	237,770	36,843	(33,388)	475,119
Operating liabilities	161,480	203,777	12,637	(14,879)	363,015
Deferred income tax liabilities – net	2,923	384	260	—	3,567
Total liabilities	164,403	204,161	12,897	(14,879)	366,582
Other segment information					
Capital expenditures, including capitalized interest	32,097	10,728	—	—	42,825
December 31, 2015					
Revenues					
External customers	113,985	57,118	—	—	171,103
Service revenues	109,188	53,742	—	—	162,930
Non-service revenues	4,797	3,376	—	—	8,173
Inter-segment transactions	1,528	11,747	—	(13,275)	—
Service revenues	1,528	11,733	—	(13,261)	—
Non-service revenues	—	14	—	(14)	—
Total revenues	115,513	68,865	—	(13,275)	171,103
Results					
Depreciation and amortization	17,218	14,301	—	—	31,519
Asset impairment	8,446	1,244	—	—	9,690
Impairment of investments	—	42	5,124	—	5,166
Equity share in net earnings (losses) of associates and joint ventures	(81)	38	3,284	—	3,241
Interest income	308	620	99	(228)	799
Financing costs – net	1,799	4,509	179	(228)	6,259
Provision for income tax	2,763	1,656	144	—	4,563
Net income / Segment profit	15,434	6,193	448	—	22,075
Adjusted EBITDA	44,237	24,749	(59)	1,291	70,218
Adjusted EBITDA margin	40%	38%	—	—	43%
Core income	22,512	6,539	6,161	—	35,212
Assets and liabilities					
Operating assets	217,317	190,856	18,504	(42,226)	384,451
Investments in associates and joint ventures	2,208	12,922	33,573	—	48,703
Deferred income tax assets – net	8,249	13,692	—	—	21,941
Total assets	227,774	217,470	52,077	(42,226)	455,095
Operating liabilities	171,131	182,085	12,149	(27,872)	337,493
Deferred income tax liabilities – net	3,146	412	146	—	3,704
Total liabilities	174,277	182,497	12,295	(27,872)	341,197
Other segment information					
Capital expenditures, including capitalized interest	30,311	12,864	—	—	43,175

The following table shows the reconciliation of our consolidated Adjusted EBITDA to our consolidated net income for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
		(in million pesos)	
Adjusted EBITDA	**66,174**	61,161	70,218
Add (deduct) adjustments:			
Equity share in net earnings of associates and joint ventures	**2,906**	1,181	3,241
Interest income	**1,412**	1,046	799
Gains on derivative financial instruments – net	**533**	996	420
Foreign exchange losses – net	**(411)**	(2,785)	(3,036)
Amortization of intangible assets	**(835)**	(929)	(1,076)
Provision for income tax	**(1,103)**	(1,909)	(4,563)
Impairment of investments	**(2,562)**	(5,515)	(5,166)
Noncurrent asset impairment	**(3,913)**	(1,074)	(5,788)
Financing costs – net	**(7,370)**	(7,354)	(6,259)
Depreciation and amortization	**(51,915)**	(34,455)	(31,519)
Other income – net	**10,550**	9,799	4,804
Total adjustments	**(52,708)**	(40,999)	(48,143)
Consolidated net income	**13,466**	20,162	22,075

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
		(in million pesos)	
Consolidated core income	**27,668**	27,857	35,212
Add (deduct) adjustments:			
Gains on derivative financial instruments – net, excluding hedge costs	**724**	1,539	762
Net income attributable to noncontrolling interests	**95**	156	10
Core income adjustment on equity share in net losses of associates and joint ventures	**(60)**	(95)	(179)
Foreign exchange losses – net	**(411)**	(2,785)	(3,036)
Impairment of investments	**(2,562)**	(5,515)	(5,166)
Noncurrent asset impairment	**(3,913)**	(1,074)	(5,788)
Depreciation due to shortened life of property and equipment	**(12,816)**	—	—
Net tax effect of aforementioned adjustments	**4,741**	79	260
Total adjustments	**(14,202)**	(7,695)	(13,137)
Consolidated net income	**13,466**	20,162	22,075

The following table shows the reconciliation of our consolidated basic and diluted core EPS to our consolidated basic and diluted EPS attributable to common equity holder of PLDT for the years ended December 31, 2017, 2016 and 2015:

	2017		2016		2015	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Consolidated core EPS	**127.79**	**127.79**	128.66	128.66	162.70	162.70
Add (deduct) adjustments:						
Gains on derivative financial instruments – net, excluding hedge costs	**2.34**	**2.34**	4.99	4.99	2.47	2.47
Core income adjustment on equity share in net losses of associates and joint ventures	**(0.28)**	**(0.28)**	(0.44)	(0.44)	(0.83)	(0.83)
Foreign exchange losses – net	**(1.74)**	**(1.74)**	(10.40)	(10.40)	(11.85)	(11.85)
Noncurrent asset impairment	**(24.98)**	**(24.98)**	(30.48)	(30.48)	(50.64)	(50.64)
Depreciation due to shortened life of property and equipment	**(41.52)**	**(41.52)**	—	—	—	—
Total adjustments	**(66.18)**	**(66.18)**	(36.33)	(36.33)	(60.85)	(60.85)
Consolidated EPS attributable to common equity holders of PLDT	**61.61**	**61.61**	92.33	92.33	101.85	101.85

The following table presents our revenues from external customers by category of products and services for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
		(in million pesos)	
Wireless services			
Service revenues:			
Mobile	**83,166**	95,066	104,175
Home broadband	**2,547**	2,758	3,016
Digital platforms and mobile financial services	**1,223**	709	1,048
MVNO and others	**415**	582	949
	87,351	99,115	109,188
Non-service revenues:			
Sale of cellular handsets, cellular SIM-packs and broadband data modems	**5,183**	4,332	4,797
Total wireless revenues	**92,534**	103,447	113,985
Fixed line services			
Service revenues:			
Voice	**25,296**	25,502	25,799
Data	**37,445**	31,727	27,170
Miscellaneous	**1,070**	857	773
	63,811	58,086	53,742
Non-service revenues:			
Sale of computers, phone units and SIM cards	**2,706**	2,907	2,690
Point-product-sales	**872**	813	686
	3,578	3,720	3,376
Total fixed line revenues	**67,389**	61,806	57,118
Others	**3**	9	—
Total revenues	**159,926**	165,262	171,103

Disclosure of the geographical distribution of our revenues from external customers and the geographical location of our total assets are not provided since the majority of our consolidated revenues are derived from our operations within the Philippines.

There is no revenue transaction with a single external customer that accounted for 10% or more of our consolidated revenues from external customers for the years ended December 31, 2017, 2016 and 2015.

5. Income and Expenses

Non-service Revenues

Non-service revenues for the years ended December 31, 2017, 2016 and 2015 consist of the following:

	2017	2016	2015
		(in million pesos)	
Sale of computers, cellular handsets, cellular SIM-packs and broadband data modems	**7,889**	7,239	7,487
Point-product-sales	**872**	813	686
Total non-service revenues	**8,761**	8,052	8,173

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2017, 2016 and 2015 consist of the following:

	2017	2016	2015
		(in million pesos)	
Compensation and employee benefits	**22,782**	19,928	21,606
Repairs and maintenance (Notes 13, 18 and 25)	**12,744**	14,706	14,632
Professional and other contracted services (Note 25)	**12,168**	9,386	8,175
Rent (Note 25)	**7,016**	6,632	6,078
Selling and promotions (Note 25)	**5,908**	7,687	9,747
Taxes and licenses (Note 27)	**3,970**	3,782	4,592
Insurance and security services (Note 25)	**1,519**	1,736	1,794
Communication, training and travel (Note 25)	**1,166**	1,249	1,348
Amortization of intangible assets (Note 15)	**835**	929	1,076
Other expenses	**882**	1,161	1,241
Total selling, general and administrative expenses	**68,990**	67,196	70,289

Compensation and Employee Benefits

Compensation and employee benefits for the years ended December 31, 2017, 2016 and 2015 consist of the following:

	2017	2016	2015
		(in million pesos)	
Salaries and other employee benefits	**18,598**	17,734	17,947
Manpower rightsizing program, or MRP	**1,747**	419	1,764
Pension benefit costs (Note 26)	**1,610**	1,775	1,895
Incentive plan (Note 26)	**827**	—	—
Total compensation and employee benefits	**22,782**	19,928	21,606

Over the past several years, we have been implementing the MRP in line with our continuing efforts to reduce the cost base of our businesses. The decision to implement the MRP was a result of challenges faced by our businesses as significant changes in technology, increasing competition, and shifting market preferences have reshaped the future of our businesses. The MRP is being implemented in compliance with the Labor Code of the Philippines and all other relevant labor laws and regulations in the Philippines.

Asset Impairment

Asset impairment for the years ended December 31, 2017, 2016 and 2015 consist of the following:

	2017	**2016**	**2015**
		(in million pesos)	
Property and equipment (Note 9)	**3,913**	—	5,788
Trade and other receivables (Notes 17 and 28)	**3,438**	8,027	3,391
Inventories and supplies (Note 18)	**907**	1,941	511
Goodwill and intangible assets (Note 15)	—	1,038	—
Others	—	36	—
Total asset impairment	**8,258**	11,042	9,690

Cost of Sales and Services

Cost of sales and services for the years ended December 31, 2017, 2016 and 2015 consist of the following:

	2017	2016	2015
		(in million pesos)	
Cost of computers, cellular handsets, cellular SIM -packs sold and broadband data modems (Note 18)	**10,277**	16,053	15,794
Cost of services (Note 18)	**2,572**	1,540	1,064
Cost of point-product-sales (Note 18)	**784**	700	579
Cost of satellite air time and terminal units (Note 25)	**—**	—	16
Total cost of sales and services	**13,633**	18,293	17,453

Other Income (Expenses)

Other income (expenses) for the years ended December 31, 2017, 2016 and 2015 consist of the following:

	2017	2016	2015
		(in million pesos)	
Gains on sale of investment (Note 10)	**6,512**	7,365	2,838
Equity share in net earnings of associates and joint ventures (Note 10)	**2,906**	1,181	3,241
Interest income (Notes 12 and 16)	**1,412**	1,046	799
Gains on derivative financial instruments - net (Note 28)	**533**	996	420
Foreign exchange losses - net (Notes 9 and 28)	**(411)**	(2,785)	(3,036)
Financing costs - net	**(7,370)**	(7,354)	(6,259)
Other income (expenses) - net (Notes 11 and 13)	**1,476**	(3,081)	(3,200)
Total other income (expense)	**5,058**	(2,632)	(5,197)

Interest Income

Interest income for the years ended December 31, 2017, 2016 and 2015 consist of the following:

	2017	**2016**	**2015**
		(in million pesos)	
Interest income on loans and receivables (Notes 12 and 16)	**1,404**	980	742
Interest income on HTM investments (Note 12)	**8**	36	43
Interest income on financial instruments at FVPL	**—**	30	14
Total interest income	**1,412**	1,046	799

Financing Costs – net

Financing costs – net for the years ended December 31, 2017, 2016 and 2015 consist of the following:

	2017	2016	2015
		(in million pesos)	
Interest on loans and other related items (Notes 21 and 28)	**7,830**	7,522	6,289
Accretion on financial liabilities (Notes 21 and 28)	**219**	230	231
Financing charges	**137**	168	109
Capitalized interest (Note 9)	**(816)**	(566)	(370)
Total financing costs – net	**7,370**	7,354	6,259

6. Components of Other Comprehensive Income

Changes in other comprehensive income under equity of our consolidated statements of financial position for the years ended December 31, 2017, 2016 and 2015 are as follows:

	Foreign currency translation differences of subsidiaries	Net gains on available-for-sale financial investments – net of tax	Net transactions on cash flow hedges –net of tax	Revaluation increment on investment properties – net of tax	Actuarial losses on defined benefit plans – net of tax	Share in the other comprehensive income of associates and joint ventures accounted for using the equity method	Total other comprehensive income (loss) attributable to equity holders of PLDT	Share of noncontrolling interests	Total other comprehensive loss – net of tax
					(in million pesos)				
Balances as at January 1, 2017	608	936	7	619	(23,376)	312	(20,894)	7	(20,887)
Other comprehensive income (loss)	(25)	3,364	(376)	1	(1,091)	306	2,179	7	2,186
Recycled to retained earnings	—	—	—	—	—	(436)	(436)	—	(436)
Balances as at December 31, 2017	583	4,300	(369)	620	(24,467)	182	(19,151)	14	(19,137)
Balances as at January 1, 2016	524	76	(3)	602	(19,805)	404	(18,202)	12	(18,190)
Other comprehensive income (loss)	84	860	10	17	(3,571)	151	(2,449)	(5)	(2,454)
Recycled to retained earnings	—	—	—	—	—	(243)	(243)	—	(243)
Balances as at December 31, 2016	608	936	7	619	(23,376)	312	(20,894)	7	(20,887)
Balances as at January 1, 2015	489	8,211	(34)	603	(18,207)	653	(8,285)	2	(8,283)
Other comprehensive income (loss)	35	(8,135)	31	(1)	(1,598)	(249)	(9,917)	10	(9,907)
Balances as at December 31, 2015	524	76	(3)	602	(19,805)	404	(18,202)	12	(18,190)

Revaluation increment on investment properties pertains to the difference between the carrying value and fair value of property and equipment transferred to investment property at the time of change in classification.

7. Income Taxes

Corporate Income Tax

The major components of consolidated net deferred income tax assets and liabilities recognized in our consolidated statements of financial position as at December 31, 2017 and 2016 are as follows:

	2017	2016
	(in million pesos)	
Net deferred income tax assets	**30,466**	27,348
Net deferred income tax liabilities	**3,366**	3,567

The components of our consolidated net deferred income tax assets and liabilities as at December 31, 2017 and 2016 are as follows:

	2017	2016
	(in million pesos)	
Net deferred income tax assets:		
Customer list and trademark	**6,760**	8,686
Fixed asset impairment/depreciation due to shortened life of property and equipment	**5,597**	82
Unamortized past service pension costs	**5,098**	4,795
Pension and other employee benefits	**3,620**	3,569
Accumulated provision for doubtful accounts	**3,102**	2,925
Provision for other assets	**2,523**	2,798
Unearned revenues	**1,778**	1,572
Unrealized foreign exchange losses	**746**	2,735
Accumulated write-down of inventories to net realizable values	**669**	624
MCIT	**607**	65
NOLCO	**243**	231
Derivative financial instruments	**(30)**	(72)
Others	**(247)**	(662)
Total deferred income tax assets – net	**30,466**	27,348
Net deferred income tax liabilities:		
Intangible assets and fair value adjustment on assets acquired – net of amortization	**2,387**	2,597
Unamortized fair value adjustment on fixed assets from business combination	**338**	409
Unrealized foreign exchange gains	**269**	273
Investment property	**207**	279
Undepreciated capitalized interest charges	**8**	8
Others	**157**	1
Total deferred income tax liabilities – net	**3,366**	3,567

Changes in our consolidated net deferred income tax assets (liabilities) as at December 31, 2017 and 2016 are as follows:

	2017	2016
	(in million pesos)	
Net deferred income tax assets – balance at beginning of the year	**27,348**	21,941
Net deferred income tax liabilities – balance at beginning of the year	**(3,567)**	(3,704)
Net balance at beginning of the year	**23,781**	18,237
Provision for deferred income tax	**2,738**	4,134
Movement charged directly to other comprehensive income	**507**	1,467
Others	**74**	(57)
Net balance at end of the year	**27,100**	23,781
Net deferred income tax assets – balance at end of the year	**30,466**	27,348
Net deferred income tax liabilities – balance at end of the year	**(3,366)**	(3,567)

The analysis of our consolidated net deferred income tax assets as at December 31, 2017 and 2016 are as follows:

	2017	2016
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	**26,246**	23,664
Deferred income tax assets to be recovered within 12 months	**5,602**	5,616
	31,848	29,280
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(1,206)**	(1,308)
Deferred income tax liabilities to be settled within 12 months	**(176)**	(624)
	(1,382)	(1,932)
Net deferred income tax assets	**30,466**	27,348

The analysis of our consolidated net deferred income tax liabilities as at December 31, 2017 and 2016 are as follows:

	2017	2016
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	**—**	—
Deferred income tax assets to be recovered within 12 months	**—**	—
	—	—
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	**(3,026)**	(3,222)
Deferred income tax liabilities to be settled within 12 months	**(340)**	(345)
Net deferred income tax liabilities	**(3,366)**	(3,567)

Provision for (benefit from) income tax for the years ended December 31, 2017, 2016 and 2015 consist of:

	2017	2016	2015
		(in million pesos)	
Current	**3,841**	6,043	9,273
Deferred	**(2,738)**	(4,134)	(4,710)
	1,103	1,909	4,563

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for corporate income tax for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
		(in million pesos)	
Provision for income tax at the applicable statutory tax rate	**4,371**	6,621	9,529
Tax effects of:			
Nondeductible expenses	**784**	3,239	1,171
Difference between Optional Standard Deduction, or OSD, and itemized deductions	**(22)**	(20)	(33)
Income not subject to income tax	**(301)**	(35)	(168)
Income subject to lower tax rate	**(520)**	(168)	(104)
Equity share in net earnings of associates and joint ventures	**(872)**	(354)	(972)
Income subject to final tax	**(2,545)**	(2,879)	(680)
Net movement in unrecognized deferred income tax assets and other adjustments	**208**	(4,495)	(4,180)
Actual provision for income tax	**1,103**	1,909	4,563

The breakdown of our consolidated deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of the OSD method) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets as at December 31, 2017 and 2016 are as follows:

	2017	2016
	(in million pesos)	
NOLCO	**7,151**	7,844
Provisions for other assets	**3,801**	4,926
Accumulated provision for doubtful accounts	**3,122**	3,836
Pension and other employee benefits	**1,758**	93
Unearned revenues	**1,320**	65
Asset retirement obligation	**621**	656
Accumulated write-down of inventories to net realizable values	**304**	234
Derivative financial instruments and others	**149**	4
MCIT	**111**	260
Unrealized foreign exchange losses	**105**	87
Fixed asset impairment	**74**	818
Investment properties	**(460)**	—
	18,056	18,823
Unrecognized deferred income tax assets	**5,495**	5,829

DMPI recognized deferred income tax assets to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Digitel and DMPI's unrecognized deferred income tax assets amounted to Php2,798 million and Php3,573 million as at December 31, 2017 and 2016, respectively.

Our consolidated deferred income tax assets have been recorded to the extent that such consolidated deferred income tax assets are expected to be utilized against sufficient future taxable profit. Deferred income tax assets shown in the preceding table were not recognized as we believe that future taxable profit will not be sufficient to realize these deductible temporary differences and carryforward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO in the future.

The breakdown of our consolidated excess MCIT and NOLCO as at December 31, 2017 are as follows:

Date Incurred	**Expiry Date**	**MCIT**	**NOLCO**
		(in million pesos)	
December 31, 2015	December 31, 2018	88	2,436
December 31, 2016	December 31, 2019	150	1,584
December 31, 2017	December 31, 2020	480	3,941
		718	7,961
Consolidated tax benefits		718	2,388
Consolidated unrecognized deferred income tax assets		(111)	(2,145)
Consolidated recognized deferred income tax assets		607	243

The excess MCIT totaling Php718 million as at December 31, 2017 can be deducted against future RCIT liability. The excess MCIT that was deducted against RCIT amounted to Php15 million for the year ended December 31, 2017 and nil for the years ended December 31, 2016 and 2015. The amount of expired portion of excess MCIT amounted to Php72 million, Php232 million and Php91 million for the years ended December 31, 2017, 2016 and 2015, respectively.

NOLCO totaling Php7,961 million as at December 31, 2017 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php4,241 million, Php8,531 million and Php14 million for the years ended December 31, 2017, 2016 and 2015, respectively. The amount of expired NOLCO amounted to Php354 million, Php571 million and nil for the years ended December 31, 2017, 2016 and 2015, respectively.

Registration with Subic Bay Freeport Enterprise and Clark Special Economic Zone Enterprise

SubicTel is registered with Subic Bay Freeport Enterprise, while ClarkTel is registered with Clark Special Economic Zone Enterprise under Republic Act 7227, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and a special income tax rate of 5% of gross income, as defined in R.A. 7227.

Our consolidated income derived from non-registered activities with Economic Zone is subject to the RCIT rate at the end of the reporting period.

8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the years ended December 31, 2017, 2016 and 2015:

	2017		2016		2015	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
			(in million pesos)			
Consolidated net income attributable to equity holders of PLDT	**13,371**	**13,371**	20,006	20,006	22,065	22,065
Dividends on preferred shares (Note 20)	**(59)**	**(59)**	(59)	(59)	(59)	(59)
Consolidated net income attributable to common equity holders of PLDT	**13,312**	**13,312**	19,947	19,947	22,006	22,006
	(in thousands, except per share amounts which are in pesos)					
Weighted average number of common shares	**216,056**	**216,056**	216,056	216,056	216,056	216,056
EPS attributable to common equity holders of PLDT	**61.61**	**61.61**	92.33	92.33	101.85	101.85

Basic EPS amounts are calculated by dividing our consolidated net income for the period attributable to common equity holders of PLDT (consolidated net income adjusted for dividends on all series of preferred shares, except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares issued and outstanding during the period.

Diluted EPS amounts are calculated in the same manner assuming that, at the beginning of the year or at the time of issuance during the period, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to our consolidated net income are effected for the related income and expenses on preferred shares. Outstanding stock options will have a dilutive effect only when the average market price of the underlying common share during the period exceeds the exercise price of the stock option.

Convertible preferred shares are deemed dilutive when required dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, decreases the basic EPS. As such, the diluted EPS is calculated by dividing our consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the period related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares excluding the weighted average number of common shares held as treasury shares, and including the common shares equivalent arising from the conversion of the dilutive convertible preferred shares and from the mandatory tender offer for all remaining Digitel shares.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.

9. Property and Equipment

Changes in property and equipment account for the years ended December 31, 2017 and 2016 are as follows:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, aircraft, furniture and other network equipment	Communi cations satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
					(in million pesos)					
As at December 31, 2015										
Cost	187,195	112,867	177,118	27,162	53,797	966	12,962	3,441	57,410	632,918
Accumulated depreciation, impairment and amortization	(138,958)	(93,336)	(129,040)	(17,667)	(45,628)	(966)	(11,278)	(263)	—	(437,136)
Net book value	48,237	19,531	48,078	9,495	8,169	—	1,684	3,178	57,410	195,782
Year Ended December 31, 2016										
Net book value at beginning of the year	48,237	19,531	48,078	9,495	8,169	—	1,684	3,178	57,410	195,782
Additions	3,419	357	19,225	374	3,358	—	674	7	15,668	43,082
Disposals/Retirements	(11)	(8)	(97)	(85)	(251)	—	—	(15)	(69)	(536)
Reclassifications (Note 13)	(2)	285	(196)	33	(594)	—	—	4	(219)	(689)
Transfers and others	6,315	3,189	10,660	332	1,258	—	963	3	(22,720)	—
Translation differences charged directly to cumulative translation adjustments	4	1	—	—	1	—	—	—	—	6
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	—	—	—	(2)	—	—	—	—	—	(2)
Depreciation and amortization	(9,932)	(4,687)	(13,278)	(1,225)	(4,268)	—	(1,063)	(2)	—	(34,455)
Net book value at end of the year	48,030	18,668	64,392	8,922	7,673	—	2,258	3,175	50,070	203,188
As at December 31, 2016										
Cost	196,652	115,461	202,581	25,914	55,973	966	14,596	3,440	50,070	665,653
Accumulated depreciation, impairment and amortization	(148,622)	(96,793)	(138,189)	(16,992)	(48,300)	(966)	(12,338)	(265)	—	(462,465)
Net book value	48,030	18,668	64,392	8,922	7,673	—	2,258	3,175	50,070	203,188
Year Ended December 31, 2017										
Net book value at beginning of the year	**48,030**	**18,668**	**64,392**	**8,922**	**7,673**	**—**	**2,258**	**3,175**	**50,070**	**203,188**
Additions (Note 4)	**3,410**	**687**	**6,512**	**159**	**2,682**	**—**	**1,878**	**1**	**24,970**	**40,299**
Disposals/Retirements	**(8)**	**—**	**(123)**	**(38)**	**(316)**	**—**	**—**	**—**	**(134)**	**(619)**
Reclassifications (Note 13)	**5**	**3**	**—**	**3**	**(7)**	**—**	**—**	**14**	**(143)**	**(125)**
Impairment losses recognized during the year (Note 5)	**—**	**—**	**(389)**	**—**	**—**	**—**	**—**	**—**	**(3,524)**	**(3,913)**
Transfers and others	**7,612**	**3,945**	**8,031**	**1,285**	**1,959**	**—**	**1,343**	**3**	**(24,178)**	**—**
Translation differences charged directly to cumulative translation adjustments	**—**	**(1)**	**—**	**(1)**	**(4)**	**—**	**—**	**—**	**—**	**(6)**
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	**—**	**—**	**—**	**(2)**	**—**	**—**	**—**	**—**	**—**	**(2)**
Depreciation and amortization	**(11,594)**	**(5,340)**	**(28,242)**	**(1,274)**	**(4,106)**	**—**	**(1,357)**	**(2)**		**(51,915)**
Net book value at end of the year	**47,455**	**17,962**	**50,181**	**9,054**	**7,881**	**—**	**4,122**	**3,191**	**47,061**	**186,907**
As at December 31, 2017										
Cost	**207,220**	**119,642**	**209,504**	**27,076**	**58,964**	**—**	**17,595**	**3,458**	**47,061**	**690,520**
Accumulated depreciation, impairment and amortization	**(159,765)**	**(101,680)**	**(159,323)**	**(18,022)**	**(51,083)**	**—**	**(13,473)**	**(267)**	**—**	**(503,613)**
Net book value	**47,455**	**17,962**	**50,181**	**9,054**	**7,881**	**—**	**4,122**	**3,191**	**47,061**	**186,907**

Interest capitalized to property and equipment that qualified as borrowing costs amounted to Php816 million, Php566 million and Php370 million for the years ended December 31, 2017, 2016 and 2015, respectively. See *Note 5 – Income and Expenses – Financing Costs – net*. Our undepreciated interest capitalized to property and equipment that qualified as borrowing costs amounted to Php5,389 million and Php5,289 million as at December 31, 2017 and 2016, respectively. The average interest capitalization rate used was approximately 5% for the year ended December 31, 2017 and 4% for each of the years ended December 31, 2016 and 2015.

Our net foreign exchange differences, which qualified as borrowing costs, amounted to Php106 million, Php111 million and Php144 million for the years ended December 31, 2017, 2016 and 2015, respectively. Our undepreciated capitalized net foreign exchange losses amounted to Php424 million and Php356 million as at December 31, 2017 and 2016, respectively.

The estimated useful lives of our property and equipment are estimated as follows:

Cable and wire facilities	10 – 15 years
Central office equipment	3 – 15 years
Cellular facilities	3 – 10 years
Buildings	25 years
Vehicles, aircraft, furniture and other network equipment	3 – 7 years
Information origination and termination equipment	3 – 5 years
Leasehold improvements	3 – 5 years
Land improvements	10 years

Property and equipment include the net carrying value of capitalized vehicles, aircraft, furniture and other network equipment under financing leases, which amounted to nil and Php71 thousand as at December 31, 2017 and 2016, respectively. See *Note 21 – Interest-bearing Financial Liabilities – Obligations under Finance Leases*.

Impairment of Certain Wireless Network Equipment and Facilities

In December 2015, DMPI recognized an impairment loss of Php5,788 million pertaining to network assets affected by the convergence program of Smart and DMPI. Network assets impaired in 2015 consist mainly of core and transport equipment in Metro Manila and Cebu, which were not included in the initial program as management's original strategy was to minimize the risk of service disruption for Sun subscribers in critical and high traffic areas. We decided to change the strategy for network convergence, that is, to fully integrate the networks of Smart and DMPI, as management believes that the converged network will be resilient enough to address any risk of service disruption in the critical and high traffic areas. Moreover, the converged network will allow optimization of network resources that will result in improved customer experience for both Sun and Smart subscribers.

In December 2017, Smart and DMPI recognized an impairment loss of Php3,913 million pertaining to network improvement project involving spectrum refarm and long-term evolution rollout. These assets include Radio Access Network, or RAN, equipment such as base transceiver sets, base station controllers, access radios, antennas, radio network controllers, power and related support facilities, among others, including software licenses and implementation services affecting the Quezon City and Marikina areas.

See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of non-financial assets*.

10. Investments in Associates and Joint Ventures

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(in million pesos)	
Carrying value of investments in associates:		
MediaQuest PDRs	**10,835**	12,647
Digitel Crossing, Inc., or DCI	**510**	238
Phunware	**384**	384
Appcard	**234**	234
Asia Outsourcing Beta Limited, or Beta	**78**	855
AF Payments, Inc., or AFPI	**—**	407
ACeS International Limited, or AIL	**—**	—
Asia Netcom Philippines Corp., or ANPC	**—**	—
	12,041	14,765
Carrying value of investments in joint ventures:		
VTI, Bow Arken and Brightshare	**32,550**	26,962
Philippines Internet Holding S.à.r.l., or PHIH	**1,539**	1,538
Beacon Electric Asset Holdings, Inc., or Beacon	**—**	13,593
ECommerce Pay Holding S.à.r.l., or Ecommerce Pay	**—**	—
	34,089	42,093
Total carrying value of investments in associates and joint ventures	**46,130**	56,858

Changes in the cost of investments for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	(in million pesos)	
Balance at beginning of the year	**57,465**	41,150
Additions during the year	**5,633**	27,993
Disposals	**(11,612)**	(11,692)
Translation and other adjustments	**1**	14
Balance at end of the year	**51,487**	57,465

Changes in the accumulated impairment losses for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	(in million pesos)	
Balance at beginning of the year	**1,892**	1,888
Additional impairment	**2,225**	—
Translation and other adjustments	**1**	4
Balance at end of the year	**4,118**	1,892

Changes in the accumulated equity share in net earnings (losses) of associates and joint ventures for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	(in million pesos)	
Balance at beginning of the year	**1,285**	9,441
Realized portion of deferred gain on the transfer of Beacon and Manila Electric Company, or Meralco, shares	**4,962**	4,962
Equity share in net earnings (losses) of associates and joint ventures:	**2,906**	1,181
Beta	**2,050**	396
Beacon	**886**	2,089
DCI	**71**	62
VTI, Bow Arken and Brightshare	**55**	(1,027)
PHIH	**1**	(58)
MediaQuest PDRs	**(27)**	(102)
AFPI	**(130)**	(127)
ECommerce Pay	**—**	(52)
Reversal of impairment	**201**	—
Share in the other comprehensive loss of associates and joint ventures accounted for using the equity method	**(312)**	(91)
Dividends	**(791)**	(4,389)
Disposals	**(9,610)**	(9,617)
Translation and other adjustments	**120**	(202)
Balance at end of the year	**(1,239)**	1,285

Investments in Associates

Investment in MediaQuest PDRs

In 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the PLDT Beneficial Trust Fund, for the issuance of PDRs by MediaQuest in relation to its indirect interest in Cignal TV. Cignal TV is a wholly-owned subsidiary of Satventures, which is a wholly-owned subsidiary of MediaQuest incorporated in the Philippines. The Cignal TV PDRs confer an economic interest in common shares of Cignal TV indirectly owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Cignal TV. Cignal TV operates a direct-to-home, or DTH, Pay-TV business under the brand name "Cignal TV", which is the largest DTH Pay-TV operator in the Philippines.

In June 2013, ePLDT's Board of Directors approved additional investments in PDRs of MediaQuest:

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest and provide ePLDT with a 40% economic interest in Satventures; and
- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings, a wholly-owned subsidiary of MediaQuest incorporated in the Philippines. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest. Hastings is a

wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including equity interests in the three leading newspapers: The Philippine Star, Philippine Daily Inquirer, and Business World. See *Note 26 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest*.

The Php6 billion Cignal TV PDRs and Php3.6 billion Satventures PDRs were issued on September 27, 2013. These PDRs provided ePLDT an aggregate of 64% economic interest in Cignal TV.

On February 19, 2014, ePLDT's Board of Directors approved an additional investment of up to Php500 million in Hastings PDRs to be issued by MediaQuest. On March 11, 2014, MediaQuest received from ePLDT an amount aggregating to Php300 million representing additional deposits for future PDRs subscription. As at December 31, 2014, total deposit for PDRs subscription amounted to Php2,250 million.

On May 21, 2015, ePLDT's Board of Directors approved an additional Php800 million investment in Hastings PDRs and settlement of the Php200 million balance of the Php500 million Hastings PDR investment in 2014. Subsequently, on June 1, 2015, the Board of Trustees of the Beneficial Trust Fund and the Board of Directors of MediaQuest approved the issuance of Php3,250 million Hastings PDRs. This provided ePLDT with 70% economic interest in Hastings. See *Note 26 – Employee Benefits – Investment in MediaQuest*.

In 2017, an impairment test was carried out for ePLDT's investment in MediaQuest PDRs where it showed that an impairment provision must be recognized. In determining the provision, the recoverable amount of the Print business and Pay TV were determined based on value-in-use, or VIU, calculations. The VIU calculations were derived from cash flow projections over a period of three to five years based on the 2018 financial budgets approved by the Board of Directors and calculated terminal value.

Using the detailed projections of Print business for five years and applying a terminal value thereafter, ePLDT calculated a recoverable amount of Php1,664 million. Consequently, ePLDT recognized a provision for impairment of its investment in MediaQuest PDRs in relation to its Print business amounting to Php1,784 million for the year ended December 31, 2017, representing the difference between the recoverable amount and the carrying value of the Print business as at December 31, 2017. No impairment provision was recognized for the Pay TV business.

ePLDT's aggregate carrying value of investment in MediaQuest PDRs amounted to Php10,835 million, net of allowance for impairment of Php1,784 million as at December 31, 2017 and Php12,647 million as at December 31, 2016. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Accounting for investments in MediaQuest through PDRs*.

Transfer of Hastings PDRs to PLDT Beneficial Trust Fund

On January 22, 2018, ePLDT's Board of Directors approved the assignment of the Hastings PDRs, representing a 70% economic interest in Hastings to the PLDT Beneficial Trust Fund for a total consideration of Php1,664 million. The assignment was completed on February 15, 2018 and subsequently ceased to have any economic interest in Hastings. See *Note 26 – Employee Benefits – Investment in MediaQuest.*

The PLDT Group's financial investment in PDRs of MediaQuest is part of the PLDT Group's overall strategy of broadening its distribution platforms and increasing the PLDT Group's ability to deliver multi-media content to its customers across the PLDT Group's broadband and mobile networks.

The table below presents the summarized financial information of Satventures as at December 31, 2017 and 2016, and for the years ended December 31, 2017, 2016 and 2015:

	2017	2016
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**20,055**	21,295
Current assets	**2,820**	2,296
Noncurrent liabilities	**3,292**	4,645
Current liabilities	**5,253**	4,620
Equity	**14,330**	14,326
Carrying amount of interest in Satventures	**9,171**	9,169
Additional Information:		
Cash and cash equivalents	**1,211**	374
Current financial liabilities*	**397**	393
Noncurrent financial liabilities*	**2,097**	2,357

* *Excluding trade, other payables and provisions.*

	2017	2016	2015
		(in million pesos)	
Income Statements:			
Revenues	**6,650**	5,925	5,211
Depreciation and amortization	**772**	1,217	1,332
Interest income	**3**	2	2
Interest expense	**249**	259	207
Provision for (benefit from) income tax	**71**	(46)	(534)
Net income (loss)	**4**	(344)	(290)
Other comprehensive income	**—**	—	—
Total comprehensive income (loss)	**4**	(344)	(290)
Equity share in net income (loss) of Satventures	**3**	(220)	(186)

The table below presents the summarized financial information of Hastings as at December 31, 2017 and 2016, and for the years ended December 31, 2017 and 2016 and for the seven months ended December 31, 2015:

	2017	2016
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**1,803**	6,891
Current assets	**2,360**	2,251
Noncurrent liabilities	**151**	506
Current liabilities	**336**	1,748
Equity	**2,377**	4,969
Carrying amount of interest in Hastings	**1,664**	3,478
Additional Information:		
Cash and cash equivalents	**1,304**	1,128
Current financial liabilities*	**—**	500
Noncurrent financial liabilities*	**—**	—

* *Excluding trade, other payables and provisions.*

	2017	2016	2015
		(in million pesos)	
Income Statements:			
Revenues	**2,129**	2,394	1,580
Depreciation and amortization	**153**	153	89
Interest income	**12**	18	10
Interest expense	**19**	19	11
Provision for income tax	**22**	70	69
Net income (loss)	**(43)**	169	157
Other comprehensive income	**—**	—	—
Total comprehensive income (loss)	**(43)**	169	157
Equity share in net income (loss) of Hastings	**(30)**	118	110

Investment of Digitel in DCI and ANPC

Digitel has 60% and 40% interest in ANPC and DCI, respectively. DCI is involved in the business of cable system linking the Philippines, United States and other neighboring countries in Asia. ANPC is an investment holding company owning 20% of DCI.

In December 2000, Digitel, Pacnet Network (Philippines), Inc., or PNPI, (formerly Asia Global Crossing Ltd.) and BT Group O/B Broadband Infrastructure Group Ltd., or BIG, entered into a joint venture agreement, or JVA, under which the parties agreed to form DCI with each party owning 40%, 40% and 20%, respectively. DCI was incorporated to develop, provide and market backhaul network services, among others.

On April 19, 2001, after BIG withdrew from the proposed joint venture, Digitel and PNPI formed ANPC to replace BIG. Digitel contributed US$2 million, or Php69 million, for a 60% equity interest in ANPC while PNPI owned the remaining 40% equity interest.

Digitel provided full impairment loss on its investment in DCI and ANPC in prior years on the basis that DCI and ANPC have incurred significant recurring losses in the past. In 2011 and 2017, Digitel recorded a reversal of impairment loss amounting to Php92 million and Php201 million, respectively, following improvement in DCI's operations.

Though Digitel owns more than half of the voting interest in ANPC, management has assessed that Digitel only has significant influence, and not control, due to certain governance matters.

Digitel's investment in DCI does not qualify as investment in joint venture as there is no provision for joint control in the JVA among Digitel, PNPI and ANPC.

Following PLDT's acquisition of a controlling stake in Digitel, PNPI, on November 4, 2011, sent a notice to exercise its Call Right under Section 6.3 of the JVA, which provides for a Call Right exercisable by PNPI following the occurrence of a Digitel change in control. As at March 27, 2018, Digitel management is ready to conclude the transfer of its investment in DCI, subject to PNPI's ability to meet certain regulatory and valuation requirements. This investment is not classified as noncurrent asset held-for-sale as the transfer is assessed as not highly probable because certain aspects of the sale such as pricing are still subject for approval by both DTPI and PNPI management.

Investment of PLDT Capital in Phunware

On September 3, 2015, PLDT Capital subscribed to an 8% US$5 million Convertible Promissory Note, or Note, issued by Phunware, a Delaware corporation. Phunware provides an expansive mobile delivery platform that creates, markets, and monetizes mobile application experiences across multiple screens. By pioneering the multiscreen as a service platform, Phunware enables companies to engage seamlessly with their customers through mobile devices, from indoor and outdoor location-based marketing and advertising to content management, notifications and analytics, indoor mapping, navigation and wayfinding.

The US$5 million Note was issued to and paid for by PLDT Capital on September 4, 2015. On December 18, 2015, PLDT Capital subscribed to Series F Preferred Shares of Phunware for a total consideration of US$3 million. On the same date, the Note and its related interest were converted to additional Phunware Series F Preferred Shares.

Investment of PLDT Capital in AppCard

On October 9, 2015, PLDT Capital entered into a Convertible Preferred Stock Purchase Agreement with AppCard for US$5 million. AppCard, a Delaware Corporation, is engaged in the business of developing, marketing, selling and servicing digital loyalty program platforms.

The US$5 million Convertible Series B Preferred Stock was paid on October 9, 2015.

Investment of PGIC in Beta

On February 5, 2013, PLDT entered into a Subscription and Shareholders' Agreement with Asia Outsourcing Alpha Limited, or Alpha, wherein PLDT, through its indirect subsidiary PGIC, acquired from Alpha approximately 20% equity interest in Beta for a total cost of approximately US$40 million, which consists of preferred shares of US$39.8 million and ordinary shares of US$0.2 million. On various dates in 2013 and 2014, PGIC transferred a total of 85 ordinary shares and 31,426 preferred shares to certain employees of Beta for a total consideration of US$53 thousand. The equity interest of PGIC in Beta remained at 20% after the transfer with economic interest of 18.32%.

Alpha and Beta are both exempted limited liability companies incorporated under the laws of Cayman Islands and are both controlled by CVC Capital Partners. Beta has been designated to be the ultimate holding company of the SPi Technologies, Inc. and Subsidiaries.

On July 22, 2016, Asia Outsourcing Gamma Limited, or AOGL, entered into a SPA with Relia, Inc., one of the largest BPO companies in Japan, relating to the acquisition of AOGL's Customer Relationship Management, or CRM, business under the legal entity SPi CRM, Inc. and Infocom Technologies, Inc., wholly-owned subsidiaries of SPi Technologies, Inc., for an enterprise value of US$181 million. AOGL is a wholly-owned subsidiary of Beta and the direct holding company of SPi Technologies, Inc. and Subsidiaries. The transaction was completed on September 30, 2016. As a result of the sale, PGIC received a cash distribution of US$11.2 million from Beta through redemption of its preferred shares and portion of its ordinary shares.

On May 19, 2017, AOGL entered into a SPA with Partners Group, a global private markets investment manager, relating to the acquisition of SPi Global, a wholly-owned subsidiary of AOGL, for an enterprise value of US$330 million. The transaction was completed on August 25, 2017. As a result of the sale, on various dates in 2017 and 2018, PGIC received a total cash distribution of US$57 million from Beta through redemption of a portion of its ordinary shares.

The carrying value of investment in common shares in Beta amounted to Php78 million and Php855 million as at December 31, 2017 and 2016, respectively. The economic interest of PGIC in Beta remained at 18.32% as at December 31, 2017.

PGIC is a wholly-owned subsidiary of PLDT Global, which was incorporated under the laws of British Virgin Islands.

Investment of Smart in AFPI

In 2013, Smart, along with other conglomerates Metro Pacific Investments Corporation, or MPIC, and Ayala Corporation, or Ayala, embarked on a venture to bid for the Automated Fare Collection System, or AFCS, a project of the Department of Transportation and Communications, or DOTC, and Light Rail Transit Authority, to upgrade the Light Rail Transit 1 and 2, and Metro Rail Transit ticketing systems.

In 2014, AFPI, the joint venture company, was incorporated in the Philippines and registered with the Philippine SEC. Smart subscribed Php503 million equivalent to 503 million shares at a subscription price of Php1.00 per share representing 20% equity interest. MPIC and Ayala Group signed a ten-year concession agreement with the DOTC to build and implement the AFCS project.

In January 2015, the Board of Directors of AFPI approved an additional cash call on unpaid subscription of Php800 million to fund its expenditures, which was paid on March 30, 2015 where Smart contributed Php160 million representing its 20% share.

On November 17, 2015, the Board of Directors of AFPI approved the increase in authorized capital stock from Php2,550 million shares to Php5,000 million shares with par value of Php1.00 per share. AFPI subsequently issued a total of 612.5 million shares with par value of Php1.00 per share to all of its existing shareholders in proportion to their current shareholdings. Smart subscribed to an additional capital of Php122.5 million representing its proportionate share in the capital increase. The Board of Directors likewise approved an additional cash call on unpaid subscription of Php650 million for AFPI's planned expenditure. Smart contributed an additional Php130 million representing its 20% share in connection with the cash call.

As at December 31, 2016, the carrying value of Smart's investment in AFPI amounted to Php407 million, including subscription payable of Php36 million.

On April 27, 2017, the shareholders of AFPI approved the reclassification of unsubscribed common stock to preferred stock with par value of Php1.00 per share. The preferred stock is redeemable at par at the option of AFPI, has no voting rights and non-participating, with no conversion feature, and non-cumulative dividends. The Php500 million additional funding shall be in the form of subscription to the newly created preferred stock of AFPI as approved by the Board of Directors. Smart remitted its share of Php100 million in the additional funding.

AFPI has incurred operating losses since the launch of its contactless smartcard for the stored value ridership and contactless medium technology as replacement of the old-magnetic-based ticketing system. Over the years, AFPI's expected growth is significantly lower than actual and so is the expectation in the foreseeable years, as supported by the external study on AFPI's revenue generation performed this year. On this basis, management provided for full impairment on the Php439 million carrying value of investment in AFPI as at June 30, 2017. Smart recognized additional Php61 million in equity share in net losses of AFPI from July to December 2017.

Investment of ACeS Philippines in AIL

As at December 31, 2017, ACeS Philippines held a 36.99% equity interest in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia. In December 2014, AIL suffered a failure of the propulsion system on board the Garuda I Satellite, thus, AIL decided to decommission the operation of Garuda I Satellite in January 2015.

AIL has incurred significant operating losses, negative operating cash flows, and significant levels of debt. The financial condition of AIL was partly due to the National Service Providers', or NSPs, inability to generate the amount of revenues originally expected as the growth in subscriber numbers has been significantly lower than budgeted. These factors raised substantial doubt about AIL's ability to continue as a going concern. On this basis, we recognized a full impairment provision of Php1,896 million in respect of our investment in AIL in 2003.

Unrecognized share in net losses and translation adjustment of AIL amounted to Php29 million and Php173 million for the years ended December 31, 2017 and 2016, respectively, while unrecognized share in net income amounted to Php70 million for the year ended December 31, 2015. Share in net cumulative losses amounted to Php2,257 million and Php2,228 million as at December 31, 2017 and 2016, respectively, were not recognized as we do not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AIL.

Summarized financial information of individually immaterial associates

The following tables present the summarized financial information of our individually immaterial investments in associates as at December 31, 2017 and 2016, and for the years ended December 31, 2017, 2016 and 2015:

	2017	2016
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**349**	1,905
Current assets	**595**	584
Equity	**799**	2,063
Noncurrent liabilities	**66**	278
Current liabilities	**79**	148

	2017	2016	2015
	(in million pesos)		
Income Statements:			
Revenues	**107**	1,960	2,059
Net income	**59**	526	81
Other comprehensive loss	**(1)**	—	—
Total comprehensive income	**58**	526	81

We did not receive any dividends from our associates for the years ended December 31, 2017, 2016 and 2015.

We have no outstanding contingent liabilities or capital commitments with our associates as at December 31, 2017 and 2016.

Investments in Joint Ventures

Investments of PLDT in VTI, Bow Arken and Brightshare

On May 30, 2016, the PLDT Board approved the Company's acquisition of 50% equity interest, including outstanding advances and assumed liabilities, in the telecommunications business of San Miguel Corporation, or SMC, with Globe acquiring the other 50% interest. On the same date, PLDT and Globe executed: (i) an SPA with SMC to acquire the entire outstanding capital, including outstanding advances and assumed liabilities, in VTI (and the other subsidiaries of VTI), which holds SMC's telecommunications assets through its subsidiaries, or the VTI Transaction; and (ii) separate SPAs with the owners of two other entities, Bow Arken (the parent company of New Century Telecoms, Inc.) and Brightshare (the parent company of eTelco, Inc.), which separately hold additional spectrum frequencies through their respective subsidiaries, or the Bow Arken Transaction and Brightshare Transaction, respectively. We refer to the VTI Transaction, Bow Arken Transaction and Brightshare Transaction collectively as the SMC Transactions.

The consideration in the amount of Php52.8 billion representing the purchase price for the equity interest and assigned advances of previous owners to VTI, Bow Arken and Brightshare was paid in three tranches: 50% upon signing of the SPAs on May 30, 2016, 25% on December 1, 2016 and the final 25% on May 30, 2017. The SPAs also provide that PLDT and Globe, through VTI, Bow Arken and Brightshare, would assume liabilities amounting to Php17.2 billion from May 30, 2016. In addition, the SPAs contain a price adjustment mechanism based on the variance in these assumed liabilities to be agreed among PLDT, Globe and previous owners on the results of the confirmatory due diligence procedures jointly performed by PLDT and Globe. On May 29, 2017, PLDT and Globe paid the previous owners the net amount of Php2.6 billion in relation to the aforementioned price adjustment based on the result of the confirmatory due diligence. See *Note 28 – Financial Assets and Liabilities – Commercial Commitments*.

As part of the SMC Transactions, PLDT and Globe acquired certain outstanding advances made by the former owners of VTI, Bow Arken and Brightshare to VTI, Bow Arken and Brightshare or their respective subsidiaries. The amounts of the advances outstanding to PLDT since the date of assignment to PLDT amounted to Php11,359 million: (i) Php11,038 million from VTI and its subsidiaries; (ii) Php238 million from Bow Arken and its subsidiaries; and (iii) Php83 million from Brightshare and its subsidiaries.

On February 28, 2017, PLDT and Globe each subscribed to 2.8 million new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of VTI, at a subscription price of Php4 thousand per subscribed share (inclusive of a premium over par of Php3 thousand per subscribed share) or a total subscription price for each of Php11,040 million (inclusive of a premium over par of Php8,280 million). PLDT and Globe's assigned advances from SMC which were subsequently reclassified to deposit for future subscription of each amounting to Php11,040 million were applied as full subscription payment for the subscribed shares.

Also, on the same date, PLDT and Globe each subscribed to 800 thousand new preferred shares of the authorized capital stock of VTI, at a subscription price of Php4 thousand per subscribed share (inclusive of a premium over par of Php3 thousand per subscribed share), or a total subscription price for each Php3,200 million (inclusive of a premium over par of Php2,400 million). PLDT and Globe each paid Php148 million in cash for the subscribed shares. The remaining balance of the subscription price of PLDT and Globe were fully paid as at December 29, 2017.

On December 15, 2017, PLDT and Globe each subscribed to 600 thousand new preferred shares of the authorized capital stock of VTI, at a subscription price of Php5 thousand per subscribed share (inclusive of a premium over par of Php4 thousand per subscribed share), for a total subscription price of Php3,000 million (inclusive of a premium over par of Php2,400 million). PLDT and Globe each paid Php10 million in cash for the subscribed shares upon execution of the agreement. The remaining balance of the subscription price was paid via conversion of advances amounting to Php2,990 million as at December 31, 2017.

As at December 31, 2017 and 2016, the amount of the advances outstanding to PLDT, to cover for the assumed liabilities and working capital requirements of the acquired companies, amounted to nil and Php1,306 million, respectively.

Purchase Price Allocation

PLDT has engaged an independent valuer to determine the fair value adjustments relating to the acquisition. As at May 30, 2016, our share in the fair value of the intangible assets, which includes spectrum, amounted to Php18,885 million and goodwill of Php17,824 million has been determined based on the final results of an independent valuation. Goodwill arising from this acquisition and carrying amount of the identifiable assets and liabilities, including deferred tax liability, and the related amortization through equity in net earnings were retrospectively adjusted accordingly.

The table below presents the summarized financial information of VTI as at December 31, 2017 and 2016, for the year ended December 31, 2017 and for the seven months ended December 31, 2016:

	2017	2016
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**77,694**	76,127
Current assets	**2,807**	3,126
Noncurrent liabilities	**11,373**	13,003
Current liabilities	**1,936**	12,327
Equity	**67,192**	53,923
Carrying amount of interest in VTI	**32,550**	26,962
Additional Information:		
Cash and cash equivalents	**1,961**	2,182
Current financial liabilities*	**—**	—
Noncurrent financial liabilities*	**—**	—

* *Excluding trade, other payables and provisions.*

	2017	2016
	(in million pesos)	
Income Statements:		
Revenues	**2,352**	1,189
Depreciation and amortization	**1,168**	842
Interest income	**28**	18
Interest expense	**—**	2
Provision for (benefit from) income tax	**(42)**	158
Net income (loss)	**110**	(2,055)
Other comprehensive income	**—**	—
Total comprehensive income (loss)	**110**	(2,055)
Equity share in net income (loss) of VTI	**55**	(1,027)

Notice of Transaction filed with the Philippine Competition Commission, or PCC

On May 30, 2016, prior to closing the transaction, each of PLDT, Globe and SMC submitted notices of the VTI, Bow Arken and Brightshare Transaction (respectively, the VTI Notice, the Bow Arken Notice and the Brightshare Notice and collectively, the Notices) to the PCC pursuant to the Philippine Competition Act, or PCA, and Circular No. 16-001 and Circular No. 16-002 issued by the PCC, or the Circulars. As stated in the Circulars, upon receipt by the PCC of the requisite notices, each of the said transactions shall be deemed approved in accordance with the Circulars.

Subsequently, on June 7, 2016, PLDT and the other parties to the said transactions received separate letters dated June 6 and 7, 2016 from the PCC which essentially stated, that: (a) with respect to VTI Transaction, the VTI Notice is deficient and defective in form and substance, therefore, the VTI Transaction is not "deemed approved" by the PCC, and that the missing key terms of the transaction are critical since the PCC considers certain agreements as prohibited and illegal; and (b) with respect to the Bow Arken and Brightshare Transactions, the compulsory notification under the Circulars does not apply and that even assuming the Circulars apply, the Bow Arken Notice and the Brightshare Notice are deficient and defective in form and substance.

On June 10, 2016, PLDT submitted its response to the PCC's letter articulating its position that the VTI Notice is adequate, complete and sufficient and compliant with the requirement under the Circulars, and does not contain false material information; as such, the VTI Transaction enjoys the benefit of Section 23 of the PCA. Therefore, the VTI Transaction is deemed approved and cannot be subject to retroactive review by the PCC. Moreover, the parties have taken all necessary steps, including the relinquishment/return of certain frequencies and co-use of the remaining frequencies by Smart and Belltel and Globe and Belltel as discussed above, to ensure that the VTI Transaction will not substantially prevent, restrict or lessen competition to violate the PCA. Nevertheless, in the spirit of cooperation and for transparency, the parties voluntarily submitted to the PCC, among others, copies of the SPAs for the PCC's information and reference.

In a letter dated June 17, 2016, the PCC required the parties to further submit additional documents relevant to the co-use arrangement and the frequencies subject thereto, as well as other definitive agreements relating to the VTI Transaction. It also disregarded the deemed approved status of the VTI Transaction in violation of the Circulars which the PCC itself issued, and insisted that it will conduct a full review, if not investigation of the said transaction under the different operative provisions of the PCA.

In the Matter of the Petition against the PCC

On July 12, 2016, PLDT filed before the Court of Appeals, or CA, a Petition for Certiorari and Prohibition (With Urgent Application for the Issuance of a Temporary Restraining Order, or TRO, and/or Writ of Preliminary Injunction), or the Petition, against the PCC. The Petition seeks to enjoin the PCC from proceeding with the review of the acquisition by PLDT and Globe of equity interest, including outstanding advances and assumed liabilities, in the telecommunications business of SMC and performing any act which challenges or assails the "deemed approved" status of the SMC Transactions. On July 19, 2016, the 12th Division of the CA, issued a Resolution directing the PCC through the Office of the Solicitor General, or the OSG, to file its Comment within a non-extensible period of 10 days from notice and show cause why the Petition should not be granted. On August 11, 2016, the PCC through the OSG, filed its Comment to the Petition (With Opposition to Petitioner's Application for a Writ of Preliminary Injunction). On August 19, 2016, PLDT filed its Reply to Respondent PCC's Comment.

On August 26, 2016, the CA issued a Writ of Preliminary Injunction enjoining and directing the respondent PCC, their officials and agents, or persons acting for and in their behalf, to cease and desist from conducting further proceedings for the pre-acquisition review and/or investigation of the SMC Transactions based on its Letters dated June 7, 2016 and June 17, 2016 during the pendency of the case and until further orders are issued by the CA. On September 14, 2016, the PCC filed a Motion for Reconsideration of the CA's Resolution. During this time, Globe moved to have its Petition consolidated with the PLDT Petition. In a Resolution promulgated on October 19, 2016, the CA: (i) accepted the consolidation of Globe's petition versus the PCC (CA G.R. SP No. 146538) into PLDT's petition versus the PCC (CA G.R. SP No. 146528) with the right of replacement; (ii) admitted the Comment dated October 4, 2016 filed by the PCC; (iii) referred to the PCC for Comment (within 10 days from receipt of notice) PLDT's Urgent Motion for the Issuance of a Gag Order dated September 30, 2016 and to cite the PCC for indirect contempt; and (iv) ordered all parties to submit simultaneous memoranda within a non-extendible period of 15 days from notice. On November 11, 2016, PLDT filed its Memorandum in compliance with the CA's Resolution.

On February 17, 2017, the CA issued a Resolution denying PCC's Motion for Reconsideration dated September 14, 2016, for lack of merit. The CA denied PLDT's Motion to Cite the PCC for indirect Contempt for being premature. In the same Resolution, as well as in a separate Gag Order attached to the Resolution, the CA granted PLDT's Urgent Motion for the Issuance of a Gag Order and directed PCC to remove immediately from its website its preliminary statement of concern and submit its compliance within five days from receipt thereof. All the parties were ordered to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to Intervene and to Admit the Petition-in-Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.

On April 18, 2017, the PCC filed before the Supreme Court a Petition to Annul the Writ of Preliminary Injunction issued by the CA's 12th Division on August 26, 2016 restraining PCC's review of the SMC Transactions. In compliance with the Supreme Court's Resolution issued on April 25, 2017, PLDT on July 3, 2017 filed its Comment dated July 1, 2017 to the PCC's Petition. The Supreme Court issued a Resolution dated July 18, 2017 noting PLDT's Comment and requiring the PCC to file its Consolidated Reply. The PCC filed a Motion for Extension of Time and prayed that it be granted until October 23, 2017 to file its Consolidated Reply. The PCC filed its Consolidation Reply to the: (1) Comment filed by PLDT; and (2) Motion to Dismiss filed by Globe on November 7, 2017. The same was noted by the Supreme Court in a Resolution dated November 28, 2017.

During the intervening period, the CA rendered its Decision in October 18, 2017, granting the Petitions filed by PLDT and Globe. In its Decision, the CA: (i) permanently enjoined the PCC from conducting further proceedings for the pre-acquisition review and/or investigation of the SMC Transactions based on its Letters dated June 7, 2016 and June 17, 2016; (ii) annulled and set aside the Letters dated June 7, 2016 and June 17, 2016; (iii) precluded the PCC from conducting a full review and/or investigation of the SMC Transactions; (iv) compelled the PCC to recognize the SMC Transactions as deemed approved by operation of law; and (v) denied the PCC's Motion for Partial Reconsideration dated March 6, 2017, and directed the PCC to permanently comply with the CA's Resolution dated February 17, 2017 requiring PCC to remove its preliminary statement of concern from its website. The CA clarified 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.

On November 7, 2017, PCC timely filed a Motion for Additional Time to file a Petition for Review on Certiorari before the Supreme Court. The Supreme Court granted PCC's motion in its Resolution dated November 28, 2017.

On December 13, 2017, PLDT, through counsel, received the PCC's Petition for Review on Certiorari filed before the Supreme Court assailing the CA's Decision dated October 18, 2017. In this Petition, the PCC raised procedural and substantive issues for resolution. Particularly, the PCC assailed the issuance of the writs of certiorari, prohibition, and mandamus considering that the determination of the sufficiency of the Notice pursuant to the Transitory Rules involves the exercise of administrative and discretionary prerogatives of the PCC. On the substantive aspect, the PCC argued that the CA committed grave abuse of discretion in ruling that the SMC Transactions should be accorded the deemed approved status under the Transitory Rules. The PCC maintained that the Notice of the SMC Transaction was defective because it failed to provide the key terms thereof.

In the Supreme Court Resolution dated November 28, 2017, which was received by PLDT, through counsel, on December 27, 2017, the Supreme Court decided to consolidate the PCC's Petition to Annul the Writ of Preliminary Injunction issued by the CA's 12th Division with that of its Petition for Review on Certiorari assailing the decision of the CA on the merits.

On February 13, 2018, PLDT, through counsel, received Globe's Motion for Leave to File and Admit the Attached Rejoinder before the Supreme Court. The Rejoinder attached to Globe's Motion addressed the arguments raised by PCC in its Consolidated Reply dated November 7, 2017.

The consolidated petitions remain pending as at the date of this report.

VTI's Tender Offer for the Minority Stockholders' Shares in Liberty Telecom Holdings, Inc., or LIB

On August 18, 2016, the Board of Directors of VTI approved the voluntary tender offer to acquire the common shares of LIB, a subsidiary of VTI, which are held by the remaining minority shareholders, and the intention to delist the shares of LIB from the PSE.

On August 24, 2016, VTI, owner of 87.12% of the outstanding common shares of LIB, undertook the tender offer to purchase up to 165.88 million common shares owned by the remaining minority shareholders, representing 12.82% of LIB's common stock, at a price of Php2.20 per share. The tender offer period ended on October 20, 2016, the extended expiration date, with over 107 million shares tendered, representing approximately 8.3% of LIB's issued and outstanding common shares. The tendered shares were crossed at the PSE on November 4, 2016, with the settlement on November 9, 2016.

Following the conclusion of the tender offer, VTI now owns more than 95% of the issued and outstanding common shares, and 99.1% of the total issued and outstanding capital stock, of LIB.

The tender offer was undertaken in compliance with the PSE's requirements for the voluntary delisting of LIB common shares from the PSE. The voluntary delisting of LIB was approved by the PSE effective November 21, 2016.

iCommerce's Investment in PHIH

On January 20, 2015, PLDT and Rocket Internet entered into a JVA designed to foster the development of internet-based businesses in the Philippines. PLDT, through its subsidiary, Voyager, and Asia Internet Holding S.à r.l., which is 50%-owned by Rocket Internet, were the initial shareholders of the joint venture company PHIH. iCommerce, former subsidiary of Voyager, replaced the latter as shareholder of PHIH on October 14, 2015 and now holds a 33.33% equity interest in PHIH.

The objective of PHIH is the creation and development of online businesses in the Philippines, the leveraging of local market and business model insights, the facilitation of commercial, strategic and investment partnerships, and the acceleration of the rollout of online startups in the Philippines. In accordance with the underlying agreements, iCommerce has so far paid approximately €7.4 million to PHIH as contribution to capital. Payment of another contribution by iCommerce to the PHIH capital of approximately €2.6 million plus interest was requested in 2016 and remains outstanding. The shareholders are currently resolving this matter with the help of independent arbiters.

On December 14, 2017, the management and operations of iCommerce was transferred from VIH to PLDT Online. As a result, VIH ceased to have any direct interest in iCommerce and any indirect interest in PHIH. See *Note 2 – Summary of Significant Accounting Policies – Transfer of iCommerce to PLDT Online.*

Investment in Beacon

On March 1, 2010, PCEV, MPIC and Beacon, entered into an Omnibus Agreement, or OA, where PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon. Beacon was incorporated in the Philippines and organized with the sole purpose of holding the respective shareholdings in Meralco of PCEV and MPIC. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity interest in Meralco.

Beacon is merely a special purpose vehicle created for the main purpose of holding and investing in Meralco using the same Meralco shares as collateral for funding such additional investment. The OA entered into by Beacon, PCEV and MPIC effectively delegates the decision making power of Beacon over the Meralco shares to PCEV and MPIC and that Beacon does not exercise any discretion over the vote to be taken in respect of the Meralco shares but is obligated to vote on the Meralco shares strictly in accordance with the instructions of PCEV and MPIC. Significant influence over the relevant financing and operating activities of Meralco is exercised at the respective Boards of PCEV and MPIC.

PCEV accounted for its investment in Beacon as investment in joint venture since the OA established joint control over Beacon until its full divestment on June 27, 2017.

Beacon's Capitalization

Beacon's authorized capital stock of Php5,000 million consists of 3,000 million common shares with a par value of Php1.00 per share and 2,000 million preferred shares with a par value of Php1.00 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon and have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preferred shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

PCEV's Investment in Beacon Shares

Since 2010, PCEV made the following investments in Beacon:

Date	Transaction	Number of Shares (in millions)	Total Consideration (in millions)
March 30, 2010	PCEV subscription to Beacon Common Shares	1,157 Beacon Common Shares	Php23,130[(1)]
October 25, 2011	PCEV transfer of remaining Meralco Common Shares to Beacon[(2)]	69 Meralco Common Shares	15,136
	PCEV subscription to Beacon Preferred Shares	1,199 Beacon Class "A" Preferred Shares	15,136
January 20, 2012	PCEV subscription to Beacon Common Shares	135 Beacon Common Shares	2,700
May 30, 2016	PCEV subscription to Beacon Class "B" Preferred Shares	277 Beacon Class "B" Preferred Shares	3,500
September 9, 2016	Beacon redemption of Class "B" Preferred Shares held by PCEV	198 Beacon Class "B" Preferred Shares	2,500
April 20, 2017	Beacon redemption of Class "B" Preferred Shares held by PCEV	79 Beacon Class "B" Preferred Shares	1,000

(1) *PCEV transferred 154 million Meralco shares at a price of Php150.00 per share or an aggregate amount of Php23,130 million on May 12, 2010.*

(2) *The transfer of the Meralco shares were implemented through a special block sale/cross sale in the PSE.*

PCEV recognized a deferred gain of Php8,047 million and Php8,145 million on May 12, 2010 and October 25, 2011, respectively, for the difference between the transfer price of the Meralco shares to Beacon and the carrying amount in PCEV's books of the Meralco shares transferred since the transfer was between entities with common shareholders. The deferred gain, presented as a reduction in PCEV's investment in Beacon common shares, will only be realized upon the disposal of the Meralco shares to a third party.

On May 30, 2016, the Board of Directors of Beacon approved the increase in authorized capital stock of Beacon from 5,000 million to 6,000 million divided into 3,000 million common shares with a par value of Php1.00 per share, 2,000 million Class "A" preferred shares with a par value of Php1.00 per share and 1,000 million new Class "B" preferred shares with a par value of Php1.00 per share.

The amount raised by Beacon from the subscription of PCEV and MPIC to Class "B" Preferred Shares was used to fund the subscription to an aggregate 56% of the issued share capital of Global Business Power Corporation, or Global Power, through Beacon Powergen Holdings, Inc., or Beacon Powergen. Global Power is the leading power supplier in Visayas region and Mindoro Island.

On September 9, 2016 and April 20, 2017, the Board of Directors of Beacon approved the redemption of 198 million and 79 million Class "B" preferred shares held by PCEV, respectively. Beacon paid the redemption price equal to the aggregate issue price as well as cash dividends on the said preferred shares amounting to Php21 million and Php43 million, on September 30, 2016 and April 25, 2017, respectively.

Beacon's Dividend Declaration

A summary of Beacon's dividend declarations are shown below:

Date of Declaration	Date of Payment	Holders	Amount	Share of PCEV
			(in millions)	
March 6, 2017	**March 10, 2017**	**Class "A" Preferred**	**Php945**	**Php236**
April 20, 2017	**April 25, 2017**	**Class "A" Preferred**	**945**	**236**
April 20, 2017	**April 25, 2017**	**Class "B" Preferred**	**192**	**43**
June 13, 2017	**July 31, 2017**	**Class "A" Preferred**	**1,273**	**318**
Total dividends declared as at December 31, 2017			**Php3,355**	**Php833**
March 31, 2016	July 29, 2016	Class "A" Preferred	Php945	Php473
June 30, 2016	July 29, 2016	Class "A" Preferred	1,485	743
July 14, 2016	July 29, 2016	Common	6,056	3,028
August 12, 2016	August 30, 2016	Common	289	144
September 9, 2016	September 30, 2016	Class "B" Preferred	21	21
Total dividends declared as at December 31, 2016			Php8,796	Php4,409

PCEV's share in the cash dividends for Class "A" preferred shares and common shares was deducted from the carrying value of the investment in joint venture, while PCEV's share in the cash dividends for Class "B" preferred shares was recognized as dividend income.

Sale of Beacon's Meralco Shares to MPIC

Beacon has entered into the following Share Purchase Agreements with MPIC:

Date	Number of Shares Sold	% of Meralco Shareholdings Sold	Price Per Share	Total Price	Deferred Gain Realized[(1)]
	(in millions)			(in millions)	(in millions)
June 24, 2014	56.35	5%	Php235.00	Php13,243	Php1,418
April 14, 2015	112.71	10%	235.00	26,487	2,838

[(1)] *Since Beacon sold the shares to an entity not included in the PLDT Group, PCEV realized portion of the deferred gain which was recognized when the Meralco shares were transferred to Beacon.*

On June 24, 2014, MPIC settled a portion of the consideration amounting to Php3,000 million and the balance amounting to Php10,243 million was paid on February 27, 2015.

As part of the April 14, 2015 sale, MPIC settled a portion of the consideration amounting to Php1,000 million on April 14, 2015 and Php17,000 million on June 29, 2015, both of which were used by Beacon to partially settle its outstanding loans. MPIC paid Beacon the balance of Php8,487 million on July 29, 2016.

Sale of PCEV's Beacon Common and Preferred Shares to MPIC

PCEV has entered to the following Share Purchase Agreement with MPIC:

Date	Number of Shares Sold	Selling Price	Deferred Gain Realized
	(in millions)		
June 6, 2012	282 Preferred Shares	Php3,563	Php2,012
May 30, 2016	646 Common shares and 458 Preferred Shares	26,200	4,962
June 13, 2017	646 Common shares and 458 Preferred Shares	21,800	4,962

On May 30, 2016, MPIC settled a portion of the consideration amounting to Php17,000 million immediately upon signing of the agreement and the balance of Php9,200 million will be paid in annual installments until June 2020. The unpaid balance from MPIC is measured at fair value using a discounted cash flow valuation method, with interest income to be accreted over the term of the receivable.

PCEV's equity ownership in Beacon after the sale was reduced from 50% to 25%, while MPIC's interest increased to 75%. PCEV's effective interest in Meralco, through Beacon, was then reduced to 8.74% from 17.48%.

On June 13, 2017, PCEV entered into another Share Purchase Agreement with MPIC to sell its remaining 25% equity interest in Beacon for a total consideration of Php21,800 million. MPIC settled a portion of the consideration amounting to Php12,000 million upon closing and the balance of Php9,800 million will be paid in annual installments from June 2018 to June 2021. The unpaid balance from MPIC is measured at fair value using a discounted cash flow valuation method, with interest income to be accreted over the term of the receivable.

After the sale of PCEV's remaining 25% interest in Beacon, PCEV continues to hold its representation in the Board and participate in decision making. As set forth in the SPA: (i) the Seller shall be entitled to nominate one director to the Board of Directors of PCEV ("Seller's Director") and MPIC agrees to vote its shares in PCEV in favor of such Seller's Director; and (ii) the Buyer shall cede to the Seller the right to vote all of the Shares ("Proxy Shares"). The parties agreed that with respect to decisions or policies affecting dividend payouts to be made by the Company, the Seller's Director shall exercise its voting rights, and shall vote, in accordance with the recommendation of the Buyer on such matter. As a result, PCEV's previously joint control over Beacon has become significant influence.

PCEV's remaining assets after the full divestment is comprised mainly of receivables from MPIC amounting to Php15,552 million as at December 31, 2017. See *Note 11 – Available-for-Sale Financial Investments* and *Note 25 – Related Party Transactions*.

Sale of PCEV's Receivables from MPIC

On March 2, 2018, PCEV entered into a Receivables Purchase Agreement, or RPA, with various financial institutions, or the Purchasers, to sell a portion of its receivables from MPIC due in 2019 to 2021 amounting to Php5,550 million for a total consideration of Php4,852 million. The receivables consist of the partial proceeds from the sale of PCEV's shares in Beacon to MPIC done in 2016 and 2017.

Under the terms of the RPA, the Purchasers will have exclusive ownership of the purchased receivables and all of its rights, title, and interest.

eInnovations' Investment in ECommerce Pay

On January 6, 2015, PLDT, through eInnovations, entered into a JVA with Rocket Internet, pursuant to which the two parties agreed to form ECommerce Pay Holding S.à.r.l., or ECommerce Pay, of which each partner holds a 50% equity interest. ECommerce Pay is a global joint venture company for payment services with a focus on emerging markets.

On July 30, 2015, eInnovations became a 50% shareholder of ECommerce Pay and invested €1.2 million in ECommerce Pay on August 11, 2015.

On February 3, 2016, eInnovations further contributed its subsidiary ePay, including the platforms and business operations of its mobile-first platform, PayMaya, as had been agreed in the JVA. Rocket Internet contributed, among other things, its equity in Paymill Holding GmbH and Payleven Holding GmbH, which operated via its subsidiaries, payment platforms for high growth, small-and-medium sized e-commerce businesses.

Consequently, in February 2016, the ownership of ePay and its subsidiaries, or the ePay Group, was transferred from eInnovations to ECommerce Pay and hence eInnovation's effective interest in ePay went down to 50%. Pending completion of the other expected contributions from Rock et Internet, ePay Group continue to be a subsidiary of PLDT.

Rocket Internet and PLDT via eInnovations agreed to end the joint venture with control and all rights in ePay to be returned to eInnovations via a retransfer of the shares in ePay. In return, eInnovations gave up its 50% ownership and all claims in connection with ECommerce Pay. On July 29, 2016, eInnovations exited ECommerce Pay and the whole ownership of ePay, including the platforms and business operations of its mobile-first platform, PayMaya, was returned to eInnovations.

PLDT and Rocket Internet have decided to unwind the joint venture to better focus on their respective areas of operation and current priorities. Both continue to explore areas of possible future collaboration.

Summarized financial information of individually immaterial joint ventures

The table below presents the summarized financial information of our individually immaterial investments in joint ventures as at December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015:

	2017	2016
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	**1**	—
Current assets	**145**	378
Equity	**146**	377
Noncurrent liabilities	**—**	—
Current liabilities	**—**	1

	2017	2016	2015
		(in million pesos)	
Income Statements:			
Revenues	**—**	—	—
Net income (loss)	**—**	(164)	9
Other comprehensive income	**—**	—	—
Total comprehensive income (loss)	**—**	(164)	9

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at December 31, 2017 and 2016.

11. Available-for-Sale Financial Investments

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(in million pesos)	
Rocket Internet	**12,848**	10,058
iflix Limited, or iflix	**1,841**	686
Club shares	**239**	208
Matrixx	**237**	237
Beacon (Note 10)	**—**	1,000
	15,165	12,189

Investment of PLDT Online in iflix

On April 23, 2015, PLDT Online subscribed to a convertible note of iflix, an internet TV service provider in Southeast Asia, for US$15 million, or Php686 million. The convertible note was issued and paid on August 11, 2015. iflix will use the funds to continue roll out of the iflix subscription video-on-demand services across the Southeast Asian region, acquire rights to new content, and produce original programming to market to potential customers.

This investment is in line with our strategy to develop new revenue streams and to complement our present business by participating in the digital world beyond providing access and connectivity.

On March 10, 2016, the US$15 million convertible note held by PLDT Online was converted into 20.7 million ordinary shares of iflix in connection with a new funding round led by Sky Plc, Europe's leading entertainment company, and the Indonesian company, Emtek Group. The conversion resulted on a valuation gain amounting to U$19 million, or Php898 million, increasing the fair value of PLDT Online's investment amounting to US$34 million, or Php1,584 million.

On August 4, 2017, PLDT Online subscribed to a convertible note of iflix for US$1.5 million, or Php75 million, in a new funding round led by Hearst Entertainment. The convertible note was paid on August 8, 2017. The note is zero coupon, senior and unsubordinated, non-redeemable, transferable and convertible into Series B Preferred Shares subject to occurrence of a conversion event. iflix will use the funds to invest in its local content strategy and for its regional and international expansion.

PLDT Online's shares account for approximately 7.3% of the total equity stock of iflix.

Investment of PLDT Capital in Matrixx

On December 18, 2015, PLDT Capital entered into a Stock and Warrant Purchase Agreement with Matrixx, a Delaware corporation. Matrixx provides the IT foundation to move to an all-digital service environment with a new real-time technology platform designed to handle the surge in interactions without forcing the compromises of conventional technology. Under the terms of the agreement, PLDT Capital subscribed to convertible Series B Preferred Stock of Matrixx for a total consideration of US$5 million, or Php237 million, and was entitled to purchase additional Series B Preferred Stock upon occurrence of certain conditions on or before March 15, 2016. PLDT Capital did not exercise its right to purchase additional Series B Preferred Stock of Matrixx.

Investment of PLDT Online in Rocket Internet

On August 7, 2014, PLDT and Rocket Internet entered into a global strategic partnership to drive the development of online and mobile payment solutions in emerging markets. Rocket Internet provides a platform for the rapid creation and scaling of consumer internet businesses outside the U.S. and China. Rocket Internet's prominent brands include the leading Southeast Asian e-Commerce businesses Zalora and Lazada, as well as fast growing brands with strong positions in their markets such as Dafiti, Linio, Jumia, Namshi, Lamoda, Jabong, Westwing, Home24 and HelloFresh in Latin America, Africa, Middle East, Russia, India and Europe. Financial technology and payments comprise Rocket Internet's third sector where it anticipates numerous and significant growth opportunities.

Pursuant to the terms of the investment agreement, PLDT invested €333 million, or Php19,577 million, in cash, for new shares equivalent to a 10% stake in Rocket Internet as at August 2014. These new shares are of the same class and bear the same rights as the Rocket Internet shares held by the investors as at the date of the agreement namely, Investment AB Kinnevik and Access Industries, in addition to Global Founders GmbH (formerly European Founders Fund GmbH). PLDT made the €333 million investment in two payments (on September 8 and September 15, 2014), which it funded from available cash and new debt.

On August 21, 2014, PLDT assigned all its rights, title and interests as well as all of its obligations related to its investment in Rocket Internet, to PLDT Online, an indirectly wholly-owned subsidiary of PLDT.

On October 1, 2014, Rocket Internet announced the pricing of its initial public offering, or IPO, at €42.50 per share. On October 2, 2014, Rocket Internet listed its shares on Entry Standard of the Frankfurt Stock Exchange under the ticker symbol "RKET." Our ownership stake in Rocket Internet after the IPO was reduced to 6.6%. In February 2015, due to additional issuances of shares by Rocket Internet, our ownership percentage in Rocket Internet was further reduced to 6.1%, and remained as such as at December 31, 2017 and 2016.

On September 26, 2016, Rocket Internet applied for admission to trading under the regulated market (Prime Standard) of the Frankfurt Stock Exchange. RKET has been admitted to the Prime Standard and is part of the Frankfurt Stock Exchange's SDAX.

Further details on investment in Rocket Internet for the years ended December 31, 2017, 2016 and 2015 and as at December 31, 2017 and 2016 are as follows:

	2017	2016	2015
Total market value as at beginning of the year (in million pesos)	**10,058**	14,587	27,855
Closing price per share at end of the year (in Euros)	**21.13**	19.13	28.24
Total market value as at end of the year (in million Euros)	**213**	193	285
Total market value as at end of the year (in million pesos)	**12,848**	10,058	14,587
Net gains (losses) from changes in fair value recognized during the year (in million pesos)	**2,790**	(4,529)	(13,268)
Recognized in profit or loss (in million pesos)	**(540)**	(5,381)	(5,124)
Recognized in other comprehensive income (in million pesos)	**3,330**	852	(8,144)

	2017	2016
	(in million pesos)	
Acquisition cost including capitalized cost	**19,711**	19,711
Fair value adjustment in other comprehensive income	**4,182**	852
Cumulative impairment charges	**(11,045)**	(10,505)
Balance at end of the year	**12,848**	10,058

Based on our judgment, the continuing decline in fair value of our investment in Rocket Internet is considered significant as the cumulative net losses from changes in fair value represents more than 20% decline in value below cost. As a result, total cumulative impairment losses recognized on our investment in Rocket Internet amounted to Php11,045 million and Php10,505 million as at December 31, 2017 and 2016, respectively. Impairment losses charged in our consolidated income statements amounted to Php540 million, Php5,381 million and Php5,124 million for the years ended December 31, 2017, 2016 and 2015, respectively. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Impairment of available-for-sale equity investments.*

As at March 26, 2018, closing price of Rocket Internet is €24.52 per share resulting to total market value of PLDT's stake in Rocket Internet of €247 million, or Php16,100 million.

12. Investment in Debt Securities and Other Long-term Investments

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(in million pesos)	
GT Capital Bond	**150**	150
Security Bank Corporation, or Security Bank, Time Deposits	**100**	348
PSALM Bonds	**—**	202
	250	700
Less current portion (Note 28)	**100**	326
Noncurrent portion (Note 28)	**150**	374

GT Capital Bond

In February 2013, Smart purchased at par a seven-year GT Capital Bond with face value of Php150 million maturing on February 27, 2020. The bond had a gross coupon rate of 4.84% payable on a quarterly basis, and was recognized as held-to-maturity investment. Interest income, net of withholding tax, recognized on this investment amounted to Php5.8 million each for the years ended December 31, 2017, 2016 and 2015. The carrying value of this investment amounted to Php150 million each as at December 31, 2017 and 2016.

Security Bank Time Deposits

In October 2012, PLDT and Smart invested US$2.5 million each in a five-year time deposit with Security Bank at a gross coupon rate of 4.00%, which matured on October 11, 2017. These long-term fixed rate time deposits paid interest on a monthly basis or an estimate of 30 days. Interest income, net of withholding tax, recognized on this investment amounted to US$146 thousand, or Php7 million, US$188 thousand, or Php8.9 million, and US$187 thousand, or Php8.6 million, for the years ended December 31, 2017, 2016 and 2015, respectively. The carrying value of this investment amounted to nil and Php248 million as at December 31, 2017 and 2016, respectively.

In May 2013, PLDT invested US$2.0 million in a five-year time deposit with Security Bank maturing on May 31, 2018 at a gross coupon rate of 3.5%. These long-term fixed rate time deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Interest income, net of withholding tax, recognized on this investment amounted to US$66 thousand, or Php3.3 million, US$66 thousand, or Php3.1 million, and US$66 thousand, or Php3 million, for the years ended December 31, 2017, 2016 and 2015, respectively. The carrying value of this investment amounted to Php100 million each as at December 31, 2017 and 2016.

PSALM Bonds

In April 2013, Smart purchased, at a premium, PSALM Bonds with face value of Php200 million with yield-to-maturity at 4.25% gross, which matured on April 22, 2017. The bond has a gross coupon rate of 7.75% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium was amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php2.3 million, Php7.3 million and Php7.2 million for the years ended December 31, 2017, 2016 and 2015, respectively. The carrying value of this investment amounted to nil and Php202 million as at December 31, 2017 and 2016, respectively.

National Power Corporation, or NAPOCOR, Bond

In March 2014, Smart purchased, at a premium, a NAPOCOR Bond with face value of Php50 million with yield-to-maturity at 4.22% gross, which matured on December 19, 2016. The bond had a gross coupon rate of 7.34% payable on a semi-annual basis, and was recognized as held-to-maturity investment. This investment was a tax-exempt bond. Premium was amortized using the EIR method. Interest income recognized on this investment amounted to nil for the year ended December 31, 2017 and Php1.8 million for each of the years ended December 31, 2016 and 2015.

13. Investment Properties

Changes in investment properties account for the years ended December 31, 2017 and 2016 are as follows:

	Land	Land Improvements	Building	Total
		(in million pesos)		
December 31, 2017				
Balance at beginning of the year	**1,567**	**8**	**315**	**1,890**
Net gains (losses) from fair value adjustments charged to profit or loss	**4**	**—**	**(7)**	**(3)**
Transfers to property and equipment	**(10)**	**—**	**(3)**	**(13)**
Disposals	**(239)**	**—**	**—**	**(239)**
Balance at end of the year	**1,322**	**8**	**305**	**1,635**
December 31, 2016				
Balance at beginning of the year	1,496	9	320	1,825
Transfers from property and equipment	65	—	1	66
Additions	6	—	—	6
Net losses from fair value adjustments charged to profit or loss	—	(1)	(6)	(7)
Balance at end of the year	**1,567**	**8**	**315**	**1,890**

Investment properties, which consist of land, land improvements and building, are stated at fair values, which have been determined based on appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. None of our investment properties are being leased to third parties that earn rental income.

The valuation for land was based on a market approach valuation technique using price per square meter ranging from Php23 to Php475 thousand. The valuation for building and land improvements was based on a cost approach valuation technique using current material and labor costs for improvements based on external and independent reviewers.

We have determined that the highest and best use of some of the idle or vacant land properties at the measurement date would be to convert the properties for residential or commercial development. The properties are not being used for strategic reasons.

We have no restrictions on the realizability of our investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Repairs and maintenance expenses related to investment properties that do not generate rental income amounted to Php27 million, Php23 million and Php29 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The above investment properties were categorized under Level 3 of the fair value hierarchy. There were no transfers in and out of Level 3 of the fair value hierarchy.

Significant increases (decreases) in price per square meter for land, current material and labor costs of improvements would result in a significantly higher (lower) fair value measurement.

14. Business Combination

2015 Acquisition

Takatack Holdings' Acquisition of VIS

On August 6, 2015, Voyager, through Takatack Holdings acquired a 100% equity interest in VIS for a total cash consideration of US$5 million, or Php228 million, of which US$3 million, or Php137 million, was paid in August 2015 and US$2 million, or Php91 million, is payable in 12 quarterly installments, subject to satisfaction of certain conditions. Total payments made to the founders for the remaining balance amounted to US$0.7 million, or Php31 million, and US$0.2 million, or Php8 million, for the years ended December 31, 2016 and 2015, respectively. The acquisition is consistent with the PLDT Group's focus to build Voyager into a digital economy platforms-enabler, allowing it to build its digital commerce business in the Philippines and other emerging markets. VIS is a Singapore-based company behind the online store, TackThis!, a cloud-based e-commerce platform operating on software as a service model that enables companies to easily set-up and showcase their businesses on various online platforms.

The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of fair values at the date of acquisition. The corresponding carrying amounts immediately before the acquisition are as follows:

	Previous Carrying Values		Fair Values Recognized on Acquisition	
	In S.G. Dollar	In Php[1]	In S.G. Dollar	In Php[1]
	(in millions)			
Assets:				
Property and equipment (Note 9)	—	0.3	—	0.3
Intangibles	—	—	0.8	25.9
Cash and cash equivalents	0.1	2.7	0.1	2.7
Trade receivables	0.1	5.1	0.1	5.1
Prepayments and other current assets	—	0.1	—	0.1
	0.2	8.2	1.0	34.1
Liabilities:				
Accounts payable and other liabilities	0.1	4.6	0.1	4.6
Deferred income tax liability	—	—	0.1	4.4
	0.1	4.6	0.2	9.0
Total identifiable net assets acquired	0.1	3.6	0.8	25.1
Goodwill from the acquisition (Note 15)			5.9	195.5
Purchase consideration transferred			6.7	220.6
Cash paid			4.1	137.3
Accounts payable – others			2.5	83.3
Cash flow from investing activity:			6.6	220.6
Cash paid			4.1	137.3
Cash acquired			(0.1)	(2.7)
			4.0	134.6

[1] *Converted to Philippine Peso using the exchange rate at the time of purchase of Php33.08 to SGD1.00.*

The transactions resulted in a Php196 million goodwill pertaining to the projected global rollout of the e-commerce business.

Our consolidated revenues would have increased by Php2 million and net income would have decreased by Php5 million for the year ended December 31, 2015 had the acquisition of VIS actually taken place on January 1, 2015.

15. Goodwill and Intangible Assets

Changes in goodwill and intangible assets for the years ended December 31, 2017 and 2016 are as follows:

	Intangible Asset with Indefinite Life Trademark	Intangible Assets with Finite Life: Franchise	Customer List	Spectrum	Licenses	Others	Total Intangible Assets with Finite Life	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
					(in million pesos)					
December 31, 2017										
Costs:										
Balance at beginning of the year	4,505	3,016	4,726	1,205	1,079	1,379	11,405	15,910	63,058	78,968
Additions	—	—	—	—	—	138	138	138	—	138
Translation and other adjustments	—	—	—	—	—	45	45	45	—	45
Balance at end of the year	4,505	3,016	4,726	1,205	1,079	1,562	11,588	16,093	63,058	79,151
Accumulated amortization and impairment:										
Balance at beginning of the year	—	961	2,769	991	1,037	1,251	7,009	7,009	1,679	8,688
Amortization during the year (Notes 4 and 5)	—	186	511	80	7	51	835	835	—	835
Translation and other adjustments	—	—	—	—	—	45	45	45	—	45
Balance at end of the year	—	1,147	3,280	1,071	1,044	1,347	7,889	7,889	1,679	9,568
Net balance at end of the year	4,505	1,869	1,446	134	35	215	3,699	8,204	61,379	69,583
Estimated useful lives (in years)	—	16	2 – 9	15	18	1 – 10	—	—	—	—
Remaining useful lives (in years)	—	10	1 – 3	2	5	5 – 9	—	—	—	—
December 31, 2016										
Costs:										
Balance at beginning of the year	4,505	3,016	4,726	1,205	1,079	1,189	11,215	15,720	63,092	78,812
Additions	—	—	—	—	—	175	175	175	—	175
Business combination	—	—	—	—	—	—	—	—	(34)	(34)
Translation and other adjustments	—	—	—	—	—	15	15	15	—	15
Balance at end of the year	4,505	3,016	4,726	1,205	1,079	1,379	11,405	15,910	63,058	78,968
Accumulated amortization and impairment:										
Balance at beginning of the year	—	775	2,258	911	924	1,128	5,996	5,996	699	6,695
Impairment during the year (Note 5)	—	—	—	—	—	58	58	58	980	1,038
Amortization during the year (Notes 4 and 5)	—	186	511	80	113	39	929	929	—	929
Translation and other adjustments	—	—	—	—	—	26	26	26	—	26
Balance at end of the year	—	961	2,769	991	1,037	1,251	7,009	7,009	1,679	8,688
Net balance at end of the year	4,505	2,055	1,957	214	42	128	4,396	8,901	61,379	70,280
Esimated useful lives (in years)	—	16	2 – 9	15	18	1 – 10	—	—	—	—
Remaining useful lives (in years)	—	11	2 – 4	3	6	5 – 10	—	—	—	—

The consolidated goodwill and intangible assets of our reportable segments as at December 31, 2017 and 2016 are as follows:

	2017 Wireless	2017 Fixed Line	2017 Total	2016 Wireless	2016 Fixed Line	2016 Total
			(in million pesos)			
Trademark	4,505	—	4,505	4,505	—	4,505
Franchise	1,869	—	1,869	2,055	—	2,055
Customer list	1,446	—	1,446	1,957	—	1,957
Spectrum	134	—	134	214	—	214
Licenses	35	—	35	42	—	42
Others	215	—	215	128	—	128
Total intangible assets	8,204	—	8,204	8,901	—	8,901
Goodwill	56,571	4,808	61,379	56,571	4,808	61,379
Total goodwill and intangible assets	64,775	4,808	69,583	65,472	4,808	70,280

Intangible Assets

Intangible asset with indefinite life as at December 31, 2017 and 2016 pertains to the "*Sun Cellular*" trademark of DMPI, resulting from PLDT's acquisition of Digitel in 2011. PLDT intends to continue using the "*Sun Cellular*" brand to cater to a specific market segment. As such, the "*Sun Cellular*" trademark is viewed to have an indefinite useful life.

Smart's licensing agreements with various music companies, which grant Smart a right to sell the digital products of the music companies (including through downloading and streaming), were capitalized as intangible assets and amortized accordingly.

PayMaya and Voyager continuously improve their existing products and services through regular technological developments and upgrades to their platforms. Accumulated costs related to such activities are capitalized as intangible assets.

The consolidated future amortization of intangible assets as at December 31, 2017 is as follows:

Year	**(in million pesos)**
2018	856
2019	826
2020	680
2021	211
2022 and onwards	5,631
	8,204

Impairment Testing of Goodwill and Intangible Asset with Indefinite Useful Life

The organizational structure of PLDT and its subsidiaries is designed to monitor financial operations based on fixed line and wireless segmentation. Management provides guidelines and decisions on resource allocation, such as continuing or disposing of asset and operations by evaluating the performance of each segment through review and analysis of available financial information on the fixed line and wireless segments. As at December 31, 2017, the PLDT Group's goodwill comprised of goodwill resulting from acquisition of PLDT's additional investment in PG1 in 2014, ePLDT's acquisition of IPCDSI in 2012, PLDT's acquisition of Digitel in 2011, ePLDT's acquisition of ePDS in 2011, Smart's acquisition of PDSI and Chikka in 2009, SBI's acquisition of Airborne Access Corporation in 2008, and Smart's acquisition of SBI in 2004. The test for recoverability of PLDT's, Smart's and Voyager's goodwill and intangible assets was applied to the Fixed Line, Wireless and Voyager asset groups, respectively, which represent the lowest level within our business at which we monitor goodwill.

Although revenue streams may be segregated among the companies within the PLDT Group, the cost items and cash flows are difficult to carve out due largely to the significant portion of shared and common used network/platform. The same is true for Sun, wherein Smart 2G/3G network, cellular base stations and fiber optic backbone are shared for areas where Sun has limited connectivity and facilities. On the other hand, PLDT has the largest fixed line network in the Philippines. PLDT's transport facilities are installed nationwide to cover both domestic and international IP backbone to route and transmit IP traffic generated by the customers. In the same manner, PLDT has the most Internet Gateway facilities which are composed of high capacity IP routers and switches that serve as the main gateway of the Philippines to the Internet connecting to the World Wide Web. With PLDT's network coverage, other fixed line subsidiaries share the same facilities to leverage on a Group perspective.

Because of the significant common use of network facilities among fixed line and wireless companies within the Group, management deems that the Wireless and Fixed Line units are considered the lowest CGUs for impairment test of goodwill until 2014.

In 2015, subsequent to the decision of Management to consolidate the various digital businesses under Voyager and assign a separate management from wireless business, the Voyager unit has been considered as a CGU separate from the Wireless unit. As a result, goodwill amounting to Php980 million was allocated to Voyager CGU.

The Wireless, Fixed Line and Voyager units are the lowest CGUs to which goodwill is to be allocated given that the Fixed Line, Wireless and Voyager operations generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Voyager unit is still within the wireless operating segment for purposes of segment reporting and monitoring.

The recoverable amount of the Wireless, Fixed Line and Voyager CGUs had been determined using the value in use approach calculated using cash flow projections based on the financial budgets approved by the Board of Directors. The pre-tax discount rates applied to cash flow projections are 8.3% for the

Wireless and Fixed Line CGUs, and 12.0% for the Voyager CGUs. Cash flows beyond the projection period are determined using a 3.0% growth rate for the Wireless and Fixed Line CGUs, which is the same as the long-term average growth rate for the telecommunications industry, while for the Voyager CGU, a 5.0% growth rate was used. Other key assumptions used in the cash flow projections include revenue growth, operating margin and capital expenditures.

Based on the assessment of the value in use of the Wireless and Fixed Line CGUs, the recoverable amount of the Wireless and Fixed Line CGUs exceeded their carrying amounts, hence, no impairment was recognized as at December 31, 2017 and 2016 in relation to goodwill.

With regard to the assessment of value in use for Wireless and Fixed Line CGUs, management believes that no reasonable possible changes in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

In December 2016, based on the assessment of the Voyager CGU's recoverable amount compared with the carrying amount of the Voyager CGU's net assets, we have recognized total impairment loss amounting to Php980 million and, consequently, any adverse change in a key assumption would result in a further impairment loss.

16. Cash and Cash Equivalents

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(in million pesos)	
Cash on hand and in banks (Note 28)	**6,351**	6,384
Temporary cash investments (Note 28)	**26,554**	32,338
	32,905	38,722

Cash in banks earn interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing temporary cash investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 28 – Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php612 million, Php582 million and Php579 million for the years ended December 31, 2017, 2016 and 2015, respectively.

17. Trade and Other Receivables

As at December 31, 2017 and 2016, this account consists of receivables from:

	2017	2016
	(in million pesos)	
Retail subscribers (Note 28)	**17,961**	20,290
Corporate subscribers (Notes 25 and 28)	**9,641**	9,333
Foreign administrations (Note 28)	**6,517**	5,819
Domestic carriers (Notes 25 and 28)	**457**	354
Dealers, agents and others (Notes 25 and 28)	**13,686**	7,428
	48,262	43,224
Less allowance for doubtful accounts (Notes 5 and 28)	**14,501**	18,788
	33,761	24,436

Receivables from foreign administrations and domestic carriers represent receivables based on interconnection agreements with other telecommunications carriers. The aforementioned amounts of receivables are shown net of related payables to the same telecommunications carriers where a legal right of offset exists and settlement is facilitated on a net basis.

Receivables from dealers, agents and others consist mainly of receivables from credit card companies, dealers and distributors having collection arrangements with the PLDT Group, dividend receivables and advances from affiliates.

Trade receivables are non-interest-bearing and generally have settlement terms of 30 to 180 days.

For terms and conditions relating to related party receivables, see *Note 25 – Related Party Transactions*.

See *Note 25 – Related Party Transactions* for the summary of transactions with related parties and *Note 28 – Financial Assets and Liabilities – Credit Risk* on credit risk of trade receivables to understand how we manage and measure credit quality of trade receivables that are neither past due nor impaired.

Changes in the allowance for doubtful accounts for the years ended December 31, 2017 and 2016 are as follows:

	Total	Retail Subscribers	Corporate Subscribers	Foreign Administrations	Domestic Carriers	Dealers, Agents and Others
			(in million pesos)			
December 31, 2017						
Balance at beginning of the year	**18,788**	**12,588**	**3,827**	**628**	**134**	**1,611**
Provisions (reversals) and other adjustments	**(1,029)**	**(1,166)**	**15**	**310**	**(59)**	**(129)**
Write-offs	**(3,258)**	**(2,644)**	**(538)**	**—**	**—**	**(76)**
Balance at end of the year	**14,501**	**8,778**	**3,304**	**938**	**75**	**1,406**
Individual impairment	**10,160**	**5,747**	**3,177**	**104**	**51**	**1,081**
Collective impairment	**4,341**	**3,031**	**127**	**834**	**24**	**325**
	14,501	**8,778**	**3,304**	**938**	**75**	**1,406**
Gross amount of receivables individually impaired, before deducting any impairment allowance	**10,160**	**5,747**	**3,177**	**104**	**51**	**1,081**
December 31, 2016						
Balance at beginning of the year	15,921	9,540	4,451	315	86	1,529
Provisions (reversals) and other adjustments	5,305	4,843	(71)	359	60	114
Write-offs	(2,438)	(1,795)	(553)	(46)	(12)	(32)
Balance at end of the year	18,788	12,588	3,827	628	134	1,611
Individual impairment	14,970	9,789	3,711	87	113	1,270
Collective impairment	3,818	2,799	116	541	21	341
	18,788	12,588	3,827	628	134	1,611
Gross amount of receivables individually impaired, before deducting any impairment allowance	**14,970**	**9,789**	**3,711**	**87**	**113**	**1,270**

18. Inventories and Supplies

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(in million pesos)	
Terminal and cellular phone units:		
At net realizable value	**2,691**	2,828
At cost	**3,834**	4,584
Spare parts and supplies:		
At net realizable value	**664**	576
At cost	**1,428**	948
Others:		
At net realizable value	**578**	340
At cost	**1,163**	829
Total inventories and supplies at the lower of cost or net realizable value	**3,933**	**3,744**

The cost of inventories and supplies recognized as expense for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
		(in million pesos)	
Cost of sales and services	**10,951**	15,965	15,525
Write-down of inventories and supplies (Note 5)	**907**	1,941	511
Repairs and maintenance	**721**	596	643
	12,579	18,502	16,679

Changes in the allowance for inventory obsolescence for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	(in million pesos)	
Balance at beginning of the year	**2,617**	917
Provisions (Note 5)	**907**	1,941
Write-off and others	**(1,032)**	(241)
Balance at end of the year	**2,492**	2,617

19. Prepayments

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(in million pesos)	
Prepaid taxes	**10,451**	11,311
Prepaid rent	**2,126**	433
Prepaid fees and licenses	**848**	1,194
Prepaid benefit costs (Note 26)	**400**	261
Prepaid selling and promotions (Note 25)	**289**	494
Prepaid repairs and maintenance	**207**	232
Prepaid insurance (Note 25)	**105**	105
Other prepayments (Note 25)	**577**	531
	15,003	14,561
Less current portion of prepayments	**9,633**	7,505
Noncurrent portion of prepayments	**5,370**	7,056

Prepaid taxes include creditable withholding taxes and input VAT.

Prepaid benefit costs represent excess of fair value of plan assets over present value of defined benefit obligations recognized in our consolidated statements of financial position. See *Note 26 – Employee Benefits*.

20. Equity

PLDT's number of shares of subscribed and outstanding capital stock as at December 31, 2017 and 2016 are as follows:

	2017	2016
	(in millions)	
Authorized		
Non-Voting Serial Preferred Stocks	**388**	388
Voting Preferred Stock	**150**	150
Common Stock	**234**	234
Subscribed		
Non-Voting Serial Preferred Stocks[(1)]	**300**	300
Voting Preferred Stock	**150**	150
Common Stock	**219**	219
Outstanding		
Non-Voting Serial Preferred Stocks[(1)]	**300**	300
Voting Preferred Stock	**150**	150
Common Stock	**216**	216
Treasury Stock		
Common Stock	**3**	3

[(1)] *Includes 300 million shares of Series IV Cumulative Non-Convertible Redeemable Preferred Stock subscribed for Php3 billion, of which Php360 million has been paid.*

The change in PLDT's capital account is the redemption of 370 shares of Series II 10% Cumulative Convertible Preferred Stock for the year ended December 31, 2016.

Preferred Stock

Non-Voting Serial Preferred Stocks

On January 26, 2016, the Board of Directors designated 20,000 shares of Non-Voting Serial Preferred Stock as Series KK 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2016 to December 31, 2020, pursuant to the PLDT Subscriber Investment Plan, or SIP.

On November 5, 2013, the Board of Directors designated 50,000 shares of Non-Voting Serial Preferred Stock as Series JJ 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2013 to December 31, 2015, pursuant to the SIP. On June 8, 2015, PLDT issued 870 shares of Series JJ 10% Cumulative Convertible Preferred Stock.

On January 26, 2010, the Board of Directors designated 100,000 shares of Non-Voting Serial Preferred Stock as Series II 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2010 to December 31, 2012, pursuant to the SIP.

The Series II, JJ and KK 10% Cumulative Convertible Preferred Stock, or SIP shares, earns cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular Series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock of PLDT on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the ask prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the par value per share of Common Stock. The number of shares of Common Stock issuable at any time upon conversion of 10% Cumulative Convertible Preferred Stock is determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Stock outstanding are at anytime subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Stock will be proportionately decreased or increased, as the case may be, and in the case of a stock dividend, such price will be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Stock. In the event the relevant effective date for any such subdivision or consolidation of shares of stock dividend occurs during the period of 30 trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment will be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Stock, or in case of any consolidation or merger of PLDT with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sale price utilized in calculating the conversion price as the Board of Directors, in its sole discretion, shall deem appropriate.

At PLDT’s option, the Series II, JJ and KK 10% Cumulative Convertible Preferred Stock are redeemable at par value plus accrued dividends five years after the year of issuance.

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends.

The Non-Voting Serial Preferred Stocks are non-voting, except as specifically provided by law, and are preferred as to liquidation.

All preferred stocks limit the ability of PLDT to pay cash dividends unless all dividends on such preferred stock for all past dividend payment periods have been paid and or declared and set apart and provision has been made for the currently payable dividends.

Voting Preferred Stock

On June 5, 2012, the Philippine SEC approved the amendments to the Seventh Article of PLDT’s Articles of Incorporation consisting of the sub-classification of its authorized Preferred Capital Stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of

Non-Voting Serial Preferred Stock with a par value of Php10.00 each, and other conforming amendments, or the Amendments. The shares of Voting Preferred Stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least 60% of the board of directors of such corporation are citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines, or Qualified Owners. The holders of Voting Preferred Stock will have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of Voting Preferred Stock. The Amendments were approved by the Board of Directors and stockholders of PLDT on July 5, 2011 and March 22, 2012, respectively.

On October 12, 2012, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, determined the following specific rights, terms and features of the Voting Preferred Stock: (a) entitled to receive cash dividends at the rate of 6.5% per annum, payable before any dividends are paid to the holders of Common Stock; (b) in the event of dissolution or liquidation or winding up of PLDT, holders will be entitled to be paid in full, or pro-rata insofar as the assets of PLDT will permit, the par value of such shares of Voting Preferred Stock and any accrued or unpaid dividends thereon before any distribution shall be made to the holders of shares of Common Stock; (c) redeemable at the option of PLDT; (d) not convertible to Common Stock or to any shares of stock of PLDT of any class; (e) voting rights at any meeting of the stockholders of PLDT for the election of directors and all other matters to be voted upon by the stockholders in any such meetings, with one vote in respect of each Voting Preferred Share; and (f) holders will have no pre-emptive right to subscribe for or purchase any shares of stock of any class, securities or warrants issued, sold or disposed by PLDT.

On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement between BTFHI and PLDT dated October 15, 2012. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2017. See *Note 1 – Corporate Information* and *Note 27 – Provisions and Contingencies – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition*.

Redemption of Preferred Stock

On September 23, 2011, the Board of Directors approved the redemption, or the Redemption, of all outstanding shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock, or the Series A to FF Shares, from holders of record as of October 10, 2011, and all such shares were redeemed and retired effective on January 19, 2012. In accordance with the terms and conditions of the Series A to FF Shares, the holders of Series A to FF Shares as at January 19, 2012 are entitled to payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to January 19, 2012, or the Redemption Price of Series A to FF Shares.

PLDT has set aside Php4,029 million (the amount required to fund the redemption price for the Series A to FF Shares) in addition to Php4,143 million for unclaimed dividends on Series A to FF Shares, or a total amount of Php8,172 million, to fund the redemption of the Series A to FF Shares, or the Redemption Trust Fund, in a trust account, or the Trust Account, in the name of RCBC, as Trustee. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund or any balance thereof, in trust, for the benefit of holders of Series A to FF Shares, for a period of ten years from January 19, 2012 until January 19, 2022. After the said date, any and all remaining balance in the Trust Account shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund shall accrue for the benefit of, and be paid from time to time, to PLDT.

On May 8, 2012, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series GG 10% Cumulative Convertible Preferred Stock, or the Series GG Shares, from the holders of record as of May 22, 2012, and all such shares were redeemed and retired effective August 30, 2012. In accordance with the terms and conditions of the Series GG Shares, the holders of the Series GG Shares as at May 22, 2012 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to August 30, 2012, or the Redemption Price of Series GG Shares.

PLDT has set aside Php236 thousand (the amount required to fund the redemption price for the Series GG Shares) in addition to Php74 thousand for unclaimed dividends on Series GG Shares, or a total amount of Php310 thousand, to fund the redemption price for the Series GG Shares, or the Redemption Trust Fund for Series GG Shares, which forms an integral part of the Redemption Trust Fund previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series A to FF Shares. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series GG Shares or any balance thereof, in trust, for the benefit of holders of Series GG Shares, for a period of ten years from August 30, 2012, or until August 30, 2022. After the said date, any and all remaining balance in the Redemption Trust Fund for Series GG Shares shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series GG Shares shall accrue for the benefit of, and be paid from time to time, to PLDT.

On January 29, 2013, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2007, or Series HH Shares issued in 2007, from the holders of record as of February 14, 2013 and all such shares were redeemed and retired effective May 16, 2013. In accordance with the terms and conditions of Series HH Shares issued in 2007, the holders of Series HH Shares issued in 2007 as at February 14, 2013 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 16, 2013, or the Redemption Price of Series HH Shares issued in 2007.

PLDT has set aside Php24 thousand (the amount required to fund the redemption price for the Series HH Shares issued in 2007) in addition to Php6 thousand for unclaimed dividends on Series HH Shares issued in 2007, or a total amount of Php30 thousand, to fund the redemption price of Series HH Shares issued in 2007, or the Redemption Trust Fund for Series HH Shares issued in 2007, which forms an integral part of the Redemption Trust Funds previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series A to GG Shares. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series HH Shares issued in 2007 or any balance thereof, in trust, for the benefit of holders of Series HH Shares issued in 2007, for a period of ten years from May 16, 2013, or until May 16, 2023. After the said date, any and all remaining balance in the Redemption Trust Fund for Series HH Shares issued in 2007 shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series HH Shares issued in 2007 shall accrue for the benefit of, and be paid from time to time, to PLDT.

On January 28, 2014, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2008, or the Series HH Shares issued in 2008, from the holders of record as of February 14, 2014 and all such shares were redeemed and retired effective May 16, 2014. In accordance with the terms and conditions of Series HH Shares issued in 2008, the holders of Series HH Shares issued in 2008 as at February 14, 2014 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 16, 2014, or the Redemption Price of Series HH Shares issued in 2008.

PLDT has set aside Php2 thousand (the amount required to fund the redemption price of Series HH Shares issued in 2008) in addition to Php1 thousand for unclaimed dividends on Series HH Shares issued in 2008, or a total amount of Php3 thousand, to fund the redemption price of Series HH Shares issued in 2008, or the Redemption Trust Fund for Series HH Shares issued in 2008, which forms an integral part of the Redemption Trust Funds previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series A to HH Shares issued in 2007. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series HH Shares issued in 2008 or any balance thereof, in trust, for the benefit of holders of Series HH Shares issued in 2008, for a period of ten years from May 16, 2014, or until May 16, 2024. After the said date, any and all remaining balance in the Redemption Trust Fund for Series HH Shares issued in 2008 shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series HH Shares issued in 2008 shall accrue for the benefit of, and be paid from time to time, to PLDT.

On January 26, 2016, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series II 10% Cumulative Convertible Preferred Stock, or the Series II Shares, from the holder of record as of February 10, 2016, and all such shares were redeemed and retired effective on May 11, 2016. In accordance with the terms and conditions of Series II Shares, the holders of Series II Shares as at February 10, 2016 is entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 11, 2016, or the Redemption Price of Series II Shares.

PLDT has set aside Php4 thousand to fund the redemption price of Series II Shares, or the Redemption Trust Fund for Series II Shares, which forms an integral part of the Redemption Trust Funds previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of Series A to HH Shares issued in 2008. Pursuant to the terms of the Trust Account, the Trustee will continue to hold the Redemption Trust Fund for Series II Shares or any balance thereof, in trust, for the benefit of holder of Series II Shares, for a period of ten years from May 11, 2016, or until May 11, 2026. After the said date, any and all remaining balance in the Redemption Trust Fund for Series II Shares shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund for Series II Shares shall accrue for the benefit of, and be paid from time to time, to PLDT.

As at January 19, 2012, August 30, 2012, May 16, 2013, May 16, 2014 and May 11, 2016, notwithstanding that any stock certificate representing the Series A to FF Shares, Series GG Shares, Series HH Shares issued in 2007, Series HH Shares issued in 2008 and Series II Shares, respectively, were not surrendered for cancellation, the Series AA to II Shares were no longer deemed outstanding and the right of the holders of such shares to receive dividends thereon ceased to accrue and all rights with respect to such shares ceased and terminated, except only the right to receive the Redemption Price of such shares, but without interest thereon.

Total amounts of Php13 million, Php23 million and Php15 million were withdrawn from the Trust Account, representing total payments on redemption for the years ended December 31, 2017, 2016 and 2015, respectively. The balances of the Trust Account of Php7,870 million and Php7,883 million were presented as part of the "Current portion of advances and other noncurrent assets" and the related redemption liability were presented as part of "Accrued expenses and other current liabilities" in our consolidated statements of financial position as at December 31, 2017 and 2016, respectively. See *Note 24 – Accrued Expenses and Other Current Liabilities* and *Note 28 – Financial Assets and Liabilities*.

PLDT expects to similarly redeem and retire the outstanding shares of Series JJ and KK 10% Cumulative Convertible Preferred Stock as and when they become eligible for redemption.

Common Stock

The Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's then total outstanding shares of common stock in 2008. Under the share buyback program, PLDT reacquired shares on an opportunistic basis, directly from the open market through the trading facilities of the PSE and NYSE.

As at November 2010, we had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program. There were no further buyback transactions subsequent to November 2010.

Dividends Declared

Our dividends declared for the years ended December 31, 2017, 2016 and 2015 are detailed as follows:

December 31, 2017

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
				(in million pesos, except per share amounts)	
Cumulative Convertible Preferred Stock					
Series JJ	**May 12, 2017**	**June 1, 2017**	**June 30, 2017**	**1.00**	**—**
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	**February 7, 2017**	**February 24, 2017**	**March 15, 2017**	**—**	**12**
	May 12, 2017	**May 26, 2017**	**June 15, 2017**	**—**	**12**
	August 10, 2017	**August 25, 2017**	**September 15, 2017**	**—**	**13**
	November 9, 2017	**November 28, 2017**	**December 15, 2017**	**—**	**12**
					49
Voting Preferred Stock	**March 7, 2017**	**March 30, 2017**	**April 15, 2017**	**—**	**3**
	June 13, 2017	**June 27, 2017**	**July 15, 2017**	**—**	**2**
	September 26, 2017	**October 10, 2017**	**October 15, 2017**	**—**	**2**
	December 5, 2017	**December 20, 2017**	**January 15, 2018**	**—**	**3**
					10
Common Stock					
Regular Dividend	**March 7, 2017**	**March 21, 2017**	**April 6, 2017**	**28.00**	**6,049**
	August 10, 2017	**August 25, 2017**	**September 8, 2017**	**48.00**	**10,371**
					16,420
Charged to retained earnings					**16,479**

* *Dividends were declared based on total amount paid up.*

December 31, 2016

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
				(in million pesos, except per share amounts)	
Cumulative Convertible Preferred Stock					
Series II (Final Dividends)	April 12, 2016	February 10, 2016	May 11, 2016	0.0027/day	—
Series JJ	May 3, 2016	June 2, 2016	June 30, 2016	1.00	—
					—
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 26, 2016	February 24, 2016	March 15, 2016	—	12
	May 3, 2016	May 24, 2016	June 15, 2016	—	12
	August 2, 2016	August 18, 2016	September 15, 2016	—	12
	November 14, 2016	November 28, 2016	December 15, 2016	—	12
					48
Voting Preferred Stock	February 29, 2016	March 30, 2016	April 15, 2016	—	3
	June 14, 2016	June 30, 2016	July 15, 2016	—	3
	August 30, 2016	September 20, 2016	October 15, 2016	—	2
	December 6, 2016	December 20, 2016	January 15, 2017	—	3
					11
Common Stock					
Regular Dividend	February 29, 2016	March 14, 2016	April 1, 2016	57.00	12,315
	August 2, 2016	August 16, 2016	September 1, 2016	49.00	10,587
					22,902
Charged to retained earnings					22,961

* *Dividends were declared based on total amount paid up.*

December 31, 2015

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
				(in million pesos, except per share amounts)	
10% Cumulative Convertible Preferred Stock					
Series II	May 5, 2015	May 19, 2015	May 30, 2015	1.00	—
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 27, 2015	February 26, 2015	March 15, 2015	—	12
	May 5, 2015	May 26, 2015	June 15, 2015	—	12
	August 4, 2015	August 20, 2015	September 15, 2015	—	13
	November 3, 2015	November 20, 2015	December 15, 2015	—	12
					49
Voting Preferred Stock	March 3, 2015	March 19, 2015	April 15, 2015	—	2
	June 9, 2015	June 26, 2015	July 15, 2015	—	3
	August 25, 2015	September 15, 2015	October 15, 2015	—	2
	December 1, 2015	December 18, 2015	January 15, 2016	—	3
					10
Common Stock					
Regular Dividend	March 3, 2015	March 17, 2015	April 16, 2015	61.00	13,179
	August 4, 2015	August 27, 2015	September 25, 2015**	65.00	14,044
Special Dividend	March 3, 2015	March 17, 2015	April 16, 2015	26.00	5,618
					32,841
Charged to retained earnings					32,900

* *Dividends were declared based on total amount paid up.*

** *Payment was moved to September 28, 2015 in view of Proclamation No. 1128, Series of 2015, dated September 15, 2015, declaring September 25, 2015 a regular holiday.*

Our dividends declared after December 31, 2017 are detailed as follows:

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
				(in million pesos, except per share amounts)	
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 22, 2018	February 21, 2018	March 15, 2018	—	12
Voting Preferred Stock	March 8, 2018	March 28, 2018	April 15, 2018	—	3
Common Stock					
Regular Dividend	March 27, 2018	April 13, 2018	April 27, 2018	28.00	6,050
Charge to retained earnings					6,065

* *Dividends were declared based on total amount paid up.*

Retained Earnings Available for Dividend Declaration

The following table shows the reconciliation of our consolidated retained earnings available for dividend declaration as at December 31, 2017:

	(in million pesos)
Consolidated unappropriated retained earnings as at December 31, 2016	3,483
Effect of IAS 27 Adjustments and other adjustments	20,778
Parent Company's unappropriated retained earnings at beginning of the year	24,261
Less: Cumulative unrealized income – net of tax:	
Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)	(523)
Fair value adjustments of investment property resulting to gain	(871)
Fair value adjustments (mark-to-market gains)	(2,922)
Parent Company's unappropriated retained earnings available for dividends as at January 1, 2017	19,945
Parent Company's net income attributable to equity holders of PLDT for the year	27,370
Less: Fair value adjustment of investment property resulting to gain	(8)
Fair value adjustments (mark-to-market gains)	(260)
	27,102
Add: Revaluation increment removed from other comprehensive income	
Realized fair value adjustments of investment property	101
Less: Cash dividends declared during the year	
Preferred stock	(59)
Common stock	(16,420)
Charged to retained earnings	(16,479)
Parent Company's unappropriated retained earnings available for dividends as at December 31, 2017	**30,669**

As at December 31, 2017, our consolidated unappopriated retained earnings amounted to Php634 million while the Parent Company's unappropriated retained earnings amounted to Php35,152 million. The difference of Php34,518 million pertains to the effect of IAS 27 in our investments in subsidiaries, associates and joint ventures accounted for under the equity method.

Perpetual Notes

Smart issued Php2,610 million and Php1,590 million perpetual notes, with issue dates of March 3, 2017 and March 6, 2017, respectively, under two Notes Facility Agreements dated March 1, 2017 and March 2, 2017, respectively. The transaction costs amounting to Php35 million were accounted as a deduction from perpetual notes. Smart paid distributions amounting to Php177 million for the year ended December 31, 2017.

Smart issued additional Php1,095 million perpetual notes under a new Notes Facility Agreement dated July 18, 2017 to RCBC, Trustee of PLDT's Redemption Trust Fund. The transaction costs amounting to Php5 million were accounted as deduction from perpetual notes. Smart paid distributions amounting to Php14 million for the year ended December 31, 2017. These transactions were eliminated in the consolidated financial statements.

Proceeds from the issuance of these notes are intended to finance capital expenditures. The notes have no fixed redemption dates and Smart may, at its sole option, redeem the notes in whole but not in part. In accordance with IAS 32, the notes are classified as part of equity in the financial statements. The notes are subordinated to and rank junior to all senior loans of Smart.

21. Interest-bearing Financial Liabilities

As at December 31, 2017 and 2016, this account consists of the following:

	2017	2016
	(in million pesos)	
Long-term portion of interest-bearing financial liabilities:		
Long-term debt (Notes 9 and 28)	**157,654**	151,759
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year (Notes 9 and 28)	**14,957**	33,273

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in our financial liabilities amounted to Php525 million and Php631 million as at December 31, 2017 and 2016, respectively. See *Note 28 – Financial Assets and Liabilities*.

The following table describes all changes to unamortized debt discount for the years ended December 31, 2017 and 2016:

	2017	2016
	(in million pesos)	
Unamortized debt discount at beginning of the year	**631**	676
Additions during the year	**113**	185
Accretion during the year included as part of Financing costs – net (Note 5)	**(219)**	(230)
Unamortized debt discount at end of the year (Note 28)	**525**	631

Long-term Debt

As at December 31, 2017 and 2016, long-term debt consists of:

Description	Interest Rates	2017		2016	
		(in millions)			
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Exportkreditnamnden, or EKN	1.4100% to 1.9000% and US$ LIBOR + 0.3000% in 2017 and 2016	**US$11**	**Php547**	US$31	Php1,533
China Export and Credit Insurance Corporation, or Sinosure	US$ LIBOR + 1.0000% to 1.8000% in 2016	—	—	—	—
EKN and AB Svensk Exportkredit, or SEK	3.9550% in 2016	—	—	—	—
		11	**547**	31	1,533
Fixed Rate Notes	8.3500% in 2017 and 2016	—	—	228	11,362
Term Loans:					
GSM Network Expansion Facilities	US$ LIBOR + 1.1125% in 2017 and US$ LIBOR + 0.8500% to 1.1125% in 2016	—	—	5	276
Others	2.8850% and US$ LIBOR + 0.7900% to 1.6000% in 2017 and 2016	**690**	**34,485**	905	45,021
		US$701	**35,032**	US$1,169	58,192
Philippine Peso Debts:					
Corporate Notes	5.3300% to 6.2600% in 2017 and 2016		**15,675**		21,105
Fixed Rate Retail Bonds	5.2250% to 5.2813% in 2017 and 2016		**14,922**		14,902
Term Loans:					
Unsecured Term Loans	3.9000% to 6.64044%; BSP overnight rate and PDST-R2 + 1.0000% in 2017 and 3.9000% to 5.6400%; BSP overnight rate - 0.3500% to BSP overnight rate and PDST-R2 + 1.0000% in 2016		**106,982**		90,833
			137,579		126,840
Total long-term debt (Note 28)			**172,611**		185,032
Less portion maturing within one year (Note 28)			**14,957**		33,273
Noncurrent portion of long-term debt (Note 28)			**Php157,654**		Php151,759

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at December 31, 2017 are as follows:

Year	U.S. Dollar Debt		Php Debt	Total
	U.S. Dollar	Php	Php	Php
		(in millions)		
2018	**259**	**12,923**	**2,181**	**15,104**
2019	**110**	**5,493**	**14,616**	**20,109**
2020	**210**	**10,509**	**8,783**	**19,292**
2021	**45**	**2,267**	**19,923**	**22,190**
2022	**31**	**1,518**	**14,217**	**15,735**
2023 and onwards	**50**	**2,498**	**78,208**	**80,706**
(Note 28)	**705**	**35,208**	**137,928**	**173,136**

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies as at December 31, 2017 and 2016:

Loan Amount	Date of Loan Agreement	Lender(s)	Terms: Installments	Terms: Final Installment	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2017		Outstanding Amounts 2016	
						(in millions)			(in millions)			
U.S. Dollar Debts												
EKN, the Export-Credit Agency of Sweden												
DMPI												
US$59.2M[(1)]	December 17, 2007	ING Bank N.V., or ING Bank, Societe Generale and Calyon	18 equal semi-annual	March 31, 2017	Various dates in 2008-2009	US$59.1	US$0.1	March 31, 2017	**US$—**	**Php—**	US$3	Php168
DMPI												
US$51.2M[(2)]	December 17, 2007	ING Bank,Societe Generale and Calyon	18 equal semi-annual	June 30, 2017	Various dates in 2008-2009	51.1	0.1	March 31, 2017	**—**	**—**	3	146
Smart												
US$49M[(3)] Tranche A1: US$24M; Tranche A2: US$24M; Tranche B: US$1M	June 10, 2011	Nordea Bank AB (publ), or Nordea Bank, subsequently assigned to SEK on July 5, 2011	10 equal semi-annual	Tranche A1 and B:December 29, 2016; Tranche A2: October 30, 2017	Various dates in 2012 and February 21, 2013	49.0	—	April 28, 2017	**—**	**—**	5[(*)]	233[(*)]
Smart												
US$45.6M[(3)] Tranche A1: US$25M; Tranche A2: US$19M; Tranche B1: US$0.9M; Tranche B2: US$0.7M	February 22, 2013	Nordea Bank, subsequently assigned to SEK on July 3, 2013	10 equal semi-annual, commencing 6 months after the applicable mean delivery date	Tranche A1 and B1: July 16, 2018; Tranche A2 and B2: April 15, 2019	Various dates in 2013-2014	45.6	—	—	**11[(*)]**	**547[(*)]**	20[(*)]	986[(*)]
									US$11	**Php547**	US$31	Php1,533

[(*)] *Amounts are net of unamortized discount and/or debt issuance cost.*

[(1)] *The purpose of this loan is to finance the equipment and service contracts for the Phase 7 North Luzon Expansion and Change-out Project.*

[(2)] *The purpose of this loan is to finance the equipment and service contracts for the Phase 7 Expansion Project in Visayas and Mindanao.*

[(3)] *The purpose of this loan is to finance the supply and services contracts for the modernization and expansion project.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms: Installments	Terms: Final Installment	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2017		Outstanding Amounts 2016	
						(in millions)			(in millions)			
Sinosure												
DMPI												
US$23.8M(1)	November 10, 2008	ING Bank	14 equal semi-annual	September 1, 2016	Various dates in 2008-2009	US$23.8	US$–	March 1, 2016	**US$–**	**Php–**	US$–	Php–
DMPI												
US$5.5M(2)	November 10, 2008	ING Bank	14 equal semi-annual	September 1, 2016	Various dates in 2008-2009	5.5	—	March 1, 2016	—	—	—	—
DMPI												
US$4.9M(3)	November 10, 2008	ING Bank	14 equal semi-annual	September 1, 2016	Various dates in 2008-2009	4.9	—	March 1, 2016	—	—	—	—
DMPI												
US$50M(4)	December 16, 2009	China Citic Bank Corporation Ltd., subsequently assigned to ING Bank on December 9, 2011	14 equal semi-annual	December 17, 2017	Various dates in 2010	48.0	2.0	June 16, 2016	—	—	—	—
DMPI												
US$117M(5)	September 15, 2010	China Development Bank and The Hong Kong and Shanghai Banking Corporation Limited	15 equal semi-annual	April 10, 2018	Various dates in 2011	116.3	1.0	April 11, 2016	—	—	—	—
									US$–	**Php–**	US$–	Php–

(1) *The purpose of this loan is to finance the equipment and service contracts for the Phase 7 Core Expansion Project.*
(2) *The purpose of this loan is to finance the equipment and service contracts for the supply of 3G network in NCR.*
(3) *The purpose of this loan is to finance the equipment and service contracts for the Phase 7 Intelligent Network Expansion Project.*
(4) *The purpose of this loan is to finance the equipment, software and related materials for the Phase 2 3G Expansion, transmission for the Phase 2 3G Expansion and Phase 8A NCR and South Luzon BSS Expansion Projects.*
(5) *The purpose of this loan is to finance the purchase of equipment and related materials for the expansion of Phase 8A and 8B Core and IN Network Expansion; Phase 8B NCR and SLZ BSS Network Expansion Project and Phase 3 3G Network Roll-out Project.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms: Installments	Terms: Final Installment	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2017		Outstanding Amounts 2016	
						(in millions)			(in millions)			
EKN and SEK, he Export edit gency of Sweden												
DMPI												
US$96.6M(6)	April 28, 2009	Nordea Bank and ING Bank	17 equal semi-annual	Tranche 1: February 28, 2018; Tranche 2: November 30, 2018	Various dates in 2009-2011	US$96.6	US$–	Tranche 1: August 30, 2016; Tranche 2: May 30, 2016	US$–	Php–	US$–	Php–
									US$–	Php–	US$–	Php–

(6) *The purpose of this loan is to finance the supply of GSM mobile telephone equipment and related services.*

Loan Amount	Issuance Date	Trustee	Terms: Installments	Terms: Maturity	Repurchase: Date	Repurchase: Amount (in millions)	Paid in full on	Outstanding Amounts (in millions): 2017		2016	
Fixed Rate Notes											
PLDT											
US$300M[1]	March 6, 1997	Deutsche Bank Trust Company Americas	Non-amortizing	March 6, 2017	Various dates in 2008-2014	US$71.6	March 6, 2017	US$–	Php–	US$228[*]	Php11,362[*]

[*] Amounts are net of unamortized debt discount and/or debt issuance cost.

[1] This fixed rate note has a coupon rate of 8.3500%. The purpose of this note is to finance service improvements and expansion programs.

Loan Amount	Date of Loan Agreement	Lender(s)	Terms: Installments	Terms: Final Installment	Dates Drawn	Drawn Amount (in millions)	Cancelled Undrawn Amount (in millions)	Paid in full on	Outstanding Amounts (in millions): 2017		2016	
Term Loans												
GSM Network Expansion Facilities												
Smart												
US$60M[1]	June 6, 2011	The Bank of Tokyo-Mitsubishi UFJ, Ltd., or Bank of Tokyo	8 equal semi- annual, commencing on the 18th month from signing date	June 6, 2016	Various dates in 2012	US$60	US$–	June 6, 2016	**US$–**	**Php–**	US$–	Php–
Smart												
US$50M[2]	August 19, 2011	Finnish Export Credit, Plc, or FEC	10 equal semi-annual, commencing 6 months after August 19, 2012	August 19, 2016	Various dates in 2012	50	—	August 19, 2016	**—**	**—**	—	—
Smart												
US$50M[1]	May 29, 2012	Bank of Tokyo	9 equal semi-annual, commencing on May 29, 2013	May 29, 2017	Various dates in 2012	50	—	May 29, 2017	**—**	**—**	5[*]	276[*]
									US$–	**Php–**	US$5	Php276

[*] Amounts are net of unamortized debt discount and/or debt issuance cost.

[1] The purpose of this loan is to finance the equipment and service contracts for the modernization and expansion project.

[2] The purpose of this loan is to finance the supply contracts for the modernization and expansion project.

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2017		2016	
					(in millions)			(in millions)			
Other Term Loans[1]											
PLDT US$150M	March 7, 2012	Syndicate of Banks with Bank of Tokyo as Facility Agent	9 equal semi-annual, commencing on the date which falls 12 months after the date of the loan agreement, with final installment on March 7, 2017	Various dates in 2012	US$150	US$–	March 7, 2017	US$–	Php–	US$17	Php830
PLDT US$300M	January 16, 2013	Syndicate of Banks with Bank of Tokyo as Facility Agent	9 equal semi-annual, commencing on the date which falls 12 months after the date of the loan agreement, with final installment on January 16, 2018	Various dates in 2013	300	—	January 16, 2018	33	1,665	100	4,977
Smart US$35M	January 28, 2013	China Banking Corporation, or CBC	10 equal semi-annual, with final installment on January 29, 2018	May 7, 2013	35	—	January 30, 2017	—	—	10	522
Smart US$50M	March 25, 2013	FEC	9 equal semi-annual, commencing six months after drawdown date, with final installment on March 23, 2018	Various dates in 2013 and 2014	32	18	—	**3(*)**	**178(*)**	11(*)	531(*)
Smart US$80M	May 31, 2013	CBC	10 equal semi-annual, commencing six months after drawdown date, with final installment on May 31, 2018	September 25, 2013	80	—	—	**8**	**400**	24	1,194
Smart US$120M	June 20, 2013	Mizuho Bank Ltd. and Sumitomo Mitsui Banking Corporation with Sumitomo as Facility Agent	8 equal semi-annual, commencing six months after drawdown date, with final installment on June 20, 2018	September 25, 2013	120	—	—	**15(*)**	**747(*)**	45(*)	2,226(*)
Smart US$100M	March 7, 2014	Bank of Tokyo	9 equal semi-annual, commencing 12 months after drawdown date, with final installment on March 7, 2019	Various dates in 2014 March 2, 2015	90 10	—	—	**33(*)**	**1,658(*)**	55(*)	2,744(*)
								US$92	**Php4,648**	US$262	Php13,024

(*) *Amounts are net of unamortized debt discount and/or debt issuance cost.*

(1) *The purpose of this loan is to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement programs.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts			
								2017		2016	
					(in millions)			(in millions)			
Smart											
US$50M	May 14, 2014	Mizuho Bank Ltd.	9 equal semi-annual, commencing 11 months after drawdown date, with final installment on May 14, 2019	July 1, 2014	US$50	US$–	—	**US$17[*]**	**Php828[*]**	US$28[*]	Php1,372[*]
PLDT											
US$100M	August 5, 2014	Philippine National Bank, or PNB	Annual amortization rate of 1% of the issue price on the first year up to the fifth year from the initial drawdown date, with final installment on August 11, 2020	Various dates in 2014	100	—	—	**97**	**4,846**	98	4,877
PLDT											
US$50M	August 29, 2014	Metrobank	Semi-annual amortization rate of 1% of the issue price on the first year up to the fifth year from the initial drawdown date and the balance payable upon maturity on September 2, 2020	September 2, 2014	50	—	—	**49**	**2,435**	49	2,451
PLDT											
US$200M Tranche A: US$150M; Tranche B: US$50M	February 26, 2015	Bank of Tokyo	Commencing 36 months after loan date, with semi-annual amortization of 23.75% of the loan amount on the first and second repayment dates and seven semi-annual amortizations of 7.5% starting on the third repayment date, with final installment on February 25, 2022	Various dates in 2015	200	—	—	**199[*]**	**9,945[*]**	198[*]	9,879[*]
Smart											
US$200M	March 4, 2015	Mizuho Bank Ltd.	9 equal semi-annual installments commencing on the date which falls 12 months after the loan date, with final installment on March 4, 2020	Various dates in 2015	200	—	—	**110[*]**	**5,511[*]**	154[*]	7,663[*]
Smart											
US$100M	December 7, 2015	Mizuho Bank Ltd.	13 equal semi-annual installments commencing on the date which falls 12 months after the loan date, with final installment on December 7, 2022	Various dates in 2016	100	—	—	**76[*]**	**3,791[*]**	91[*]	4,521[*]
PLDT											
US$25M	March 22, 2016	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 30, 2023	March 30, 2016	25	—	—	**25[*]**	**1,241[*]**	25[*]	1,234[*]
PLDT											
US$25M	January 31, 2017	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 27, 2024	March 30, 2017	25	—	—	**25[*]**	**1,240[*]**	—	—
								598	**29,837**	643	31,997
								US$690	**Php34,485**	US$905	Php45,021

[*] *Amounts are net of unamortized debt discount and/or debt issuance cost.*

Loan Amount	Date of Loan Agreement	Facility Agent	Terms	Date of Issuance/ Drawdown	Prepayments Amount	Prepayments Date	Outstanding Amounts 2017	Outstanding Amounts 2016
					(in millions)		(in millions)	
Philippine Peso Debts								
Fixed Rate Corporate Notes[(1)]								
Smart								
Php5,500M Series A: Php1,910M;	March 15, 2012	Metrobank	Series A: 1% annual amortization starting March 19, 2013, with the balance of 96% payable on March 20, 2017;	Drawn and issued on March 19, 2012	Php1,376 2,803	July 19, 2013 June 19, 2017	**Php-**	Php3,930[(*)]
Series B: Php3,590M			Series B: 1% annual amortization starting March 19, 2013 with the balance of 91% payable on March 19, 2022					
PLDT								
Php1,500M	July 25, 2012	Metrobank	Annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on July 27, 2019	July 27, 2012	1,188	July 29, 2013	**285**	288
PLDT								
Php8,800M Series A: Php4,610M;	September 19, 2012	Metrobank	Series A: 1% annual amortization on the first up to sixth year, with the balance payable on September 21, 2019;	September 21, 2012	2,055	June 21, 2013	**6,408**	6,475
Series B: Php4,190M			Series B: 1% annual amortization on the first up to ninth year, with the balance payable on September 21, 2022					
PLDT								
Php6,200M Series A: 7-year notesPhp3,775M;	November 20, 2012	BDO Unibank, Inc., or BDO	Series A: Annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 22, 2019;	November 22, 2012	—	—	**5,890**	5,952
Series B: 10-year notesPhp2,425M			Series A: Annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 22, 2019;					
Smart								
Php1,376M Series A: Php742M;	June 14, 2013	Metrobank	Series A: Annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 97% payable on March 20, 2017;	June 19, 2013	608	June 19, 2017	—	1,335
Series B: Php634M			Series B: Annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 92% payable on March 21, 2022					
PLDT								
Php2,055M Series A: Php1,735M;	June 14, 2013	Metrobank	Series A: Annual amortization rate of 1% of the issue price up to the fifth year and the balance payable upon maturity on September 21, 2019;	June 21, 2013	—	—	**1,952**	1,973
Series B: Php320M			Series B: Annual amortization rate of 1% of the issue price up to the eighth year and the balance payable upon maturity on September 21, 2022					
PLDT								
Php1,188M	July 19, 2013	Metrobank	Annual amortization rate of 1% of the issue on the first year up to the fifth year from the issue date and the balance payable upon maturity on July 27, 2019	July 29, 2013	—	—	**1,140**	1,152
							Php15,675	Php21,105

(*) *Amounts are net of unamortized debt discount and/or debt issuance cost.*

(1) *The purpose of this loan is to finance capital expenditures and/or refinance existing loan obligations which were utilized for network expansion and improvement programs.*

Loan Amount	Date of Agreement	Paying Agent	Terms	Date of Issuance/ Drawdown	Prepayments Amount	Prepayments Date	Outstanding Amounts 2017	Outstanding Amounts 2016
					(in millions)		(in millions)	
Fixed Rate Retail Bonds[1]								
PLDT								
Php15,000M	January 22, 2014	Philippine Depositary Trust Corp.	Php12.4B – non-amortizing, payable in full upon maturity on February 6, 2021; Php2.6B – non-amortizing payable in full on February 6, 2024	February 6, 2014	Php–	—	**Php14,922**[*]	Php14,902[*]

[*] *Amounts are net of unamortized debt discount and/or debt issuance cost.*

[1] *This fixed rate retail corporate bond is comprised of Php12.4 billion and Php2.6 billion due in 2021 and 2024 with a coupon rate of 5.2250% and 5.2813%, respectively. The purpose of this loan is to finance capital expenditures and/or refinance existing loan obligations which were utilized for network expansion and improvement programs.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2017	2016
			(in millions)		**(in millions)**				
Term Loans									
Unsecured Term Loans[1]									
PLDT									
Php2,000M	March 20, 2012	RCBC	Annual amortization rate of 1% on the fifth year up to the ninth year from the initial drawdown date and the balance payable upon maturity on April 12, 2022	April 12, 2012	Php2,000	Php–	—	**Php1,980**	Php2,000
PLDT									
Php3,000M	April 27, 2012	Land Bank of the Philippines, or LBP	Annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity on July 18, 2017	July 18, 2012	3,000	—	January 18, 2017	—	2,880
PLDT									
Php2,000M	May 29, 2012	LBP	Annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity on June 27, 2017	June 27, 2012	2,000	—	June 27, 2017	—	1,920
Smart									
Php1,000M	June 7, 2012	LBP	Annual amortization rate of 1% of the principal amount commencing on the first year of the initial drawdown up to the fourth year and the balance payable upon maturity on August 22, 2017	August 22, 2012	1,000	—	February 22, 2017	—	960
PLDT									
Php200M	August 31, 2012	Manufacturers Life Insurance Co. (Phils.), Inc.	Payable in full upon maturity on October 9, 2019	October 9, 2012	200	—	—	**200**	200
PLDT									
Php1,000M	September 3, 2012	Union Bank of the Philippines, or Union Bank	Annual amortization rate of 1% on the first year up to the sixth year from the initial drawdown date and the balance payable upon maturity on January 13, 2020	January 11, 2013	1,000	—	—	**960**	970
PLDT									
Php1,000M	October 11, 2012	Philippine American Life and General Insurance Company, or Philam Life	Payable in full upon maturity on December 5, 2022	December 3, 2012	1,000	—	—	**1,000**	1,000
Smart									
Php3,000M	December 17, 2012	LBP	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on December 20, 2019	Various dates in 2012-2013	3,000	—	—	**2,850**	2,880
PLDT									
Php2,000M	November 13, 2013	Bank of the Philippine Islands, or BPI	Annual amortization rate of 1% on the first year up to the sixth year from the initial drawdown and the balance payable upon maturity on November 22, 2020	Various dates in 2013-2014	2,000	—	—	**1,920**	1,940
Smart									
Php3,000M	November 25, 2013	Metrobank	Annual amortization rate of 10% of the total amount drawn for six years and the final installment is payable upon maturity on November 27, 2020	November 29, 2013	3,000	—	—	**1,795[*]**	2,093[*]
								Php10,705	Php16,843

[*] *Amounts are net of unamortized debt discount and/or debt issuance cost.*

[1] *The purpose of this loan is to finance the capital expenditures and/or refinance existing loan obligations, which were utilized for service improvements and expansion programs.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2017	Outstanding Amounts 2016
					(in millions)			(in millions)	
Smart									
Php3,000M	December 3, 2013	BPI	Annual amortization rate of 1% of the total amount drawn for the first six years and the final installment is payable upon maturity on December 10, 2020	December 10, 2013	Php3,000	Php–	—	**Php2,874[(*)]**	Php2,901[(*)]
Smart									
Php3,000M	January 29, 2014	LBP	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021	February 5, 2014	3,000	—	—	**2,903[(*)]**	2,931[(*)]
Smart									
Php500M	February 3, 2014	LBP	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on February 5, 2021	February 7, 2014	500	—	—	**485**	490
Smart									
Php2,000M	March 26, 2014	Union Bank	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on March 29, 2021	March 28, 2014	2,000	—	—	**1,940**	1,960
PLDT									
Php1,500M	April 2, 2014	Philam Life	Payable in full upon maturity on April 4, 2024	April 4, 2014	1,500	—	—	**1,500**	1,500
Smart									
Php500M	April 2, 2014	BDO	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on April 2, 2021	April 4, 2014	500	—	—	**485**	490
PLDT									
Php1,000M	May 23, 2014	Philam Life	Payable in full upon maturity on May 28, 2024	May 28, 2014	1,000	—	—	**1,000**	1,000
PLDT									
Php1,000M	June 9, 2014	LBP	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on June 13, 2024	June 13, 2014	1,000	—	—	**970**	980
PLDT									
Php1,500M	July 28, 2014	Union Bank	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on July 31, 2024	July 31, 2014	1,500	—	—	**1,455**	1,470
PLDT									
Php2,000M	February 25, 2015	BPI	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on March 24, 2025	Various dates in 2013-2014	2,000	—	—	**1,960**	1,980
PLDT									
Php3,000M	June 26, 2015	BPI	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on June 30, 2025	June 30, 2015	3,000	—	—	**2,940**	2,970
PLDT									
Php5,000M	August 3, 2015	Metrobank	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on September 23, 2025	Various dates in 2015	5,000	—	—	**4,900**	4,950
								Php23,412	Php23,622

[(*)] *Amounts are net of unamortized debt discount and/or debt issuance cost.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2017	2016
						(in millions)		(in millions)	
Smart									
Php5,000M	August 11, 2015	Metrobank	Annual amortization rate of 1% of the principal amount on the first year up to the ninth year commencing on the first year anniversary of the initial drawdown date and the balance payable upon maturity on September 1, 2025	September 1, 2015	Php5,000	Php–	—	**Php4,880(*)**	Php4,928(*)
Smart									
Php5,000M	December 11, 2015	BPI	Annual amortization rate of 1% of the principal amount on the first year up to the ninth year commencing on the first year anniversary of the initial drawdown date and the balance payable upon maturity on December 21, 2025	December 21, 2015	5,000	—	—	**4,880(*)**	4,927(*)
Smart									
Php5,000M	December 16, 2015	Metrobank	Annual amortization rate of 1% of the principal amount up to the tenth year commencing on the first year anniversary of the initial drawdown and the balance payable upon maturity on June 29, 2026	December 28, 2015	5,000	—	—	**4,879(*)**	4,927(*)
Smart									
Php7,000M	December 18, 2015	CBC	Annual amortization rate of 1% of the principal amount on the third year up to the sixth year from the initial drawdown date, with balance payable upon maturity on December 28, 2022	December 28, 2015 and February 24, 2016	7,000	—	—	**6,983(*)**	6,973(*)
PLDT									
Php3,000M	July 1, 2016	Metrobank	Annual amortization rate of 1% on the first year up to the ninth year from initial drawdown date and the balance payable upon maturity on February 22, 2027	February 20, 2017	3,000	—	—	**2,986(*)**	—
PLDT									
Php6,000M	July 1, 2016	Metrobank	Annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on August 30, 2023	August 30, 2016 and November 10, 2016	6,000	—	—	**5,915(*)**	5,971(*)
PLDT									
Php8,000M	July 14, 2016	Security Bank	Semi-annual amortization rate of 1% of the total amount drawn starting from the end of the first year after the initial drawdown date until the ninth year and the balance payable on maturity on March 1, 2027	February 27, 2017	8,000	—	—	**7,963(*)**	—
PLDT									
Php6,500M	September 20, 2016	BPI	Annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on November 2, 2023	November 2, 2016 and December 19, 2016	6,500	—	—	**6,407(*)**	6,483(*)
Smart									
Php3,000M	September 28, 2016	BDO	Annual amortization rate of 1% of the principal amount on the first year up to the ninth year commencing on the first year anniversary of the initial drawdown date and the balance payable upon maturity on October 5, 2026	October 5, 2016	3,000	—	—	**2,970**	2,985(*)
Smart									
Php5,400M	September 28, 2016	Union Bank	Annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first year anniversary of the initial drawdown date and the balance payable upon maturity on October 24, 2023	Various dates in 2013-2014	5,400	—	—	**5,333(*)**	5,374(*)
PLDT									
Php5,300M	October 14, 2016	BPI	Annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on December 19, 2023	December 19, 2016	5,300	—	—	**5,224(*)**	5,300(*)
Smart									
Php2,500M	October 27, 2016	CBC	Annual amortization rate of 10% of the amount drawn starting on the third year up to the sixth year, with balance payable upon maturity on December 8, 2023	December 8, 2016	2,500	—	—	**2,500**	2,500
								Php60,920	Php50,368

(*) *Amounts are net of unamortized debt discount and/or debt issuance cost.*

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts 2017	2016
					(in millions)			(in millions)	
Smart									
Php4,000M	October 28, 2016	Security Bank	Semi-annual amortization rate of 1% of the total amount drawn from first year up to the ninth year and the balance payable upon maturity on April 5, 2027	April 5, 2017	Php4,000	Php–	—	**Php1,971(*)**	Php–
Smart									
Php1,000M	December 16, 2016	PNB	Annual amortization rate of 1% of the amount drawn starting on the first anniversary of the advance up to the ninth anniversary of the advance and the balance payable upon maturity on December 7, 2027	December 7, 2017	1,000	—	—	**1,000**	—
Smart									
Php2,000M	December 22, 2016	LBP	Annual amortization rate of 1% of the amount drawn starting on the first anniversary of the advance up to the ninth anniversary of the advance and the balance payable upon maturity on January 21, 2028	January 22, 2018	2,000	—	—	—	—
PLDT									
Php3,500M	December 23, 2016	LBP	Annual amortization rate of 1% on the first year up to the ninth year after the drawdown date and the balance payable upon maturity on April 5, 2027	April 5, 2017	3,500	—	—	**3,484(*)**	—
Smart									
Php1,500M	April 18, 2017	PNB	Annual amortization rate of 1% of the amount drawn starting on the first anniversary of the advance up to the sixth year anniversary of the advance and the balance payable upon maturity on January 3, 2025	January 3, 2018	1,500	—	—	—	—
PLDT									
Php2,000M	May 24, 2017	Security Bank	Semi-annual amortization rate of Php10 million starting on October 5, 2017 and every six months thereafter with the balance payable upon maturity on April 5, 2027	May 29, 2017	2,000	—	—	**1,990**	—
PLDT									
Php3,500 M	July 5, 2017	LBP	Annual amortization rate of 1% on the first year up to the ninth year after the drawdown date and the balance payable upon maturity on July 12, 2027	July 10, 2017	3,500	—	—	**3,500**	—
PLDT									
Php1,500M	August 29, 2017	LBP	Annual amortization rate equivalent to 1% of the total loan payable on the first year up to the ninth year after the drawdown date and the balance payable upon maturity	—	—	—	—	—	—
Smart									
Php1,000M	September 28, 2017	Union Bank	Annual amortization rate of 1% of the amount drawn starting on the first year anniversary of the advance up to the ninth year anniversary of the advance and the balance payable upon maturity on February 21, 2028	February 19, 2018	1,000	—	—	—	—
								11,945	—
								Php 106,982	Php 90,833

(*) *Amounts are net of unamortized debt discount and/or debt issuance cost.*

Compliance with Debt Covenants

PLDT's debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, such as total debt to Adjusted EBITDA and interest cover ratio, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

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 20% and 31% were denominated in U.S. dollars as at December 31, 2017 and 2016, 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% each as at December 31, 2017 and 2016, 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. See *Note 28 – Financial Assets and Liabilities – Foreign Currency Exchange Risk*.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) making or permitting any material change in the character of its business; (b) selling, leasing, transferring or disposing of all or substantially all of its assets or any significant portion thereof other than in the ordinary course of business; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; and (e) merging or consolidating with any other company.

PLDT's debt instruments also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (f) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. Smart's loan agreements include compliance with financial tests such as Smart's consolidated debt to consolidated Adjusted EBITDA and debt service coverage ratio. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair the guarantors' ability to perform their obligations under its loan agreements.

The loan agreements with suppliers, banks (foreign and local alike) and other financial institutions provide for certain restrictions and requirements with respect to, among others, maintenance of percentage of ownership of specific shareholders, incurrence of additional long-term indebtedness or guarantees and creation of property encumbrances.

As at December 31, 2017 and 2016, we were in compliance with all of our debt covenants. See *Note 28 – Financial Assets and Liabilities – Derivative Financial Instruments*.

Obligations under Finance Leases

The consolidated future minimum payments for finance leases and the long-term portion of obligations under finance leases (which cover various office equipment and vehicles) amounted to Php679 thousand and Php994 thousand as at December 31, 2017 and 2016, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Leases, Note 9 – Property and Equipment* and *Note 28 – Financial Assets and Liabilities*.

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume, permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

22. Deferred Credits and Other Noncurrent Liabilities

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(in million pesos)	
Accrual of capital expenditures under long-term financing (Note 28)	**5,580**	13,673
Provision for asset retirement obligations	**1,630**	1,582
Unearned revenues	**324**	270
Others (Note 28)	**168**	79
	7,702	15,604

Accrual of capital expenditures under long-term financing represents expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks. See *Note 21 – Interest-bearing Financial Liabilities*.The following table summarizes all changes to asset retirement obligations for the years ended December 31, 2017 and 2016:

	2017	2016
	(in million pesos)	
Provision for asset retirement obligations at beginning of the year	**1,582**	1,437
Additional liability recognized during the period	**82**	147
Accretion expenses	**39**	36
Settlement of obligations and others	**(73)**	(38)
Provision for asset retirement obligations at end of the year	**1,630**	1,582

23. Accounts Payable

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(in million pesos)	
Suppliers and contractors (Note 28)	**54,196**	46,820
Carriers and other customers (Note 28)	**2,083**	2,422
Taxes (Note 27)	**1,952**	1,972
Related parties (Notes 25 and 28)	**451**	290
Others	**1,763**	1,446
	60,445	52,950

Accounts payable are non-interest-bearing and are normally settled within 180 days.

For terms and conditions pertaining to the payables to related parties, see *Note 25 – Related Party Transactions*.

For detailed discussion on the PLDT Group's liquidity risk management processes, see *Note 28 – Financial Assets and Liabilities – Liquidity Risk.*

24. Accrued Expenses and Other Current Liabilities

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(in million pesos)	
Accrued utilities and related expenses (Notes 25 and 28)	**53,433**	48,898
Accrued taxes and related expenses (Note 27)	**11,645**	9,922
Unearned revenues (Note 22)	**8,039**	6,990
Liability from redemption of preferred shares (Notes 20 and 28)	**7,870**	7,883
Accrued employee benefits and other provisions (Notes 25, 26 and 28)	**6,599**	6,214
Accrued interests and other related costs (Notes 21 and 28)	**1,176**	1,412
Provision for claims and assessments (Note 27)	**—**	897
Others (Note 10)	**1,978**	10,900
	90,740	93,116

Accrued utilities and related expenses pertain to costs incurred for electricity and water consumption, repairs and maintenance, selling and promotions, professional and other contracted services, rent, insurance and security services.

Accrued taxes and related expenses pertain to licenses, permits and other related business taxes, which are normally settled within a year.

Unearned revenues represent advance payments for leased lines, installation fees, monthly service fees and unused and/or unexpired portion of prepaid loads.

Other accrued expenses and other current liabilities are non-interest-bearing and are normally settled within a year. This pertains to other costs incurred for operations-related expenses pending receipt of invoice and statement of accounts from suppliers. The account as at December 31, 2016 includes the unpaid portion of PLDT's investments in VTI, Bow Arken and Brightshare. See *Note 10 – Investments in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare*.

25. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. Transactions with related parties are on an arm's length basis, similar to transactions with third parties.

Settlement of outstanding balances of related party transactions at year-end are expected to be settled with cash. The PLDT Group has not recorded any impairment of receivables relating to amounts owed by related parties as at December 31, 2017 and 2016. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The following table provides the summary of outstanding balances as at December 31, 2017 and 2016 transactions that have been entered into with related parties:

	Classifications	Terms	Conditions	2017	2016
				(in million pesos)	
Indirect investment in joint ventures through PCEV:					
Meralco	Accrued expenses and other current liabilities (Note 24)	Electricity charges – immediately upon receipt of invoice	Unsecured	**653**	327
	Accrued expenses and other current liabilities (Note 24)	Pole rental – 45 days upon receipt of billing	Unsecured	**5**	—
MPIC	Advances and other noncurrent assets – net of current portion (Note 10)	Due on 2019 to 2021 for 2017 and 2018 to 2020 for 2016; non-interest- bearing	Unsecured	**11,461**	6,514
	Trade and other receivables (Notes 10 and 17)	Due on June 2018 for 2017 and June 2017 for 2016; non-interest- bearing	Unsecured	**4,091**	1,838
Transactions with major stockholders, directors and officers:					
NTT Finance Corporation	Interest-bearing financial liabilities (Note 21)	Non-amortizing, payable upon maturity on March 30, 2023	Unsecured	**2,498**	1,244
NTT World Engineering Marine Corporation	Accrued expenses and other current liabilities (Note 24)	1st month of each quarter; non-interest-bearing	Unsecured	**33**	35
NTT Communications	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**9**	54
NTT Worldwide Telecommunications Corporation	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**6**	3
NTT DOCOMO	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	**11**	41
JGSHI and Subsidiaries	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	Immediately upon receipt of invoice	Unsecured	**11**	2
Malayan Insurance Co., Inc., or Malayan	Prepayments (Note 19)	Immediately upon receipt of invoice	Unsecured	**66**	83
	Accrued expenses and other current liabilities (Note 24)	Immediately upon receipt of invoice	Unsecured	**11**	11
Gotuaco del Rosario and Associates, or Gotuaco	Prepayments (Note 19)	Immediately upon receipt of invoice	Unsecured	**12**	4
	Accrued expenses and other current liabilities (Note 24)	Immediately upon receipt of invoice	Unsecured	**15**	—
Others:					
TV5 Network, Inc., or TV5	Prepayments (Note 19)	—	Unsecured	**277**	414
Dakila Cable TV Corp., or Dakila	Accrued expenses and other current liabilities (Note 24)	Immediately upon receipt of invoice	Unsecured	**125**	—
Various	Trade and other receivables (Note 17)	30 days upon receipt of invoice	Unsecured	**1,867**	1,416
	Accounts payable (Note 23)	Immediately upon receipt of billing	Unsecured	**365**	339
	Accrued expenses and other current liabilities (Note 24)	Immediately upon receipt of billing	Unsecured	**35**	39

The following table provides the summary of transactions that have been entered into with related parties for the years ended December 31, 2017, 2016 and 2015 in relation with the table above.

	Classifications	2017	2016	2015
			(in million pesos)	
Indirect investment in joint ventures through PCEV:				
Meralco	Repairs and maintenance	**2,397**	2,401	2,328
	Rent	**298**	272	264
Meralco Industrial Engineering Services Corporation, or MIESCOR	Repairs and maintenance	**117**	144	165
	Construction-in-progress	**81**	67	95
Transactions with major stockholders, directors and officers:				
NTT Finance Corporation	Financing costs	**56**	19	—
NTT World Engineering Marine Corporation	Repairs and maintenance	**47**	18	60
NTT Communications	Professional and other contracted services	**88**	77	77
	Rent	**4**	7	10
NTT Worldwide Telecommunications Corporation	Selling and promotions	**8**	10	14
NTT DOCOMO	Professional and other contracted services	**94**	95	90
JGSHI and Subsidiaries	Rent	**118**	125	303
	Repairs and maintenance	**69**	57	20
	Communication, training and travel	**2**	2	2
Malayan	Insurance and security services	**179**	242	236
Gotuaco	Insurance and security services	**126**	156	—
Asia Link B.V., or ALBV	Professional and other contracted services	**190**	183	203
Indirect investment in associate through ACeS Philippines:				
AIL	Cost of sales (Note 5)	**—**	—	16
Others:				
TV5	Selling and promotions	**149**	126	161
Dakila	Cost of services	**514**	116	51
Various	Revenues	**2,059**	781	864
	Expenses	**1,223**	1,113	972

a. *Agreements between PLDT and certain subsidiaries with Meralco*

In the ordinary course of business, Meralco provides electricity to PLDT and certain subsidiaries' offices within its franchise area. Total electricity costs, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php2,397 million, Php2,401 million and Php2,328 million for the years ended December 31, 2017, 2016 and 2015, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php653 million and Php327 million as at December 31, 2017 and 2016, respectively.

PLDT and Smart have a Pole Attachment Contracts with Meralco, wherein Meralco leases its pole spaces to accommodate PLDT's and Smart's cable network facilities. Total fees under these contracts, which were presented as part of rent in our consolidated income statements, amounted to Php298 million, Php272 million and Php264 million for the years ended December 31, 2017, 2016 and 2015, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php5 million and nil as at December 31, 2017 and 2016, respectively.

b. *Agreements between PLDT and MIESCOR*

PLDT has an existing Outside and Inside Plant Contracted Services Agreement with MIESCOR, a subsidiary of Meralco, which will expire on May 31, 2018. Under the agreement, MIESCOR assumes full and overall responsibility for the implementation and completion of any assigned project such as cable and civil works that are required for the provisioning and restoration of lines and recovery of existing plant.

Total fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php3 million, Php32 million and Php45 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total amounts capitalized to property and equipment amounted to Php5 million, Php4 million and Php3 million for the years ended December 31, 2017, 2016 and 2015, respectively. Under these agreements, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php610 thousand and Php25 thousand as at December 31, 2017 and 2016, respectively.

PLDT also has an existing Customer Line Installation, Repair, Rehabilitation and Maintenance Activities (formerly One Area One Partner for Outside Plant Subscriber Line Rehabilitation, Repair, Installation and Related Activities) agreement with MIESCOR, which will expire on December 31, 2018. Under the agreement, MIESCOR is responsible for the subscriber main station installation, repairs and maintenance of outside and inside plant network facilities in the areas awarded to them.

Total fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php114 million, Php112 million and Php120 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total amounts capitalized to property and equipment amounted to Php76 million, Php63 million and Php92 million for the years ended December 31, 2017, 2016 and 2015, respectively. There were no outstanding obligations under this agreement as at December 31, 2017 and 2016.

c. *Transactions with Major Stockholders, Directors and Officers*

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, had a direct or indirect material interest as at December 31, 2017 and 2016, and for the years ended December 31, 2017, 2016 and 2015 are as follows:

1. *Term Loan Facility Agreements with NTT Finance Corporation*

On March 22, 2016, PLDT signed a US$25 million term loan facility agreement with NTT Finance Corporation to finance its capital expenditure requirements for network expansion and service improvement and/or refinancing existing indebtedness. The loan is payable upon maturity on March 30, 2023. The loan was fully drawn on March 30, 2016. The amounts of US$25 million, or Php1,249 million, and US$25 million, or Php1,244 million, remained outstanding as at December 31, 2017 and 2016, respectively.

Another US$25 million term loan facility was signed with NTT Finance Corporation in January 31, 2017 to finance its capital expenditure requirements for network expansion and service improvement and/or refinancing existing indebtedness. The loan is payable upon maturity on March 27, 2024. The loan was fully drawn on March 30, 2017. The amount of US$25 million, or Php1,249 million, remained outstanding as at December 31, 2017.

2. *Various Agreements with NTT Communications and/or its Affiliates*

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- *Service Agreement.* On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant. The fees under this agreement, which were presented as part of repairs and maintenance in our consolidated income statements, amounted to Php47 million, Php18 million and Php60 million for the years ended December 31, 2017, 2016 and 2015, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php33 million and Php35 million as at December 31, 2017 and 2016, respectively;

- *Advisory Services Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000. The fees under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php88 million for the year ended December 31, 2017 and Php77 million for each of the years ended December 31, 2016 and 2015. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php7 million and Php52 million as at December 31, 2017 and 2016, respectively;

- *Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses. The fees under this agreement, which were presented as part of rent in our consolidated income statements, amounted to Php4 million, Php7 million and Php10 million for the years ended December 31, 2017, 2016 and 2015, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php2 million as at December 31, 2017 and 2016; and
- *Arcstar Licensing Agreement and Arcstar Service Provider Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines. The fees under this agreement, which were presented as part of selling and promotions in our consolidated income statements, amounted to Php8 million, Php10 million and Php14 million for the years ended December 31, 2017, 2016 and 2015, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php6 million and Php3 million as at December 31, 2017 and 2016, respectively.

3. *Advisory Services Agreement between NTT DOCOMO and PLDT*

An Advisory Services Agreement was entered into by NTT DOCOMO and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DOCOMO will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php94 million, Php95 million and Php90 million for the years ended December 31, 2017, 2016 and 2015, respectively. Under this agreement, the outstanding obligations of PLDT, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php11 million and Php41 million as at December 31, 2017 and 2016, respectively.

4. *Transactions with JGSHI and Subsidiaries*

PLDT and certain of its subsidiaries have existing agreements with Universal Robina Corporation and Robinsons Land Corporation for office and business office rental. Total fees under these contracts, which were presented as part of rent in our consolidated income statements, amounted to Php118 million, Php125 million and Php303 million for the years ended December 31, 2017, 2016 and 2015, respectively. Under these agreements, the outstanding obligations, which were presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php5 million and Php287 thousand as at December 31, 2017 and 2016, respectively.

There were also other transactions such as airfare, electricity, marketing expenses and bank fees, which were presented as part of selling and promotions, communication, training and travel, repairs and maintenance and professional and other contracted services, in our consolidated income statements, amounted to Php71 million, Php59 million and Php22 million for the years ended December 31, 2017, 2016 and 2015, respectively. Under these agreements, the outstanding obligations for these transactions, which were presented as part of accounts payable, and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php6 million and Php2 million as at December 31, 2017 and 2016, respectively.

5. *Transactions with Malayan*

PLDT and certain of its subsidiaries have insurance policies with Malayan covering directors, officers, liability to employees and material damages for buildings, building improvements, equipment and motor vehicles. The premiums are directly paid to Malayan. Total fees under these contracts, which were presented as part of insurance and security services in our consolidated income statements, amounted to Php179 million, Php242 million and Php236 million for the years ended December 31, 2017, 2016 and 2015, respectively. Under this agreement, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php11 million each as at December 31, 2017 and 2016. Under this agreement, outstanding prepayments, which were presented as part of prepayments in our consolidated statements of financial position, amounted to Php66 million and Php83 million as at December 31, 2017 and 2016, respectively.

6. *Transactions with Gotuaco*

Gotuaco acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. Total fees under these contracts, which were presented as part of insurance and security services in our consolidated income statement, amounted to Php126 million and Php156 million for the years ended December 31, 2017 and 2016, respectively. Under this agreement, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php15 million and Php597 thousand as at December 31, 2017 and 2016, respectively. Under this agreement, the outstanding prepayments, which were presented as part of prepayments in our consolidated statements of financial position, amounted to Php12 million and Php4 million as at December 31, 2017 and 2016, respectively.

7. *Agreement between Smart and ALBV*

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group and its Philippine affiliates. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business which provides for payment of technical service fees equivalent to a rate of 0.5% of the consolidated net revenues of Smart. Effective February 1, 2014, the parties agreed to reduce the technical service fee rate from 0.5% to 0.4% of the consolidated net revenues of Smart. The agreement, which expired on February 23, 2016 was renewed until February 23, 2018 and is subject to further renewal upon mutual agreement of the parties. Total service fees charged to operations under this agreement, which were presented as part of professional and other contracted services in our consolidated income statements, amounted to Php190 million, Php183 million and Php203 million for the years ended December 31, 2017, 2016 and 2015, respectively. Under this agreement, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to and nil as at December 31, 2017 and 2016.

8. *Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO*

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DOCOMO pursuant to a Stock SPA dated January 31, 2006 between NTT Communications and NTT DOCOMO, the FP Parties, NTT Communications and NTT DOCOMO entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DOCOMO, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- *Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DOCOMO*. Each of NTT Communications and NTT DOCOMO has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.
- *Limitation on Competition*. NTT Communications, NTT DOCOMO and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DOCOMO with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.
- *Business Cooperation*. PLDT and NTT DOCOMO agreed in principle to collaborate with each other on the business development, roll-out and use of a Wireless-Code Division Multiple Access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DOCOMO.
- *Additional Rights of NTT DOCOMO*. Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:

    1. NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the Board of Directors of each PLDT and Smart;
    2. PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DOCOMO, or which NTT DOCOMO has announced publicly an intention to carry on;
    3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and
    4. PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock as at December 31, 2017 and 2016.

- *Change in Control*. Each of NTT Communications, NTT DOCOMO and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A *"Hostile Transferee"* is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DOCOMO, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed; or (e) whose intention is otherwise not *bona fide*; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DOCOMO in good faith whether such person should be considered a Hostile Transferee.
- *Termination.* If NTT Communications, NTT DOCOMO or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

d. Air Time Purchase Agreement between PLDT, AIL and Related Agreements

Under the Founder NSP Air Time Purchase Agreement, or ATPA, entered into with AIL in March 1997, which was amended in December 1998, or Original ATPA, PLDT was granted the exclusive right to sell AIL services, through ACeS Philippines, as national service provider, or NSP, in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AIL a minimum of US$5 million worth of air time, or Minimum Air Time Purchase Obligation, annually for ten years commencing on January 1, 2002, or the Minimum Purchase Period, the expected date of commercial operations of the Garuda I Satellite. In the event that AIL's aggregate billed revenue was less than US$45 million in any given year, the Original ATPA also required PLDT to make supplemental air time purchase payments of up to US$15 million per year during the Minimum Purchase Period, or the Supplemental Air Time Purchase Obligation.

On February 1, 2007, the parties to the Original ATPA entered into an amendment to the Original ATPA on substantially the terms attached to the term sheet negotiated with the relevant banks, or Amended ATPA. Under the Amended ATPA, the Minimum Air Time Purchase Obligation was amended and replaced in its entirety with the obligation of PLDT to purchase from AIL a minimum of US$500 thousand worth of air time annually over a period ending upon the earlier of: (i) the expiration of the Minimum Purchase Period; and (ii) the date on which all indebtedness incurred by AIL to finance the AIL System is repaid. Furthermore, the Amended ATPA unconditionally released PLDT from any obligations arising out of or in connection with the Original ATPA prior to the date of the Amended ATPA, except for obligations to pay for billable units used prior to such date.

In December 2014, AIL suffered a failure of the propulsion system on board the Garuda I Satellite, thus, AIL decided to decommission the operation of Garuda I Satellite in January 2015.

Subsequently, AIL and Inmarsat entered into a 12-month transitional period, wherein AIL shall continue to utilize Inmarsat system through I4F1 Satellite. On December 31, 2015, end of the transition period, AIL then terminated all satellite phone service subscriptions with Inmarsat.

Total fees under the Amended ATPA, which were presented as part of cost of sales in our consolidated income statements, amounted to nil for the years ended December 31, 2017 and 2016 and Php16 million for the year ended December 31, 2015. See *Note 5 – Income and Expenses – Cost of Sales*. Under the Amended ATPA, the outstanding obligations of PLDT, which were presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to nil as at December 31, 2017 and 2016.

e. *Others*

1. *Agreement of PLDT and Smart with TV5*

   In 2010, PLDT and Smart entered into advertising placement agreements with TV5, a subsidiary of MediaQuest, which is a wholly-owned investee company of PLDT Beneficial Trust Fund for the airing and telecast of advertisements and commercials of PLDT and Smart on TV5's television network for a period of five years. The costs of telecast of each advertisement shall be applied and deducted from the placement amount only after the relevant advertisement or commercial is actually aired on TV5's television network. In June 2014, Smart and TV5 agreed to amend the liquidation schedule under the original advertising placement agreement by extending the term of expiry from 2015 to 2018. Total selling and promotions under the advertising placement agreements amounted to Php149 million, Php126 million and Php161 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total prepayment under the advertising placement agreements amounted to Php277 million and Php414 million as at December 31, 2017 and 2016, respectively.

2. *Agreement of PLDT, Smart and DMPI with Dakila*

   In May 2015, PLDT, Smart and DMPI entered into a four-year agreement with Dakila commencing with the launch of the OTT video-on-demand service, or *iflix* service, in the Philippines on June 18, 2015. *iflix* service is provided by iFlix Sdn Bhd and Dakila is the authorized reseller of the *iflix* service in the Philippines. Under the agreement, PLDT, Smart and DMPI were appointed by Dakila to act as its internet service providers with an authority to resell and distribute the *iflix* service to their respective subscribers on a monthly and annual basis. Content cost recognized for the years ended December 31, 2017, 2016 and 2015 amounted to Php514 million, Php115 million and Php51 million, respectively. There were no prepayments under this agreement as at December 31, 2017 and 2016.

3. *Telecommunications services provided by PLDT and certain of its subsidiaries and other transactions with various related parties*

   PLDT and certain of its subsidiaries provide telephone, data communication and other services to various related parties. The revenues under these services amounted to Php2,059 million, Php781 million and Php864 million for the years ended December 31, 2017, 2016 and 2015, respectively. The expenses under these services amounted to Php1,223 million, Php1,113 million and Php972 million for the years ended December 31, 2017, 2016 and 2015, respectively.

   The outstanding receivables of PLDT and certain of its subsidiaries, which were presented as part of trade and other receivables in our consolidated statements of financial position amounted to Php1,867 million and Php1,416 million as at December 31, 2017 and 2016, respectively. Under these agreements, the outstanding obligations, which were presented as part of accounts payable in our consolidated statements of financial position amounted to Php365 million and Php339 million as at December 31, 2017 and 2016, respectively, and accrued expenses and other current liabilities amounted to Php35 million and Php39 million as at December 31, 2017 and 2016, respectively.

   See *Note 10 – Investments in Associates and Joint Ventures – Investment in MediaQuest PDRs* and *Sale of PCEV's Beacon Preferred Shares to MPIC* for other related party transactions.

Compensation of Key Officers of the PLDT Group

The compensation of key officers of the PLDT Group by benefit type for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
	(in million pesos)		
Short-term employee benefits	**325**	527	602
Post-employment benefits (Note 26)	**27**	50	43
Total compensation paid to key officers of the PLDT Group	**352**	577	645

Effective January 2014, each of the directors, including the members of the advisory board of PLDT, was entitled to a director's fee in the amount of Php250 thousand for each board meeting attended. Each of the members or advisors of the audit, executive compensation, governance and nomination, and technology strategy committees was entitled to a fee in the amount of Php125 thousand for each committee meeting attended.

Total fees paid for board meetings and board committee meetings amounted to Php72 million, Php57 million and Php55 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Except for the fees mentioned above, the directors are not compensated, directly or indirectly, for their services as such.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

The amounts disclosed in the table are the amounts recognized as expenses during the period related to key management personnel.

26. Employee Benefits

Pension

Defined Benefit Pension Plans

PLDT has defined benefit pension plans, operating under the legal name "The Board of Trustees for the account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT Company" and covering all of our permanent and regular employees. Certain subsidiaries of PLDT have not yet drawn up a specific retirement plan for its permanent or regular employees. For the purpose of complying with Revised IAS 19, pension benefit expense has been actuarially computed based on defined benefit plan.

PLDT's actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of prepaid benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
		(in million pesos)	
Changes in the present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	**23,142**	21,602	23,072
Interest costs on benefit obligation	**1,180**	1,071	1,050
Service costs	**1,158**	1,066	1,113
Actuarial losses – experience	**423**	369	3
Actuarial gains – economic assumptions	**(1,277)**	(694)	(1,414)
Actual benefits paid/settlements	**(2,723)**	(241)	(2,112)
Curtailments and others (Note 5)	**(400)**	(31)	(110)
Present value of defined benefit obligations at end of the year	**21,503**	23,142	21,602
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	**11,960**	11,439	9,950
Actual contributions	**5,122**	5,708	7,086
Interest income on plan assets	**641**	600	519
Return on plan assets (excluding amount included in net interest)	**(2,466)**	(5,546)	(4,004)
Actual benefits paid/settlements	**(2,723)**	(241)	(2,112)
Fair value of plan assets at end of the year	**12,534**	11,960	11,439
Unfunded status – net	**(8,969)**	(11,182)	(10,163)
Accrued benefit costs	**8,984**	11,197	10,178
Prepaid benefit costs (Note 19)	**15**	15	15
Components of net periodic benefit costs:			
Service costs	**1,158**	1,066	1,113
Interest costs – net	**539**	471	531
Curtailment/settlement losses and other adjustments	**(341)**	—	(29)
Net periodic benefit costs (Note 5)	**1,356**	1,537	1,615

Actual net losses on plan assets amounted to Php1,825 million, Php4,946 million and Php3,485 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Based on the latest actuarial valuation, our expected contribution to the defined benefit plan in 2018 will amount to Php1,416 million.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at December 31, 2017:

	(in million pesos)
2018	268
2019	444
2020	423
2021	662
2022	844
2023 to 2060	91,691

The average duration of the defined benefit obligation at the end of the reporting period is 8 to 19 years.

The weighted average assumptions used to determine pension benefits for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Rate of increase in compensation	**6.0%**	6.0%	6.0%
Discount rate	**5.8%**	5.3%	5.0%

We have adopted mortality rates in accordance with the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries, which provides separate rates for males and females.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2017 and 2016, assuming if all other assumptions were held constant:

	Increase (Decrease)	
	(in million pesos)	
Discount rate	**1%**	**(2,262)**
	(1%)	**2,638**
Future salary increases	**1%**	**2,606**
	(1%)	**(2,288)**

PLDT's Retirement Plan

The Board of Trustees, which manages the beneficial trust fund, is composed of: (i) a member of the Board of Directors of PLDT, who is not a beneficiary of the Plan; (ii) a member of the Board of Directors or a senior officer of PLDT, who is a beneficiary of the Plan; (iii) a senior member of the executive staff of PLDT; and (iv) two persons who are not executives nor employees of PLDT.

Benefits are payable in the event of termination of employment due to: (i) compulsory, optional, or deferred retirement; (ii) death while in active service; (iii) physical disability; (iv) voluntary resignation; or (v) involuntary separation from service. For a plan member with less than 15 years of credited services, retirement benefit is equal to 100% of final compensation for every year of service. For those with at least 15 years of service, retirement benefit is equal to 125% of final compensation for every year of service, with such percentage to be increased by an additional 5% for each completed year of service in excess of 15 years, but not to exceed a maximum of 200%. In case of voluntary resignation after attainment of age 40 and completion of at least 15 years of credited service, benefit is equal to a percentage of his vested retirement benefit, in accordance with percentages prescribed in the retirement plan.

The Board of Trustees of the beneficial trust fund uses an investment approach with the objective of maximizing the long-term expected return of plan assets.

The majority of the Plan's investment portfolio consists of listed and unlisted equity securities while the remaining portion consists of passive investments like temporary cash investments and fixed income investments.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk.

Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the Board of Trustees invest at least the equivalent amount of actuarially computed expected compulsory retirement benefit payments for the period to liquid/semi-liquid assets such as treasury notes, treasury bills, savings and time deposits with commercial banks.

Price risk pertains mainly to fluctuations in market prices of equity securities listed in the PSE. In order to effectively manage price risk, the Board of Trustees continuously assess these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

The following table sets forth the fair values, which are equal to the carrying values, of PLDT's plan assets recognized as at December 31, 2017 and 2016:

	2017	2016
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Unlisted equity investments	**9,372**	8,898
Shares of stock	**2,510**	2,426
Corporate bonds	**111**	106
Government securities	**22**	23
Investment properties	**4**	4
Mutual funds	**30**	3
Total noncurrent financial assets	**12,049**	11,460
Current Financial Assets		
Cash and cash equivalents	**396**	412
Receivables	**4**	4
Total current financial assets	**400**	416
Total PLDT's Plan Assets	**12,449**	11,876
Subsidiaries Plan Assets	**85**	84
Total Plan Assets of Defined Benefit Pension Plans	**12,534**	11,960

Investment in shares of stocks is valued using the latest bid price at the reporting date. Investments in corporate bonds, mutual funds and government securities are valued using the market values at reporting date. Investment properties are valued using the latest available appraised values.

Unlisted Equity Investments

As at December 31, 2017 and 2016, this account consists of:

	2017	2016	2017	2016
	% of Ownership		(in million pesos)	
MediaQuest	**100%**	100%	**8,696**	8,267
Tahanan Mutual Building and Loan Association, Inc.or TMBLA, (net of subscriptions payable of Php32 million)	**100%**	100%	**435**	400
BTFHI	**100%**	100%	**201**	192
Superior Multi Parañaque Homes, Inc.	**100%**	100%	**39**	38
Bancholders, Inc.	**100%**	100%	**1**	1
			9,372	8,898

Investments in MediaQuest

MediaQuest was registered with the Philippine SEC on June 29, 1999 primarily to purchase, subscribe for or otherwise acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property or every kind and description, and to pay thereof in whole or in part, in cash or by exchanging, stocks, bonds and other evidences of indebtedness or securities of this any other corporation. Its investments include common shares of stocks of various communication, broadcasting and media entities.

Investments in MediaQuest are carried at fair value. The VIU calculations were derived from cash flow projections over a period of three to five years based on the 2018 financial budgets approved by the MediaQuest's Board of Directors and calculated terminal value. Loss on changes in fair value of the investments for the year ended December 31, 2017 and 2016 amounted to Php2.1 billion and Php4.9 billion, respectively, are recognized in the statements of changes in net assets available for plan benefits under "Net fair value gain (loss) on investments."

On May 8, 2012, the Board of Trustees of the Beneficial Trust Fund approved the issuance by MediaQuest of PDRs amounting to Php6 billion. The underlying shares of these PDRs are the shares of stocks of Cignal TV held by MediaQuest through Satventures (Cignal TV PDRs). On the same date, MediaQuest Board of Directors approved the investment in Cignal TV PDRs by ePLDT, which gave ePLDT a 40% economic interest in Cignal TV. In June 2012, MediaQuest received a deposit for future PDRs subscription of Php4 billion from ePLDT. Additional deposits of Php1 billion each were received on July 6, 2012 and August 9, 2012.

On January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php3.6 billion. The underlying shares of these additional PDRs are the shares of Satventures held by MediaQuest (Satventures PDRs), the holder of which will have a 40% economic interest in Satventures. Satventures is a wholly-owned subsidiary of MediaQuest and the investment vehicle for Cignal TV. From March to August 2013, MediaQuest received from ePLDT an amount aggregating to Php3.6 billion representing deposits for future PDRs subscription. The Satventures PDRs and Cignal TV PDRs were subsequently issued on September 27, 2013, providing ePLDT an effective 64% economic interest in Cignal TV.

Also, on January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php1.95 billion. The underlying shares of these additional PDRs are the shares of stocks of Hastings held by MediaQuest (Hastings PDRs). Hastings is a wholly-owned subsidiary of MediaQuest, which holds all the print-related investments of MediaQuest, including equity interests in the three leading newspapers: The Philippine Star, Philippine Daily Inquirer, and Business World. From June 2013 to October 2013, MediaQuest received from ePLDT an amount aggregating to Php1.95 billion representing deposits for future PDRs subscription.

On February 19, 2014, ePLDT's Board of Directors approved an additional Php500 million investment in Hastings PDRs. On March 11, 2014, MediaQuest received from ePLDT an amount aggregating to Php300 million representing deposits for future PDRs subscription. As at December 31, 2014, total deposit for PDRs subscription amounted to Php2,250 million.

On May 21, 2015, ePLDT's Board of Directors approved an additional Php800 million investment in Hastings PDRs and settlement of the Php200 million balance of the Php500 million Hastings PDR investment in 2014. Subsequently, on June 1, 2015, the Board of Trustees of the Beneficial Trust Fund and the Board of Directors of MediaQuest approved the issuance of Php3,250 million Hastings PDRs. This provided ePLDT with 70% economic interest in Hastings. See *Note 10 – Investments in Associates and Joint Ventures – Investment in MediaQuest PDRs*.

In 2016 and 2017, the Board of Trustees of the Beneficial Trust Fund approved additional investment in MediaQuest amounting to Php5,500 million and Php2,500 million, respectively, to fund MediaQuest's investment requirements. The full amount was fully drawn by MediaQuest during 2016 and 2017.

On February 2, 2018, the Board of Trustees of the Beneficial Trust Fund approved the acquisition, through a Deed of Assignment, of Hastings PDRs with 70% economic interest in Hastings from ePLDT for the amount of Php1,664 million. The assignment was completed on February 15, 2018 providing the PLDT Beneficial Trust Fund with 100% economic interest in Hastings. See *Note 10 – Investments in Associates and Joint Ventures – Investment in MediaQuest PDRs*.

Other key assumptions used in the cash flow projections include revenue growth rate, direct costs and capital expenditures. The pre-tax discount rates applied to cash flow projections range from 10% to 11%. Cash flows beyond the five-year period are determined using 0% to 4.8% growth rates.

Investment in TMBLA

TMBLA was incorporated for the primary purpose of accumulating the savings of its stockholders and lending funds to them for housing programs. The beneficial trust fund has a direct subscription in shares of stocks of TMBLA in the amount of Php112 million. The related unpaid subscription of Php32 million is included in unlisted equity investments. The cumulative change in the fair market values of this investment amounted to Php355 million and Php320 million as at December 31, 2017 and 2016, respectively.

Investment in BTFHI

BTFHI was incorporated for the primary purpose of acquiring voting preferred shares in PLDT and while the owner, holder of possessor thereof, to exercise all the rights, powers, and privileges of ownership or any other interest therein.

On October 26, 2012, BTFHI subscribed to a total of 150 million shares of Voting Preferred Stock of PLDT at a subscription price of Php1.00 per share for a total subscription price of Php150 million. Total cash dividend income amounted to Php10 million for each of the years ended December 31, 2017, 2016 and 2015. Dividend receivables amounted to Php2 million as at December 31, 2017 and 2016.

Shares of Stocks

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(in million pesos)	
Common shares		
PSE	**1,555**	1,590
PLDT	**39**	36
Others	**556**	440
Preferred shares	**360**	360
	2,510	2,426

Dividends earned on PLDT common shares amounted to Php2 million, Php3 million and Php2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Preferred shares represent 300 million unlisted preferred shares of PLDT at Php10 par value, net of subscription payable of Php2,640 million as at December 31, 2017 and 2016, . These shares, which bear dividend of 13.5% per annum based on the paid-up subscription price, are cumulative, non-convertible and redeemable at par value at the option of PLDT. Dividends earned on this investment amounted to Php47 million for each of the years ended December 31, 2017 and 2016, and Php49 million for the year ended December 31, 2015.

Corporate Bonds

Investment in corporate bonds includes various long-term peso and dollar denominated bonds with maturities ranging from August 2019 to June 2027 and fixed interest rates from 4.38% to 6.94% per annum. Total investment in corporate bonds amounted to Php111 million and Php106 million as at December 31, 2017 and 2016, respectively.

Government Securities

Investment in government securities includes Fixed Rate Treasury Notes bearing interest rate of 5.88% per annum. These securities are fully guaranteed by the government of the Republic of the Philippines. Total investment in government securities amounted to Php22 million and Php23 million as at December 31, 2017 and 2016, respectively.

Investment Properties

Investment properties include one condominium unit (a bare 58 square meter unit) located in Ayala-FGU Building along Alabang-Zapote Road in Muntinlupa City. A similar unit of a larger floor area (127 square meters) located on the same building was sold in April 2016. Total fair value of investment properties amounted to Php4 million each as at December 31, 2017 and 2016.

The asset allocation of the Plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor. This considers the expected benefit cash flows to be matched with asset durations.

Mutual Funds

Investment in mutual funds includes a local equity fund, which aims to out-perform benchmarks in various indices as part of its investment strategy. Total investment in mutual funds amounted to Php30 million and Php3 million as at December 31, 2017 and 2016, respectively.

The allocation of the fair value of the assets for the PLDT pension plan as at December 31, 2017 and 2016 are as follows:

	2017	2016
Investments in listed and unlisted equity securities	**95%**	95%
Temporary cash investments	**3%**	4%
Mutual funds	**1%**	1%
Debt and fixed income securities	**1%**	—
	100%	100%

Defined Contribution Plans

Smart's and certain of its subsidiaries' contributions to the plan are made based on the employees' years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and certain of its subsidiaries regularly monitor compliance with R.A. 7641. As at December 31, 2017 and 2016, Smart and certain of its subsidiaries were in compliance with the requirements of R.A. 7641.

Smart's and certain of its subsidiaries' actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of prepaid benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
		(in million pesos)	
Changes in the present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	**2,177**	2,116	2,149
Service costs	**269**	284	289
Interest costs on benefit obligation	**113**	94	98
Actuarial losses (gains) – economic assumptions	**29**	1	(67)
Actuarial gains – experience	**(6)**	(77)	(217)
Actual benefits paid/settlements	**(92)**	(226)	(96)
Curtailment and others	—	(15)	(40)
Present value of defined benefit obligations at end of the year	**2,490**	2,177	2,116
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	**2,414**	2,388	2,205
Actual contributions	**335**	201	227
Interest income on plan assets	**131**	125	92
Return on plan assets (excluding amount included in net interest)	**74**	(74)	(40)
Actual benefits paid/settlements	**(92)**	(226)	(96)
Fair value of plan assets at end of the year	**2,862**	2,414	2,388
Funded status – net	**372**	237	272
Accrued benefit costs	**13**	9	19
Prepaid benefit costs (Note 19)	**385**	246	291
Components of net periodic benefit costs:			
Service costs	**269**	284	289
Interest costs – net	**(18)**	(31)	7
Curtailment/settlement gain	—	(15)	(23)
Net periodic benefit costs (Note 5)	**251**	238	273

Smart's net consolidated pension benefit costs amounted to Php251 million, Php238 million and Php273 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Actual net gains on plan assets amounted to Php205 million, Php51 million and Php52 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Based on the latest actuarial valuation, Smart and certain of its subsidiaries expect to contribute the amount of approximately Php305 million to its defined benefit plan in 2018.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at December 31, 2017:

	(in million pesos)
2018	129
2019	85
2020	135
2021	99
2022	159
2023 to 2060	1,194

The average duration of the defined benefit obligation at the end of the reporting period is 12 to 20 years.

The weighted average assumptions used to determine pension benefits for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Rate of increase in compensation	**5.0%**	**5.0%**	5.0%
Discount rate	**5.8%**	**5.2%**	5.0%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2017, assuming if all other assumptions were held constant:

	Increase (Decrease)	
	(in million pesos)	
Discount rate	**(1%)**	**(6)**
	1%	**11**
Future salary increases	**1%**	**11**
	(1%)	**(6)**

Smart's Retirement Plan

The fund is being managed and invested by BPI Asset Management and Trust Group, as Trustee, pursuant to an amended trust agreement dated February 21, 2012.

The plan's investment portfolio seeks to achieve regular income, long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the Trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. The portfolio mix is kept at 60% to 90% for debt and fixed income securities, while 10% to 40% is allotted to equity securities.

The following table sets forth the fair values, which are equal to the carrying values, of Smart's plan assets recognized as at December 31, 2017 and 2016:

	2017	2016
	(in million pesos)	
Noncurrent Financial Assets		
Investments in:		
Domestic fixed income	**1,721**	1,390
International equities	**557**	475
Domestic equities	**555**	379
Philippine foreign currency bonds	**373**	478
International fixed income	**361**	163
Total noncurrent financial assets	**3,567**	2,885
Current Financial Assets		
Cash and cash equivalents	**153**	237
Receivables	**8**	1
Total current financial assets	**161**	238
Total plan assets	**3,728**	3,123
Employee's share, forfeitures and mandatory reserve account	**866**	709
Total Plan Assets of Defined Contribution Plans	**2,862**	2,414

Domestic Fixed Income

Investments in domestic fixed income include Philippine peso denominated bonds, such as government securities and corporate debt securities, with fixed interest rates from 2.8% to 10.13% per annum. Total investments in domestic fixed income amounted to Php1,721 million and Php1,390 million as at December 31, 2017 and 2016, respectively.

International Equities

Investments in international equities include mutual funds managed by Wellington equity funds. Total investment in international equities amounted to Php557 million and Php475 million as at December 31, 2017 and 2016, respectively.

Domestic Equities

Investments in domestic equities include direct equity investments in common shares listed in the PSE. These investments earn on stock price appreciation and dividend payments. Total investment in domestic equities amounted to Php555 million and Php379 million as at December 31, 2017 and 2016, respectively. This includes investment in PLDT shares with fair value of Php24 million and Php11 million as at December 31, 2017 and 2016, respectively.

Philippine Foreign Currency Bonds

Investments in Philippine foreign currency bonds include U.S. dollar denominated fixed income instruments issued by the Philippine government and local corporations with fixed interest rates from 2.47% to 10.63% per annum. Total investment in Philippine foreign currency bonds amounted to Php373 million and Php478 million as at December 31, 2017 and 2016, respectively.

International Fixed Income

Investments in international fixed income include mutual funds which are invested in Pacific Investment Management Company and iShares funds,, a diversified portfolio of high-yield foreign currency denominated bonds. Total investments in international fixed income amounted to Php361 million and Php163 million as at December 31, 2017 and 2016, respectively.

Cash and Cash Equivalents

This pertains to the fund's excess liquidity in Philippine peso and U.S. dollars including investments in time deposits, money market funds and other deposit products of banks with duration or tenor less than a year.

The asset allocation of the Plan is set and reviewed from time to time by the Plan Trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor. This considers the expected benefit cash flows to be matched with asset durations.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk.

Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the Plan Trustees invest a portion of the fund in readily tradeable and liquid investments which can be sold at any given time to fund liquidity requirements.

Price risk pertains mainly to fluctuations in market prices of equity securities listed in the PSE. In order to effectively manage price risk, the Plan Trustees continuously assess these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

The allocation of the fair value of Smart and certain of its subsidiaries pension plan assets as at December 31, 2017 and 2016 is as follows:

	2017	2016
Investments in debt and fixed income securities and others	**70%**	73%
Investments in listed and unlisted equity securities	**30%**	27%
	100%	100%

Other Long-term Employee Benefits

On September 26, 2017, the Board of Directors of PLDT approved the TIP, which intends to provide incentive compensation to key officers, executives and other eligible participants who are consistent performers and contributors to the Company's strategic and financial goals. The incentive compensation will be in the form of Performance Shares, PLDT common shares of stock, which will be released in three annual grants on the condition, among others, that pre-determined consolidated core net income targets are successfully achieved over three annual performance periods from January 1, 2017 to December 31, 2019. On September 26, 2017, the Board of Directors approved the acquisition of 860 thousand Performance Shares to be awarded under the TIP, of which approximately 211 thousand shares are allotted for the 2017 annual grant and will be released to selected participants subject to the achievement of the consolidated core net income target for the year 2017. On March 7, 2018, the Executive Compensation Committee, or ECC, of the Board approved the acquisition of additional 54 thousand shares, increasing the total Performance Shares to 914 thousand Metropolitan Bank and Trust Company, or Metrobank, through its Trust Banking Group, is the appointed Trustee of the trust established for purposes of the TIP. The Trustee is designated to acquire the PLDT common shares in the open market through the facilities of the PSE, and administer their distribution to the eligible participants subject to the terms and conditions of the TIP. As at March 27, 2018, a total of 553 thousand PLDT common shares have been acquired by the Trustee. The TIP will be administered by the ECC of the Board. The expense accrued for the TIP amounted to Php827 million million as at December 31, 2017 and is presented as equity reserves in our consolidated statement of financial position.. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Pension Benefit Costs and Other Employee Benefits* and *Note 5 – Income and Expenses – Compensation and Employee Benefits*.

27. Provisions and Contingencies

PLDT's Local Business and Franchise Tax Assessments

Pursuant to a decision of the Supreme Court on March 25, 2003 in the case of *PLDT vs. City of Davao* declaring PLDT not exempt from the local franchise tax, PLDT started paying local franchise tax to various Local Government Units, or LGUs. As at December 31, 2017, PLDT has no contested LGU assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT filed a protest on November 3, 2017 against the imposition of local business tax in addition to the local franchise tax issued by the City of Roxas covering the years 2013 to 2017. On February 19, 2018, the City of Roxas cancelled the previously issued notice of business tax assessment.

Smart's Local Business and Franchise Tax Assessments

The Province of Cagayan issued a tax assessment against Smart for alleged local franchise tax. In 2011, Smart appealed the assessment to the Regional Trial Court, or RTC, of Makati on the ground that Smart cannot be held liable for local franchise tax mainly because it has no sales office within the Province of Cagayan pursuant to Section 137 of the Local Government Code (Republic Act No. 7160). The RTC issued a TRO and a writ of preliminary injunction. On April 30, 2012, the RTC rendered a decision nullifying the tax assessment. The Province of Cagayan was also directed to cease and desist from imposing local franchise taxes on Smart's gross receipts. The Province of Cagayan then appealed to the Court of Tax Appeals, or CTA. In a Decision promulgated on July 25, 2013, the CTA ruled that the franchise tax assessment is null and void for lack of legal and factual justifications. Cagayan's Motion for Reconsideration was denied. Cagayan then appealed before the CTA En Banc. The CTA En Banc issued a Decision dated December 8, 2015 affirming the nullity of the tax assessment. On January 26, 2016, Cagayan filed a Motion for Partial Reconsideration with the CTA En Banc.

In 2016, Cagayan issued another local franchise tax assessment against Smart covering years 2011-2015. Using the same grounds in the first case, Smart appealed the assessment with the RTC of Tuguegarao where the case is pending.

In 2015, the City of Manila issued assessments for alleged business tax deficiencies and cell sites regulatory fees and charges. Smart protested the assessments. After Manila denied the protest, Smart appealed to the RTC of the City of Manila, arguing that it is not liable for local business taxes on income realized from its telecommunications operations and that the assessments were a clear circumvention of Manila City Ordinance No. 8299 exempting Smart from the payment of local franchise tax. The assessment for regulatory fees was contested for being void, as they were made without a valid and legal basis. In the Decision promulgated on March 9, 2016, the RTC declared the local business tax and cell site regulatory fee assessments as invalid and void. The City of Manila filed a Petition for Review with the CTA seeking to reverse the Decision. Smart has already filed its Comment to the Petition and awaiting for further orders from the Court. Through a Decision dated December 18, 2017, the Court dismissed the Petition for lack of jurisdiction.

Digitel's Franchise Tax Assessment and Real Property Tax Assessment

As at March 8, 2018, Digitel is currently in discussions with various local government units for the settlement of its franchise tax and real property tax liabilities within their respective jurisdiction.

DMPI's Local Business and Real Property Taxes Assessments

In *DMPI vs. City of Cotabato*, DMPI filed a Petition in 2010 for Prohibition and Mandamus against the City of Cotabato due to their threats to close its cell sites due to alleged real property tax delinquencies. The RTC denied the petition. DMPI appealed with the CTA. On December 29, 2017, the CTA dismissed DMPI's Petition for Review on the ground of lack of jurisdiction. On January 12, 2018, DMPI filed its Motion for Reconsideration.

In the *DMPI vs. City Government of Malabon*, DMPI filed a Petition for Prohibition and Mandamus against the LGU to prevent the auction sale of DMPI sites in its jurisdiction for alleged real property tax liabilities. DMPI was able to secure a TRO to defer the sale. Through a Judgment dated October 6, 2017, the RTC of Malabon approved the compromise agreement executed by the parties which will result on the dismissal of the case after payment by DMPI of the amount of Php8 million as real property tax on its towers and improvements. The parties are still awaiting for the confirmation of the computation by the City Assessor's Office of Malabon.

DMPI's Local Tower Fee Assessments

In *DMPI vs. Municipality of San Mateo*, DMPI filed in 2011 a petition for Prohibition and Mandamus with Preliminary Injunction and TRO against the Tower Fee Ordinance of the Municipality of San Mateo. In 2014, the RTC ruled in favor of DMPI and declared the ordinance void and without legal force and effect. The Municipality of San Mateo appealed with the CA. The case has been submitted for resolution.

Meanwhile, in *DMPI vs. the City Government of Santiago City and the City Permits and License Inspection Office of Santiago City, Isabela* (CA-G.R. SP No. 127253) (Special Civil Action Case No. 36-0360, February 2011), the City Government of Santiago City filed an appeal with the CA after the lower court granted DMPI's petition and ruled as unconstitutional the provision of the ordinance imposing the Php200 thousand per cell site per annum. On May 5, 2015, the Appeal was dismissed and the ruling issued by the trial court was affirmed.

DMPI vs. City of Trece Martires – In 2010, DMPI petitioned to declare void the City of Trece Martires ordinance of imposing tower fee of Php150 thousand for each cell site annually. Application for the issuance of a preliminary injunction by DMPI is pending resolution.

ACeS Philippines' Local Business and Franchise Tax Assessments

ACeS Philippines has a pending case with the Supreme Court (*ACeS Philippines Satellite Corporation vs. Commissioner of Internal Revenue* Supreme Court G.R. No. 226680) for alleged 2006 deficiency withholding tax. On July 23, 2014, the CTA Second Division affirmed the assessment of the Commissioner of Internal Revenue for deficiency basic withholding tax, surcharge plus deficiency interest and delinquency interest amounting to Php87 million. On November 18, 2014, ACeS Philippines filed a Petition for Review with the CTA En Banc. On August 16, 2016, the CTA En Banc also affirmed the assessment with finality. Hence, on October 19, 2016, ACeS Philippines filed a petition before the Supreme Court assailing the decision of the CTA. ACeS Philippines intends to file a formal request for compromise of tax liabilities before the BIR while the case is pending before the Supreme Court. On February 23, 2017 and March 15, 2017, respectively, the Company paid and filed a formal request for compromise of tax liabilities amounting to Php27 million before the BIR while the case is pending before the Supreme Court. No outstanding Letter of Authority for other years.

Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI

Since 1990 up to the present, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. Among PLDT's claims against ETPI are ETPI's alleged uncompensated bypass of PLDT's systems from July 1, 1998 to November 28, 2003; unpaid access charges from July 1, 1999 to November 28, 2003; and non-payment of applicable rates for Off-Net and On-Net traffic from January 1, 1999 to November 28, 2003 arising from ETPI's unilateral reduction of its rates for the Philippines-Hong Kong traffic stream through Hong Kong REACH-ETPI circuits. ETPI's claims against PLDT, on the other hand, involve an alleged Philippines-Hong Kong traffic shortfall for the period July 1, 1998 to November 28, 2003; unpaid share of revenues generated from PLDT's activation of additional growth circuits in the Philippines-Singapore traffic stream for the period July 1, 1999 to November 28, 2003; under reporting of ETPI share of revenues under the terms of a Compromise Agreement for the period January 1, 1999 to November 28, 2003 (which ETPI is seeking to retroact to February 6, 1990); lost revenues arising from PLDT's blocking of incoming traffic from Hong Kong from November 1, 2001 up to November 2003; and lost revenues arising from PLDT's circuit migration from January 1, 2001 up to December 31, 2001.

While the parties have entered into Compromise Agreements in the past (one in February 1990 and another in March 1999), said agreements have not put to rest the issues between them. To avoid protracted litigation and to preserve their business relationship, PLDT and ETPI agreed to submit their differences and issues to voluntary arbitration. On April 16, 2008, PLDT and ETPI signed an Arbitration Settlement Agreement and submitted their respective Statement of Claims and Answers. Subsequent to such submissions, PLDT and ETPI agreed to suspend the arbitration proceedings. ETPI's total claim against PLDT is about Php2.9 billion while PLDT's total claim against ETPI is about Php2.8 billion.

In an agreement, Globe and PLDT have agreed that they shall cause ETPI, within a reasonable time after May 30, 2016, to dismiss Civil Case No. 17694 entitled *Eastern Telecommunications Philippines, Inc. vs. Philippine Long Distance Telephone Company*, and all related or incidental proceedings (including the voluntary arbitration between ETPI and PLDT), and PLDT, in turn, simultaneously, shall withdraw its counterclaims against ETPI in the same entitled case, all with prejudice.

In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition

In *Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al. (G.R. No. 176579)* (the "Gamboa Case"), the Supreme Court held that the term 'capital' in Section 11, Article XII of the 1987 Constitution refers only to "shares of stock entitled to vote in the election of directors" and thus only to voting common shares, and not to the "total outstanding capital stock (common and non-voting preferred shares)". It directed the Philippine SEC "to apply this definition of the term 'capital' in determining the extent of allowable foreign ownership in PLDT, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law." On October 9, 2012, the Supreme Court issued a Resolution denying with finality all Motions for Reconsideration of the respondents. The Supreme Court decision became final and executory on October 18, 2012.

On May 20, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, Series of 2013 - Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly-Nationalized Activities, or MC No. 8, which provides that the required percentage of Filipino ownership shall be applied to BOTH (a) the total number of outstanding shares of stock entitled to vote in the election of directors; AND (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.

On June 10, 2013, Jose M. Roy III filed before the Supreme Court a Petition for Certiorari against the Philippine SEC, Philippine SEC Chairman and PLDT, or the Petition, claiming: (1) that MC No. 8 violates the decision of the Supreme Court in the Gamboa Case, which according to the Petitioner required that (a) the 60-40 ownership requirement be imposed on "each class of shares" and (b) Filipinos must have full beneficial ownership of 60% of the outstanding capital stock of those corporations subject to that 60-40 Filipino-foreign ownership requirement; and (2) that the PLDT Beneficial Trust Fund is not a Filipino-owned entity and consequently, the corporations owned by PLDT Beneficial Trust Fund, including BTFHI, which owns 150 million voting preferred shares in PLDT, cannot be considered a Filipino-owned corporation. PLDT and Philippine SEC sought the dismissal of the Petition.

In July 16, 2013, Wilson C. Gamboa, Jr. et. al. filed a Motion for Leave to file a Petition-in-Intervention dated July 16, 2013, which the Supreme Court granted on August 6, 2013. The Petition-in-Intervention raised identical arguments and issues as those in the Petition.

The Supreme Court, in its November 22, 2016 decision, dismissed the Petition and Petition-In-Intervention and upheld the validity of MC No. 8. In the course of discussing the Petition, the Supreme Court expressly rejected petitioners' argument that the 60% Filipino ownership requirement for public utilities must be applied to each class of shares. According to the Court, the position is "simply beyond the literal text and contemplation of Section 11, Article XII of the 1987 Constitution" and that the petitioners' suggestion would "effectively and unwarrantedly amend or change" the Court's ruling in Gamboa. In categorically rejecting the petitioners' claim, the Court declared and stressed that its Gamboa ruling "did NOT make any definitive ruling that the 60% Filipino ownership requirement was intended to apply to each class of shares." On the contrary, according to the Court, "nowhere in the discussion of the term "capital" in Section 11, Article XII of the 1987 Constitution in the Gamboa Decision did the Court mention the 60% Filipino equity requirement to be applied to each class of shares."

In respect of ensuring Filipino ownership and control of public utilities, the Court noted that this is already achieved by the requirements under MC No. 8. According to the Court, "since Filipinos own at least 60% of the outstanding shares of stock entitled to vote directors, which is what the Constitution precisely requires, then the Filipino stockholders control the corporation – i.e., they dictate corporate actions and decisions…"

The Court further noted that the application of the Filipino ownership requirement as proposed by petitioners "fails to understand and appreciate the nature and features of stocks and financial instruments" and would "greatly erode" a corporation's "access to capital – which a stock corporation may need for expansion, debt relief/repayment, working capital requirement and other corporate pursuits." The Court reaffirmed that "stock corporations are allowed to create shares of different classes with varying features" and that this "is a flexibility that is granted, among others, for the corporation to attract and generate capital (funds) from both local and foreign capital markets" and that "this access to capital – which a stock corporation may need for expansion, debt relief/repayment, working capital requirement and other corporate pursuits – will be greatly eroded with further unwarranted limitations that are not articulated in the Constitution." The Court added that "the intricacies and delicate balance between debt instruments (liabilities) and equity (capital) that stock corporations need to calibrate to fund their business requirements and achieve their financial targets are better left to the judgment of their boards and officers, whose bounden duty is to steer their companies to financial stability and profitability and who are ultimately answerable to their shareholders."

The Court went on to say that "a too restrictive definition of 'capital', one that was never contemplated in the Gamboa Decision, will surely have a dampening effect on the business milieu by eroding the flexibility inherent in the issuance of preferred shares with varying terms and conditions. Consequently, the rights and prerogatives of the owners of the corporation will be unwarrantedly stymied." Accordingly, the Court said that the petitioners' "restrictive interpretation of the term "capital" would have a tremendous adverse impact on the country as a whole – and to all Filipinos."

Petitioner Jose M. Roy III filed a Motion for Reconsideration of the Supreme Court Decision dated November 22, 2016. On April 18, 2017, the Supreme Court denied with finality Petitioner's Motion for Reconsideration.

Arbitration Case between Smart and Harris Caprock Communications, Inc. (U.S.A.), or HCC, and Caprock Communications International Limited (United Kingdom), or CCI, together Claimants

In December 2011, Smart engaged the services of HCC and CCI, a wholly-owned subsidiary of HCC, for the expansion of its SmartLink GSM. Subsequently, the parties executed three agreements: (i) Agreement for Bandwidth and Teleport Services with CCI dated May 21, 2012; (ii) Agreement for Warehousing and Installation Services with CCI dated August 27, 2012, or the Installation Agreement; and (iii) Agreement for the Sale and Purchase of Equipment with HCC dated September 27, 2012.

HCC failed to deliver the equipment in accordance with the delivery schedule and delivered defective equipment. Claimants also failed to activate Phase 1 of the satellite beams and installed only 13 units of antennas and beams. Thus, Smart issued a Termination Notice dated December 15, 2012 for all the three agreements. In their letter dated December 18, 2012, Claimants requested Smart to keep the contracts alive. Thus, Smart issued its commercial response on December 29, 2012. Claimants requested Smart to withdraw the termination notice; otherwise, they will claim damages, premised on their position that Smart cannot terminate the contracts for convenience. Smart did not withdraw the termination notice. The parties failed to reach an amicable settlement with Claimants claiming US$35 million in damages, while Smart wanted reimbursement of its deposit.

On October 19, 2016, a Singapore International Arbitration Center – Arbitral Tribunal issued a Final Partial Award adjudging Smart liable to the Claimants in the amount of US$6.5 million, consisting of equipment delivered to Smart, liability to third parties, performance bond, monthly service fees, loss of profit, installation fees, excluding interest.

In an Order dated December 23, 2016, the Arbitral Tribunal issued its Final Award on Costs, awarding Claimants the amount of US$1.6 million, representing arbitration costs, legal fees and other expenses. On December 29, 2016, Smart paid the amount of US$8.5 million, or Php424 million, to Claimants as settlement, based on external counsel's opinion on the imprudence of pursuing further legal proceedings.

Department of Labor and Employment, or DOLE, Compliance Order to PLDT

PLDT received a Compliance Order dated July 3, 2017 from the National Capital Region Office of the DOLE asserting that PLDT and 48 of its third party service contractors (a) did not fully pay, and therefore are solidarily liable, to certain contract workers for various statutory monetary benefits totaling approximately Php78.6 million; and (b) violated DOLE Order No. 18-A on contracting out and, therefore, PLDT must issue regular employment positions to approximately 8,720 contractor workers.

On July 17, 2017, PLDT filed an Appeal with the DOLE Secretary contesting the conclusions set out in the Compliance Order. In accordance with the rules of procedure for these types of cases, the filing of the Appeal stays the execution of any aspect of the Order for the duration of the Appeal.

PLDT received a copy of a Resolution dated January 10, 2018 issued by the DOLE Secretary, which partially reverses the July 3, 2017 Compliance Order issued by the DOLE-NCR Regional Director. The Resolution reduces (a) the number of workers ordered to be regularized to 7,416 from the previous 8,720; and (b) the monetary liability of PLDT and its contractors to Php66.3 million from the previous Php78.2 million.

However, the Resolution did not address the fundamental jurisdictional and due process issues raised by PLDT in the Appeal to the DOLE Secretary. PLDT filed a Motion for Reconsideration within the 10-day prescribed period to contest the Resolution. The Resolution is not executory until reconsideration proceedings have been resolved.

Other disclosures required by IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, were not provided as it may prejudice our position in on-going claims, litigations and assessments. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Provision for legal contingencies and tax assessments*.

28. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables, cash and short-term deposits. Our principal financial liabilities, other than derivatives, comprise of bank loans, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies – Financial Instruments*.

The following table sets forth our consolidated financial assets and financial liabilities as at December 31, 2017 and 2016:

	Cash and cash equivalents	Loans and receivables	HTM investments	Financial instruments at FVPL	Derivatives used for hedging	Available-for-sale financial investments	Financial liabilities carried at amortized cost	Total financial assets and liabilities
				(in million pesos)				
Assets as at December 31, 2017								
Noncurrent:								
Available-for-sale financial investments	**—**	**—**	**—**	**—**	**—**	**15,165**	**—**	**15,165**
Investment in debt securities and other long- term investments – net of current portion	**—**	**—**	**150**	**—**	**—**	**—**	**—**	**150**
Derivative financial assets – net of current portion	**—**	**—**	**—**	**—**	**215**	**—**	**—**	**215**
Advances and other noncurrent assets – net of current portion	**—**	**13,855**	**—**	**—**	**—**	**—**	**—**	**13,855**
Current:								
Cash and cash equivalents	**32,905**	**—**	**—**	**—**	**—**	**—**	**—**	**32,905**
Short-term investments	**—**	**1,074**	**—**	**—**	**—**	**—**	**—**	**1,074**
Trade and other receivables	**—**	**33,761**	**—**	**—**	**—**	**—**	**—**	**33,761**
Current portion of derivative financial assets	**—**	**—**	**—**	**—**	**171**	**—**	**—**	**171**
Current portion of investment in debt securities and other long-term investments	**—**	**100**	**—**	**—**	**—**	**—**	**—**	**100**
Current portion of advances and other noncurrent assets	**—**	**6,824**	**—**	**—**	**—**	**—**	**—**	**6,824**
Total assets	**32,905**	**55,614**	**150**	**—**	**386**	**15,165**	**—**	**104,220**
Liabilities as at December 31, 2017								
Noncurrent:								
Interest-bearing financial liabilities – net of current portion	**—**	**—**	**—**	**—**	**—**	**—**	**157,654**	**157,654**
Derivative financial liabilities – net of current portion	**—**	**—**	**—**	**—**	**8**	**—**	**—**	**8**
Customers' deposits	**—**	**—**	**—**	**—**	**—**	**—**	**2,443**	**2,443**
Deferred credits and other noncurrent liabilities	**—**	**—**	**—**	**—**	**—**	**—**	**5,680**	**5,680**
Current:								
Accounts payable	**—**	**—**	**—**	**—**	**—**	**—**	**58,490**	**58,490**
Accrued expenses and other current liabilities	**—**	**—**	**—**	**—**	**—**	**—**	**70,648**	**70,648**
Current portion of interest-bearing financial liabilities	**—**	**—**	**—**	**—**	**—**	**—**	**14,957**	**14,957**
Dividends payable	**—**	**—**	**—**	**—**	**—**	**—**	**1,575**	**1,575**
Current portion of derivative financial liabilities	**—**	**—**	**—**	**90**	**51**	**—**	**—**	**141**
Total liabilities	**—**	**—**	**—**	**90**	**59**	**—**	**311,447**	**311,596**
Net assets (liabilities)	**32,905**	**55,614**	**150**	**(90)**	**327**	**15,165**	**(311,447)**	**(207,376)**
Assets as at December 31, 2016								
Noncurrent:								
Available-for-sale financial investments	—	—	—	—	—	12,189	—	12,189
Investment in debt securities and other long-term investments – net of current portion	—	224	150	—	—	—	—	374
Derivative financial assets – net of current portion	—	—	—	—	499	—	—	499
Advances and other noncurrent assets – net of current portion	—	9,152	—	—	—	—	—	9,152
Current:								
Cash and cash equivalents	38,722	—	—	—	—	—	—	38,722
Short-term investments	—	2,736	—	2	—	—	—	2,738
Trade and other receivables	—	24,436	—	—	—	—	—	24,436
Current portion of derivative financial assets	—	—	—	66	176	—	—	242
Current portion of investment in debt securities and other long-term investments	—	124	202	—	—	—	—	326
Current portion of advances and other noncurrent assets	—	7,916	—	—	—	—	—	7,916
Total assets	38,722	44,588	352	68	675	12,189	—	96,594
Liabilities as at December 31, 2016								
Noncurrent:								
Interest-bearing financial liabilities – net of current portion	—	—	—	—	—	—	151,759	151,759
Derivative financial liabilities – net of current portion	—	—	—	—	2	—	—	2
Customers' deposits	—	—	—	—	—	—	2,431	2,431
Deferred credits and other noncurrent liabilities	—	—	—	—	—	—	13,720	13,720
Current:								
Accounts payable	—	—	—	—	—	—	50,975	50,975
Accrued expenses and other current liabilities	—	—	—	—	—	—	74,868	74,868
Current portion of interest-bearing financial liabilities	—	—	—	—	—	—	33,273	33,273
Dividends payable	—	—	—	—	—	—	1,544	1,544
Current portion of derivative financial liabilities	—	—	—	16	209	—	—	225
Total liabilities	—	—	—	16	211	—	328,570	328,797
Net assets (liabilities)	**38,722**	**44,588**	**352**	**52**	**464**	**12,189**	**(328,570)**	**(232,203)**

The following table sets forth our consolidated offsetting of financial assets and liabilities recognized as at December 31, 2017 and 2016:

	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set-off in the statement of financial position	Net amount presented in the statement of financial position
		(in million pesos)	
December 31, 2017			
Current Financial Assets			
Trade and other receivables			
Foreign administrations	**8,536**	**2,957**	**5,579**
Domestic carriers	**4,332**	**3,950**	**382**
Total	**12,868**	**6,907**	**5,961**
Current Financial Liabilities			
Accounts payable			
Suppliers and contractors	**54,220**	**24**	**54,196**
Carriers and other customers	**7,426**	**4,943**	**2,483**
Total	**61,646**	**4,967**	**56,679**
December 31, 2016			
Current Financial Assets			
Trade and other receivables			
Foreign administrations	9,391	4,200	5,191
Domestic carriers	15,555	15,335	220
Total	**24,946**	**19,535**	**5,411**
Current Financial Liabilities			
Accounts payable			
Suppliers and contractors	46,857	37	46,820
Carriers and other customers	5,311	1,446	3,865
Total	**52,168**	**1,483**	**50,685**

There are no financial instruments subject to an enforceable master netting arrangement as at December 31, 2017 and 2016.

The following table sets forth our consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at December 31, 2017 and 2016 other than those whose carrying amounts are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	2017	2016	**2017**	2016
		(in million pesos)		
Noncurrent Financial Assets				
Investment in debt securities and other long-term investments	**150**	374	**151**	377
Advances and other noncurrent assets	**13,855**	9,152	**13,695**	7,743
Total	**14,005**	9,526	**13,846**	8,120
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities:				
Long-term debt	**157,654**	151,759	**150,918**	146,654
Customers' deposits	***2,443***	*2,431*	***1,700***	*1,879*
Deferred credits and other noncurrent liabilities	***5,680***	*13,720*	***5,093***	*12,457*
Total	**165,777**	167,910	**157,711**	160,990

Below are the list of our consolidated financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as required for our complete sets of consolidated financial statements as at December 31, 2017 and 2016. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

	2017			2016		
	Level 1[(1)]	**Level 2[(2)]**	**Total**	**Level 1[(1)]**	**Level 2[(2)]**	**Total**
			(in million pesos)			
Noncurrent Financial Assets						
Available-for-sale financial investments: Listed equity securities	**12,977**	**—**	**12,977**	10,173	—	10,173
Derivative financial assets – net of current portion	**—**	**215**	**215**	—	499	499
Current Financial Assets						
Short-term investments	**—**	**—**	**—**	—	2	2
Current portion of derivative financial assets	**—**	**171**	**171**	—	242	242
Total	**12,977**	**386**	**13,363**	10,173	743	10,916
Noncurrent Financial Liabilities						
Derivative financial liabilities	**—**	**8**	**8**	—	2	2
Current Financial Liabilities						
Derivative financial liabilities	**—**	**141**	**141**	—	225	225
Total	**—**	**149**	**149**	—	227	227

(1) *Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.*

(2) *Fair values determined using inputs other than quoted market prices that are either directly or indirectly observable for the assets or liabilities.*

As at December 31, 2017 and 2016, we have no financial instruments measured at fair values using inputs that are not based on observable market data (Level 3). As at December 31, 2017 and 2016, there were no transfers into and out of Level 3 fair value measurements.

As at December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Long-term financial assets and liabilities:

Fair value is based on the following:

Type	**Fair Value Assumptions**	**Fair Value Hierarchy**
Noncurrent portion of advances and other noncurrent assets	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus counterparties' credit spread.	Level 3
Fixed Rate Loans: U.S. dollar notes	Quoted market price.	Level 1
Investment in debt securities	Fair values were determined using quoted prices. For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.	Level 1 Level 3
Other loans in all other currencies	Estimated fair value is based on the discounted value of future cash flows using the applicable Commercial Interest Reference Rate and PDST-R2 rates for similar types of loans plus PLDT's credit spread.	Level 3
Variable Rate Loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.	Level 2

Derivative Financial Instruments:

Forward foreign exchange contracts, foreign currency swaps and interest rate swaps: The fair values were computed as the present value of estimated future cash flows using market U.S. dollar and Philippine peso interest rates as at valuation date.

The valuation techniques considered various inputs including the credit quality of counterparties.

Available-for-sale financial investments: Fair values of available-for-sale financial investments, which consist of listed shares, were determined using quoted prices. For investments where there is no active market and fair value cannot be determined, investments are carried at cost less any accumulated impairment losses.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, trade and other receivables, accounts payable, accrued expenses and other current liabilities and dividends payable approximate their carrying values as at the end of the reporting period.

Derivative Financial Instruments

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period.

As at December 31, 2017 and 2016, we have taken into account the counterparties' credit risks (for derivative assets) and our own non-performance risk (for derivative liabilities) and have included a credit or debit valuation adjustment, as appropriate, by assessing the maximum credit exposure and taking into account market-based inputs which considers the risk of default occurring and corresponding losses once the default event occurs. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

The table below sets out the information about our consolidated derivative financial instruments as at December 31, 2017 and 2016:

	Original Notional Amount	Trade Date	Underlying Transaction in U.S. Dollar	Termination Date	Weighted Average Hedge Cost	Weighted Average Foreign Exchange Rate in Php	**2017** Notional	**2017** Net Mark-to-market Gains (Losses)	2016 Notional	2016 Net Mark-to-market Gains (Losses)
	(in millions)		(in millions)				(in millions)			
Transactions not designated as hedges:										
PLDT										
Long-term currency swaps	US$262	2001 and 2002	300 Notes 2017	March 6, 2017	3.42%	49.85	**US$—**	**Php—**	US$202	Php–
Forward foreign Exchange contracts	158	Various dates in 2015 and 2016	U.S. dollar liabilities	Various dates in 2016	—	48.50	**—**	**—**	—	—
	34	Various dates in 2017	U.S. dollar liabilities	Various dates in 2017	—	50.18	**—**	**—**	—	—
	27	Various dates in 2017	U.S. dollar liabilities	January 2018	—	50.57	**27**	**(15)**	—	—
	29	Various dates in November and December 2017	U.S. dollar liabilities	February 2018	—	50.95	**29**	**(24)**	—	—
	2	Various dates in 2018	U.S. dollar liabilities	February 2018	—	49.84	**—**	**—**	—	—
Smart										
Forward foreign exchange contracts	107	Various dates in 2015 and 2016	U.S. dollar liabilities	Various dates in 2016	—	46.96	**—**	**—**	—	—
	91	Various dates in 2016 and 2017	U.S. dollar liabilities	Various dates in 2017	—	49.54	**—**	**—**	48	50
	46	Various dates in 2017	U.S. dollar liabilities	Various dates in 2018	—	51.22	**46**	**(49)**	—	—
	4	Various dates in January 2018	U.S. dollar liabilities	Various dates in 2018	—	50.68	**—**	**—**	—	—
Foreign exchange options	5[(a)]	August 10, 2016	U.S. dollar liabilities	November 14, 2016	—	46.82	**—**	**—**	—	—
						46.90	**—**	**—**	—	—
						47.98	**—**	**—**	—	—
	59[(b)]	Various dates in 2016 and 2017	U.S. dollar liabilities	Various dates in 2017	—	49.60	**—**	**—**	11	4
						50.30	**—**	**—**	—	—
						51.24	**—**	**—**	—	—
	3[(c)]	Various dates in 2017	U.S. dollar liabilities	Various dates in 2018	—	50.70	**3**	**(2)**	—	—
						51.67	**—**	**—**	—	—
						52.53	**—**	**—**	—	—
	1[(d)]	January 19, 2018	U.S. dollar liabilities	July 19, 2018	—	50.45	**—**	**—**	—	—
						51.30	**—**	**—**	—	—
						52.30	**—**	**—**	—	—
DMPI										
Interest rate swaps	54	October 7, 2008	59 loan facility	March 31, 2017	3.88%	—	**—**	**—**	3	(2)
	47	October 7, 2008	51 loan facility	June 30, 2017	3.97%	—	**—**	**—**	3	(3)
								(Php90)		Php 49

	Original Notional Amount	Trade Date	Underlying Transaction in U.S. Dollar	Termination Date	Weighted Average Hedge Cost	Weighted Average Foreign Exchange Rate in Php	2017		2016	
							Notional	**Net Mark-to-market Gains (Losses)**	Notional	Net Mark-to-market Gains (Losses)
	(in millions)		(in millions)				(in millions)			
Transactions designated a hedges:										
PLDT										
Interest rate swaps[e]	30	January 23, 2015	150 term loan	March 7, 2017	2.11%	—	**US$–**	**Php–**	US$8	Php–
	240	Various dates in 2013 and 2015	300 term loan	January 16, 2018	2.17%	—	**33**	**2**	100	9
	100	August 2014	100 PNB	August 11, 2020	3.46%	—	**97**	**5**	98	(50)
	50	September 2014	50 Metrobank	September 2, 2020	3.47%	—	**49**	**—**	49	(29)
	150	April and June 2015	200 term loan	February 25, 2022	2.70%	—	**150**	**26**	150	(34)
Long-term currency swaps[f]	140	October 2015 to June 2016	300 term loan	January 16, 2018	2.20%	46.67	**31**	**88**	94	230
	4	January 2017	100 PNB	August 11, 2020	1.01%	49.79	**3**	**2**	—	—
	6	April and June 2017	200 Bank of Tokyo	August 26, 2019	1.63%	49.51	**6**	**—**	—	—
	2	January 2018	200 Bank of Tokyo	August 26, 2019	1.59%	49.86	**—**	**—**	—	—
	6	February 2018	200 Bank of Tokyo	February 26, 2020	1.82%	51.27	**—**	**—**	—	—
Smart										
Interest rate swaps[g]	45	May 8, 2013	60 Bank of Tokyo	June 6, 2016	1.53%	—	**—**	**—**	—	—
	38	May 9, 2013	50 FEC	August 19, 2016	1.43%	—	**—**	**—**	—	—
	44	May 16, 2013	50 Bank of Tokyo	May 30, 2017	1.77%	—	**—**	**—**	6	1
	110	Various dates in 2013 and 2014	120 term loan	June 20, 2018	2.22%	—	**15**	**3**	45	9
	85	Various dates in 2014 and 2015	100 Bank of Tokyo	March 7, 2019	2.23%	—	**29**	**8**	49	6
	50	October 2, 2014	50 Mizuho	May 14, 2019	2.58%	—	**17**	**4**	28	—
	200	Various dates in 2015	200 Mizuho	March 4, 2020	2.10%	—	**111**	**51**	156	39
	30	February 2016	100 Mizuho	December 7, 2021	2.03%	—	**24**	**23**	30	22
Long-term currency swaps[h]	100	Various dates in 2015	200 Mizuho	March 5, 2018	2.21%	46.66	**20**	**58**	60	155
	45	Various dates in 2016	100 Mizuho	December 7, 2018	1.93%	46.55	**18**	**58**	36	107
	11	Various dates in 2017	80 CBC	May 31, 2018	1.28%	49.66	**4**	**1**	—	—
	8	Various dates in 2017	2015 Mizuho US$100 term loan	December 7, 2020	1.60%	50.60	**8**	**(2)**	—	—
	4	Various dates in 2018	2015 Mizuho US$100 term loan	December 7, 2020	1.62%	51.89	**—**	**—**	—	—

Original Notional Amount	Trade Date	Underlying Transaction in U.S. Dollar	Termination Date	Weighted Average Hedge Cost	Weighted Average Foreign Exchange Rate in Php	2017 Notional	2017 Net Mark-to-market Gains (Losses)	2016 Notional	2016 Net Mark-to-market Gains (Losses)
(in millions)		(in millions)				(in millions)			
10	Various dates in 2018	2015 Mizuho US$200 term loan	March 4, 2020	1.96%	51.77	—	—	—	—
							327		465
							Php 237		Php 514

[a] If the Philippine peso to U.S. dollar spot exchange rate on the maturity date settles between Php46.90 to Php47.98, Smart will purchase the U.S. dollar for Php46.90. However, if on maturity, the exchange rate settles above Php47.98, Smart will purchase the U.S. dollar for Php46.90 plus the excess above Php47.98, and if the exchange rate is lower than Php46.90, Smart will purchase the U.S. dollar at the prevailing Philippine peso to U.S. dollar spot exchange rate, subject to a floor of Php46.82.

[b] If the Philippine peso to U.S. dollar spot exchange rate on the maturity date settles between Php50.30 to Php51.24, Smart will purchase the U.S. dollar for Php50.30. However, if on maturity, the exchange rate settles above Php51.24, Smart will purchase the U.S. dollar for Php50.30 plus the excess above Php51.24, and if the exchange rate is lower than Php50.30, Smart will purchase the U.S. dollar at the prevailing Philippine peso to U.S. dollar spot exchange rate, subject to a floor of Php49.60.

[c] If the Philippine peso to U.S. dollar spot exchange rate on the maturity date settles between Php51.67 to Php52.53, Smart will purchase the U.S. dollar for Php51.67. However, if on maturity, the exchange rate settles above Php52.53, Smart will purchase the U.S. dollar for Php51.67 plus the excess above Php52.53, and if the exchange rate is lower than Php51.670, Smart will purchase the U.S. dollar at the prevailing Philippine peso to U.S. dollar spot exchange rate, subject to a floor of Php50.70.

[d] If the Philippine peso to U.S. dollar spot exchange rate on the maturity date settles between Php51.30 to Php52.30, Smart will purchase the U.S. dollar for Php51.30. However, if on maturity, the exchange rate settles above Php52.30, Smart will purchase the U.S. dollar for Php51.30 plus the excess above Php52.30, and if the exchange rate is lower than Php51.30, Smart will purchase the U.S. dollar at the prevailing Philippine peso to U.S. dollar spot exchange rate, subject to a floor of Php50.45.

[e] PLDT's interest rate swap agreements outstanding as at December 31, 2017 and 2016 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market gains amounting to Php44 million and losses amounting to Php81 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2017 and 2016, respectively. Interest accrual on the interest rate swaps amounting to Php11 million and Php23 million were recorded as at December 31, 2017 and 2016, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the years ended December 31, 2017 and 2016.

[f] PLDT's long-term principal only-currency swap agreements entered into in 2015 to 2017 were designated as cash flow hedges, wherein effective portion of the movements in the fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market gains amounting to Php108 million and Php275 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2017 and 2016, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php18 million and Php45 million were recognized as at December 31, 2017 and 2016, respectively. The amounts recognized as other comprehensive income are transferred to profit or loss when the hedged loan is revalued for changes in the foreign exchange rate. The ineffective portion of the movements in the fair value amounting to Php3 million and Php8 million were recognized in our consolidated income statements for the years ended December 31, 2017 and 2016, respectively.

[g] Smart's interest rate swap agreements outstanding as at December 31, 2017 and 2016 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market gains amounting to Php85 million and Php79 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2017 and 2016, respectively. Reduction on interest arising from the interest rate swaps amounting to Php4 million and addition on interest arising from the interest rate swaps amounting to Php2 million as at December 31, 2017 and 2016, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the years ended December 31, 2017 and 2016.

[h] Smart's long-term principal only-currency swap agreements outstanding as at December 31, 2017 and 2016 were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in our consolidated statements of other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statements. The mark-to-market gains amounting to Php124 million and Php284 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2017 and 2016, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php9 million and Php22 million were recognized as at December 31, 2017 and 2016, respectively. The amounts

recognized as other comprehensive income are transferred to profit or loss when the hedged loan is revalued for changes in the foreign exchange rate. The ineffective portions of the movements in the fair value amounting to Php4 million and Php9 million was recognized in our consolidated income statements for the years ended December 31, 2017 and 2016, respectively.

	2017	2016
	(in million pesos)	
Presented as:		
Noncurrent assets	**215**	499
Current assets	**171**	242
Noncurrent liabilities	**(8)**	(2)
Current liabilities	**(141)**	(225)
Net assets	**237**	514

Movements of our consolidated mark-to-market gains for the years ended December 31, 2017 and 2016 are summarized as follows:

	2017	2016
	(in million pesos)	
Net mark-to-market gains (losses) at beginning of the year	**514**	(871)
Gains on derivative financial instruments (Note 4)	**724**	1,539
Effective portion recognized in the profit or loss for the cash flow hedges	**(55)**	(371)
Net fair value gains (losses) on cash flow hedges charged to other comprehensive income	**(411)**	76
Settlements, interest expense and others	**(535)**	141
Net mark-to-market gains at end of the year	**237**	514

Our consolidated analysis of gains on derivative financial instruments for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
		(in million pesos)	
Gains on derivative financial instruments	**724**	1,539	781
Hedge costs	**(191)**	(543)	(361)
Net gains on derivative financial instruments (Note 5)	**533**	996	420

Financial Risk Management Objectives and Policies

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.

Liquidity Risk

Our exposure to liquidity risk refers to the risk that our financial requirements, working capital requirements and planned capital expenditures are not met.

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-term and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates and managed. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

Our cash position remains sufficient to support our planned capital expenditure requirements and service our debt and financing obligations; however, we may be required to finance a portion of our future capital expenditures from external financing sources. We have cash and cash equivalents, and short-term investments amounting to Php32,905 million and Php1,074 million, respectively, as at December 31, 2017, which we can use to meet our short-term liquidity needs. See *Note 16 – Cash and Cash Equivalents.*

The following table discloses a summary of maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at December 31, 2017 and 2016:

	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in million pesos)		
December 31, 2017					
Cash equivalents	***26,554***	***26,554***	**—**	**—**	**—**
Loans and receivables:	***70,337***	***56,260***	***11,175***	***2,739***	***163***
Advances and other noncurrent assets	**20,901**	**6,824**	**11,175**	**2,739**	**163**
Short-term investments	**1,074**	**1,074**	**—**	**—**	**—**
Investment in debt securities and other long-term investments	**100**	**100**	**—**	**—**	**—**
Retail subscribers	**17,961**	**17,961**	**—**	**—**	**—**
Corporate subscribers	**9,641**	**9,641**	**—**	**—**	**—**
Foreign administrations	**6,517**	**6,517**	**—**	**—**	**—**
Domestic carriers	**457**	**457**	**—**	**—**	**—**
Dealers, agents and others	**13,686**	**13,686**	**—**	**—**	**—**
HTM investments:	***150***	**—**	***150***	**—**	**—**
Investment in debt securities and other long-term investments	**150**	**—**	**150**	**—**	**—**
Available-for-sale financial investments	***15,165***	**—**	**—**	**—**	***15,165***
Total	**112,206**	**82,814**	**11,325**	**2,739**	**15,328**
December 31, 2016					
Cash equivalents	*32,338*	*32,338*	—	—	—
Loans and receivables:	*63,586*	*54,000*	*4,951*	*4,483*	*152*
Advances and other noncurrent assets	17,278	7,916	4,727	4,483	152
Short-term investments	2,736	2,736	—	—	—
Investment in debt securities and other long-term investments	348	124	224	—	—
Retail subscribers	20,290	20,290	—	—	—
Corporate subscribers	9,333	9,333	—	—	—
Foreign administrations	5,819	5,819	—	—	—
Domestic carriers	354	354	—	—	—
Dealers, agents and others	7,428	7,428	—	—	—
HTM investments:	*352*	*202*	—	*150*	—
Investment in debt securities and other long-term investments	352	202	—	150	—
Financial instruments at FVPL:	*2*	*2*	—	—	—
Short-term investments	2	2	—	—	—
Available-for-sale financial investments	*12,189*	—	*1,000*	—	*11,189*
Total	**108,467**	**86,542**	**5,951**	**4,633**	**11,341**

The following table discloses a summary of maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at December 31, 2017 and 2016:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in million pesos)		
December 31, 2017					
Debt[1]:	***213,597***	***3,285***	***70,552***	***48,958***	***90,802***
Principal	**173,136**	**3,251**	**51,254**	**37,925**	**80,706**
Interest	**40,461**	**34**	**19,298**	**11,033**	**10,096**
Lease obligations:	***20,666***	***11,871***	***3,851***	***2,266***	***2,678***
Operating lease	**20,666**	**11,871**	**3,851**	**2,266**	**2,678**
Other obligations:	***128,729***	***120,556***	***5,907***	***264***	***2,002***
Derivative financial liabilities[2]:	**111**	**85**	**26**	**—**	**—**
Forward foreign exchange contracts	**56**	**56**	**—**	**—**	**—**
Long-term currency swap	**35**	**27**	**8**	**—**	**—**
Interest rate swap	**18**	**—**	**18**	**—**	**—**
Long-term foreign currency options	**2**	**2**	**—**	**—**	**—**
Various trade and other obligations:	**128,618**	**120,471**	**5,881**	**264**	**2,002**
Suppliers and contractors	**59,776**	**54,196**	**5,339**	**241**	**—**
Utilities and related expenses	**44,007**	**43,984**	**22**	**1**	**—**
Liability from redemption of preferred shares	**7,870**	**7,870**	**—**	**—**	**—**
Employee benefits	**6,573**	**6,573**	**—**	**—**	**—**
Customers' deposits	**2,443**	**—**	**419**	**22**	**2,002**
Carriers and other customers	**2,083**	**2,083**	**—**	**—**	**—**
Dividends	**1,575**	**1,575**	**—**	**—**	**—**
Others	**4,291**	**4,190**	**101**	**—**	**—**
Total contractual obligations	**362,992**	**135,712**	**80,310**	**51,488**	**95,482**
December 31, 2016					
Debt[1]:	*223,130*	*21,883*	*64,751*	*51,414*	*85,082*
Principal	185,663	21,138	46,931	40,886	76,708
Interest	37,467	745	17,820	10,528	8,374
Lease obligations:	*18,456*	*10,734*	*3,581*	*1,972*	*2,169*
Operating lease	18,456	10,734	3,581	1,972	2,169
Other obligations:	*134,057*	*117,717*	*1,793*	*12,593*	*1,954*
Derivative financial liabilities[2]:	247	106	141	—	—
Interest rate swap	147	6	141	—	—
Long-term currency swap	100	100	—	—	—
Various trade and other obligations:	133,810	117,611	1,652	12,593	1,954
Suppliers and contractors	60,494	46,820	1,113	12,561	—
Utilities and related expenses	40,166	40,118	48	—	—
Liability from redemption of preferred shares	7,883	7,883	—	—	—
Employee benefits	6,191	6,191	—	—	—
Customers' deposits	2,431	—	445	32	1,954
Carriers and other customers	2,422	2,422	—	—	—
Dividends	1,544	1,544	—	—	—
Others	12,679	12,633	46	—	—
Total contractual obligations	**375,643**	**150,334**	**70,125**	**65,979**	**89,205**

[1] *Consists of long-term debt, including current portion; gross of unamortized debt discount and debt issuance costs.*
[2] *Gross liabilities before any offsetting application.*

Debt

See *Note 21 – Interest-bearing Financial Liabilities – Long-term Debt* for a detailed discussion of our debt.

Operating Lease Obligations

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites telecommunications equipment locations and various office equipment. These lease contracts are subject to certain escalation clauses.

Our consolidated future minimum lease commitments payable with non-cancellable operating leases as at December 31, 2017 and 2016 are as follows:

	2017	2016
	(in million pesos)	
Within one year	**11,945**	10,911
After one year but not more than five years	**6,043**	5,376
More than five years	**2,678**	2,169
Total	**20,666**	18,456

Finance Lease Obligations

See *Note 21 – Interest-bearing Financial Liabilities – Obligations under Finance Leases* for the detailed discussion of our long-term finance lease obligations.

Other Obligations – Various Trade and Other Obligations

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits and other related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php128,618 million and Php133,810 million as at December 31, 2017 and 2016, respectively. See *Note 23 – Accounts Payable* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php88 million and Php6,788 million as at December 31, 2017 and 2016, respectively. These commitments will expire within one year. The commercial commitment in 2016 includes standby letters of credit issued in relation with PLDT's acquisition of VTI, Bow Arken and Brightshare. See *Note 10 – Investments in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare*.

Collateral

We have not made any pledges as collateral with respect to our financial liabilities as at December 31, 2017 and 2016.

Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, 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 foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. dollar-linked and U.S. dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange purchase contracts, currency swap contracts and currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized in our consolidated other comprehensive income until the hedged transaction affects our consolidated income statement or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the period.

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2017 and 2016:

	2017		2016	
	U.S. Dollar	**Php(1)**	**U.S. Dollar**	**Php(2)**
	(in millions)			
Noncurrent Financial Assets				
Investment in debt securities and other long term investments	—	**1**	7	348
Derivative financial assets – net of current portion	**4**	**215**	10	499
Advances and other noncurrent assets – net of current portion	—	**2**	—	18
Total noncurrent financial assets	**4**	**218**	17	865
Current Financial Assets				
Cash and cash equivalents	**440**	**21,988**	419	20,847
Short-term investments	**2**	**75**	55	2,720
Trade and other receivables – net	**218**	**10,893**	158	7,853
Current portion of derivative financial assets	**3**	**171**	5	242
Current portion of investment in debt securities and other long-term investments	**2**	**100**	—	—
Current portion of advances and other noncurrent assets	—	**9**	—	8
Total current financial assets	**665**	**33,236**	637	31,670
Total Financial Assets	**669**	**33,454**	654	32,535
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	**446**	**22,285**	680	33,831
Derivative financial liabilities – net of current portion	—	**8**	—	2
Other noncurrent liabilities	—	**11**	—	5
Total noncurrent financial liabilities	**446**	**22,304**	680	33,838
Current Financial Liabilities				
Accounts payable	**233**	**11,670**	191	9,477
Accrued expenses and other current liabilities	**166**	**8,314**	171	8,513
Current portion of interest-bearing financial liabilities	**259**	**12,922**	496	24,671
Current portion of derivative financial liabilities	**3**	**141**	5	225
Total current financial liabilities	**661**	**33,047**	863	42,886
Total Financial Liabilities	**1,107**	**55,351**	1,543	76,724

(1) *The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php49.96 to US$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2017.*

(2) *The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php49.77 to US$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2016.*

As at March 26, 2017, the Philippine peso-U.S. dollar exchange rate was Php52.29 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have increased in Philippine peso terms by Php1,021 million as at December 31, 2017.

Approximately 20% and 31% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at December 31, 2017 and 2016, respectively. Our consolidated foreign currency-denominated debt decreased to Php35,032 million as at December 31, 2017 from Php58,192 million as at December 31, 2016. See *Note 21 – Interest-bearing Financial Liabilities*. The aggregate notional amount of our consolidated outstanding long-term principal only-currency swap contracts were US$92 million and US$392 million as at December 31, 2017 and 2016, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 16% (or 8%, net of our consolidated U.S. dollar cash balances allocated for debt) and 19% (or 8%, net of our consolidated U.S. dollar cash balances allocated for debt) as at December 31, 2017 and 2016, respectively.

Approximately, 23% of our consolidated revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for each of the years ended December 31, 2017 and 2016. Approximately, 8% of our consolidated expenses were denominated in U.S. dollars and/or linked to the U.S. dollar for the year ended December 31, 2017 as compared with approximately 9% for the year ended December 31, 2016. In this respect, the higher weighted average exchange rate of the Philippine peso against the U.S. dollar increased our revenues and expenses, and consequently, affects our cash flow from operations in Philippine peso terms. In view of the anticipated continued decline in dollar-denominated/dollar-linked revenues, which provide a natural hedge against our foreign currency exposure, we are progressively refinancing our dollar-denominated debts in Philippine pesos.

The Philippine peso depreciated by 0.38% against the U.S. dollar to Php49.96 to US$1.00 as at December 31, 2017 from Php49.77 to US$1.00 as at December 31, 2016. As a result of our consolidated foreign exchange movements, as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange losses of Php411 million, Php2,785 million and Php3,036 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Management conducted a survey among our banks to determine the outlook of the Philippine peso-U.S. dollar exchange rate until December 31, 2018. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 5.09% as compared to the exchange rate of Php49.96 to US$1.00 as at December 31, 2017. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 5.09% as at December 31, 2017, with all other variables held constant, profit after tax for the year ended December 31, 2017 would have been approximately Php692 million lower/higher and our consolidated stockholders' equity as at December 31, 2017 would have been approximately Php612 million lower/higher, mainly as a result of consolidated foreign exchange gains and losses on conversion of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates.

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. We enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our liabilities and not for trading purposes.

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at December 31, 2017 and 2016. Financial instruments that are not subject to interest rate risk were not included in the table.

As at December 31, 2017

	In U.S. Dollars									Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	In U.S. Dollar	In Php
									(in millions)		
Assets:											
Investment in Debt Securities and Other Long-term Investments											
U.S. Dollar	2	—	—	—	—	2	100	—	100	2	100
Interest rate	3.5000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	—	—	3	—	—	3	150	—	150	3	151
Interest rate	—	—	4.8371%	—	—	—	—	—	—	—	—
Cash in Bank											
U.S. Dollar	29	—	—	—	—	29	1,465	—	1,465	29	1,465
Interest rate	0.0100% to 0.2500%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	89	—	—	—	—	89	4,468	—	4,468	89	4,468
Interest rate	0.05000% to 1.2500%	—	—	—	—	—	—	—	—	—	—
Other Currencies	—	—	—	—	—	—	9	—	9	—	9
Interest rate	0.1000% to 0.5000%	—	—	—	—	—	—	—	—	—	—
Temporary Cash Investments											
U.S. Dollar	402	—	—	—	—	402	20,063	—	20,063	402	20,063
Interest rate	0.2500% to 2.1000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	130	—	—	—	—	130	6,491	—	6,491	130	6,491
Interest rate	0.1250% to 4.3250%	—	—	—	—	—	—	—	—	—	—
Short-term Investments											
U.S. Dollar	22	—	—	—	—	22	1,074	—	1,074	22	1,074
Interest rate	2.1000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	—	—	—	—	—	—	—	—	—	—	—
Interest rate	—	—	—	—	—	—	—	—	—	—	—
	674	—	3	—	—	677	33,820	—	33,820	677	33,821
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Fixed Loans	5	37	8	11	—	61	3,050	6	3,044	62	3,104
Interest rate	1.4100%	1.4100% to 2.8850%	2.8850%	2.8850%	—	—	—	—	—	—	—
Philippine Peso	—	333	81	618	1,565	2,597	129,733	335	129,398	2,450	122,418
Interest rate	—	3.9000% to 6.4044%	3.9000% to 6.4044%	3.9000% to 6.4044%	3.9000% to 6.4044%	—	—	—	—	—	—
Variable Rate											
U.S. Dollar	60	266	203	65	50	644	32,158	170	31,988	644	32,158
Interest rate	1.2000% to 1.6000% over LIBOR	USLIBOR + 0.7900% to 1.4500%	USLIBOR + 0.7900% to 1.4500%	USLIBOR + 0.7900% to 1.4500%	USLIBOR + 1.0500%	—	—	—	—	—	—
Philippine Peso	—	3	95	66	—	164	8,195	14	8,181	164	8,195
Interest rate	—	1.000% over PDST-R2	1.000% over PDST-R2	1.000% over PDST-R2	—	—	—	—	—	—	—
	65	639	387	760	1,615	3,466	173,136	525	172,611	3,320	165,875

As at December 31, 2016

	In U.S. Dollars									Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	In U.S. Dollar	In Php
									(in millions)		
Assets:											
Investment in Debt Securities and Other Long-term Investments											
U.S. Dollar	3	4	—	—	—	7	348	—	348	7	350
Interest rate	4.0000%	3.5000% to 4.0000%	—	—	—	—	—	—	—	—	—
Philippine Peso	4	—	—	3	—	7	352	—	352	7	353
Interest rate	4.2180% to 4.2500%	—	—	4.8400%	—	—	—	—	—	—	—
Cash in Bank											
U.S. Dollar	17	—	—	—	—	17	850	—	850	17	850
Interest rate	0.0100% to 0.5000%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	73	—	—	—	—	73	3,652	—	3,652	73	3,652
Interest rate	0.0010% to 1.6250%	—	—	—	—	—	—	—	—	—	—
Other Currencies	1	—	—	—	—	1	22	—	22	1	22
Interest rate	0.0100% to 0.5000%	—	—	—	—	—	—	—	—	—	—
Temporary Cash Investments											
U.S. Dollar	366	—	—	—	—	366	18,239	—	18,239	366	18,239
Interest rate	0.2500% to 4.7500%	—	—	—	—	—	—	—	—	—	—
Philippine Peso	283	—	—	—	—	283	14,099	—	14,099	283	14,099
Interest rate	0.1250% to 5.000%	—	—	—	—	—	—	—	—	—	—
Short-term Investments											
U.S. Dollar	55	—	—	—	—	55	2,738	—	2,738	55	2,738
Interest rate	1.6500% to 4.0000%	—	—	—	—	—	—	—	—	—	—
	802	4	—	3	—	809	40,300	—	40,300	809	40,303
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Notes	228	—	—	—	—	228	11,366	4	11,362	233	11,606
Interest rate	8.3500%	—	—	—	—	—	—	—	—	—	—
U.S. Dollar Fixed Loans	5	42	9	15	4	75	3,726	20	3,706	77	3,813
Interest rate	1.9000%	1.4100% to 2.8850%	1.4100% to 2. 8850%	2.8850%	2.8850%	—	—	—	—	—	—
Philippine Peso	153	59	287	405	1,485	2,389	118,881	303	118,578	2,267	112,818
Interest rate	5.2854% to 5.5808%	3.9000% to 6.2600%	3.9000% to 6.2600%	3.9000% to 6.2600%	3.9000% to 6.2600%	—	—	—	—	—	—
Variable Rate											
U.S. Dollar	39	440	100	241	52	872	43,410	286	43,124	872	43,410
Interest rate	0.3000% to 1.6000% over LIBOR	0.7900% to 1.6000% over LIBOR	0.7900% to 1.4500% over LIBOR	0.7900% to 1.4500% over LIBOR	0.7900% to 1.0500% over LIBOR	—	—	—	—	—	—
Philippine Peso	—	3	2	161	—	166	8,280	18	8,262	166	8,280
Interest rate	—	BSP overnight rate to 1.0000% over PDST-R2	BSP overnight rate to 1.0000% over PDST-R2	BSP overnight rate to 1.0000% over PDST-R2	—	—	—	—	—	—	—
	425	**544**	**398**	**822**	**1,541**	**3,730**	**185,663**	**631**	**185,032**	**3,615**	**179,927**

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the particular instrument.

Approximately 23% and 28% of our consolidated debts were variable rate debts as at December 31, 2017 and 2016, respectively. Our consolidated variable rate debt decreased to Php40,353 million as at December 31, 2017 from Php51,690 million as at December 31, 2016. Considering the aggregate notional amount of our consolidated outstanding long-term interest rate swap contracts of US$525 million and US$724 million as at December 31, 2017 and 2016, respectively, approximately 92% each of our consolidated debts were fixed as at December 31, 2017 and 2016, respectively.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until December 31, 2018. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 65 basis points, or bps, and 55 bps higher/lower, respectively, as compared to levels as at December 31, 2017. If U.S. dollar interest rates had been 65 bps higher/lower as compared to market levels as at December 31, 2017, with all other variables held constant, profit after tax for the year 2017 and our consolidated stockholders' equity as at year end 2017 would have been approximately Php4 million and Php20 million, respectively, lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 55 bps higher/lower as compared to market levels as at December 31, 2017, with all other variables held constant, profit after tax for the year 2017 and our consolidated stockholders' equity as at year end 2017 would have been approximately Php15 million and Php17 million, respectively, lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

Credit Risk

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

The table below shows the maximum exposure to credit risk for the components of our consolidated statements of financial position, including derivative financial instruments as at December 31, 2017 and 2016:

	2017		
	Gross Maximum Exposure	**Collateral and Other Credit Enhancements***	**Net Maximum Exposure**
		(in million pesos)	
Cash and cash equivalents	***32,905***	***235***	***32,670***
Loans and receivables:			
Advances and other noncurrent assets	**20,679**	**—**	**20,679**
Short-term investments	**1,074**	**—**	**1,074**
Investment in debt securities and other long-term investments	**100**	**—**	**100**
Retail subscribers	**9,183**	**48**	**9,135**
Corporate subscribers	**6,337**	**220**	**6,117**
Foreign administrations	**5,579**	**—**	**5,579**
Domestic carriers	**382**	**—**	**382**
Dealers, agents and others	**12,280**	**1**	**12,279**
HTM investments:			
Investment in debt securities and other long-term investments	**150**	**—**	**150**
Available-for-sale financial investments	***15,165***	**—**	***15,165***
Derivatives used for hedging:			
Long-term currency swap	**240**	**—**	**240**
Interest rate swap	**146**	**—**	**146**
Total	**104,220**	**504**	**103,716**

* *Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2017.*

	2016		
	Gross Maximum Exposure	**Collateral and Other Credit Enhancements***	**Net Maximum Exposure**
		(in million pesos)	
Cash and cash equivalents	*38,722*	*270*	*38,452*
Loans and receivables:			
Advances and other noncurrent assets	17,068	—	17,068
Short-term investments	2,736	—	2,736
Investment in debt securities and other long-term investments	348	—	348
Retail subscribers	7,702	46	7,656
Corporate subscribers	5,506	188	5,318
Foreign administrations	5,191	—	5,191
Domestic carriers	220	—	220
Dealers, agents and others	5,817	1	5,816
HTM investments:			
Investment in debt securities and other long-term investments	352	—	352
Financial instruments at FVPL:			
Forward foreign exchange contracts	54	—	54
Short-term currency swaps	12	—	12
Short-term investments	2	—	2
Available-for-sale financial investments	*12,189*	—	*12,189*
Derivatives used for hedging:			
Long-term currency swap	559	—	559
Interest rate swap	116	—	116
Total	**96,594**	**505**	**96,089**

* *Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2016.*

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at December 31, 2017 and 2016:

	Total	Neither past due nor impaired Class A(1)	Class B(2)	Past due but not impaired	Impaired
		(in million pesos)			
December 31, 2017					
Cash and cash equivalents	***32,905***	***32,705***	***200***	—	—
Loans and receivables:	***70,337***	***34,939***	***9,647***	***11,028***	***14,723***
Advances and other noncurrent assets	**20,901**	**19,202**	**1,474**	**3**	**222**
Short-term investments	**1,074**	**1,074**	—	—	—
Investment in debt securities and other long-term investments	**100**	**100**	—	—	—
Retail subscribers	**17,961**	**2,984**	**4,919**	**1,280**	**8,778**
Corporate subscribers	**9,641**	**2,035**	**2,233**	**2,069**	**3,304**
Foreign administrations	**6,517**	**838**	**872**	**3,869**	**938**
Domestic carriers	**457**	**76**	**73**	**233**	**75**
Dealers, agents and others	**13,686**	**8,630**	**76**	**3,574**	**1,406**
HTM investments:	***150***	***150***	—	—	—
Investment in debt securities and other long-term investments	**150**	**150**	—	—	—
Available-for-sale financial investments	***15,165***	***15,079***	***86***	—	—
Derivatives used for hedging:	***386***	***386***	—	—	—
Long-term currency swap	**240**	**240**	—	—	—
Interest rate swaps	**146**	**146**	—	—	—
Total	**118,943**	**83,259**	**9,933**	**11,028**	**14,723**
December 31, 2016					
Cash and cash equivalents	*38,722*	*36,902*	*1,820*	—	—
Loans and receivables:	*63,586*	*26,762*	*8,180*	*9,646*	*18,998*
Advances and other noncurrent assets	17,278	15,312	1,751	5	210
Short-term investments	2,736	2,736	—	—	—
Investment in debt securities and other long-term investments	348	348	—	—	—
Retail subscribers	20,290	2,770	3,639	1,293	12,588
Corporate subscribers	9,333	888	1,202	3,416	3,827
Foreign administrations	5,819	910	1,382	2,899	628
Domestic carriers	354	103	56	61	134
Dealers, agents and others	7,428	3,695	150	1,972	1,611
HTM investments:	*352*	*352*	—	—	—
Investment in debt securities and other long-term investments	352	352	—	—	—
Financial instruments at FVPL(3):	*68*	*68*	—	—	—
Forward foreign exchange contracts	54	54	—	—	—
Short-term currency swaps	12	12	—	—	—
Short-term investments	2	2	—	—	—
Available-for-sale financial investments	*12,189*	*10,197*	*1,992*	—	—
Derivatives used for hedging:	*675*	*675*	—	—	—
Long-term currency swap	559	559	—	—	—
Interest rate swaps	116	116	—	—	—
Total	**115,592**	**74,956**	**11,992**	**9,646**	**18,998**

(1) *This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.*

(2) *This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.*

The aging analysis of past due but not impaired class of financial assets as at December 31, 2017 and 2016 are as follows:

	Total	Neither past due nor impaired	Past due but not impaired 1-60 days	61-90 days	Over 91 days	Impaired
			(in million pesos)			
December 31, 2017						
Cash and cash equivalents	***32,905***	***32,905***				
Loans and receivables:	***70,337***	***44,586***	***3,261***	***703***	***7,064***	***14,723***
Advances and other noncurrent assets	**20,901**	**20,676**	**—**	**—**	**3**	**222**
Short-term investments	**1,074**	**1,074**	**—**	**—**	**—**	**—**
Investment in debt securities and other long-term investments	**100**	**100**	**—**	**—**	**—**	**—**
Retail subscribers	**17,961**	**7,903**	**927**	**20**	**333**	**8,778**
Corporate subscribers	**9,641**	**4,268**	**724**	**267**	**1,078**	**3,304**
Foreign administrations	**6,517**	**1,710**	**646**	**217**	**3,006**	**938**
Domestic carriers	**457**	**149**	**84**	**53**	**96**	**75**
Dealers, agents and others	**13,686**	**8,706**	**880**	**146**	**2,548**	**1,406**
HTM investments:	***150***	***150***	**—**	**—**	**—**	**—**
Investment in debt securities and other long-term investments	**150**	**150**	**—**	**—**	**—**	**—**
Available-for-sale financial investments	***15,165***	***15,165***	**—**	**—**	**—**	**—**
Derivatives used for hedging:	***386***	***386***	**—**	**—**	**—**	**—**
Long-term currency swap	***240***	**240**	**—**	**—**	**—**	**—**
Interest rate swaps	***146***	**146**	**—**	**—**	**—**	**—**
Total	**118,943**	**93,192**	**3,261**	**703**	**7,064**	**14,723**
December 31, 2016						
Cash and cash equivalents	*38,722*	*38,722*	—	—	—	—
Loans and receivables:	*63,586*	*34,942*	*4,095*	*602*	*4,949*	*18,998*
Advances and other noncurrent assets	17,278	17,063	—	—	5	210
Short-term investments	2,736	2,736	—	—	—	—
Investment in debt securities and other long-term investments	348	348	—	—	—	—
Retail subscribers	20,290	6,409	1,106	41	146	12,588
Corporate subscribers	9,333	2,090	1,333	353	1,730	3,827
Foreign administrations	5,819	2,292	730	156	2,013	628
Domestic carriers	354	159	48	2	11	134
Dealers, agents and others	7,428	3,845	878	50	1,044	1,611
HTM investments:	*352*	*352*	—	—	—	—
Investment in debt securities and other long-term investments	352	352	—	—	—	—
Financial instruments at FVPL:	*68*	*68*	—	—	—	—
Forward foreign exchange contracts	54	54	—	—	—	—
Short-term currency swaps	12	12	—	—	—	—
Short-term investments	2	2	—	—	—	—
Available-for-sale financial investments	*12,189*	*12,189*	—	—	—	—
Derivatives used for hedging:	*675*	*675*	—	—	—	—
Long-term currency swap	559	559	—	—	—	—
Interest rate swaps	116	116	—	—	—	—
Total	**115,592**	**86,948**	**4,095**	**602**	**4,949**	**18,998**

Impairment Assessments

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Our impairment assessments are classified into two areas: individually assessed allowance and collectively assessed allowances.

Individually assessed allowance

We determine the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. We also recognize an impairment for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated at each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with our policy.

Capital Management Risk

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. On August 5, 2014, the PLDT Board of Directors approved an amendment to our dividend policy, increasing the dividend payout rate to 75% from 70% of our core EPS as regular dividends, although we amended our dividend policy to reduce the regular dividend payout to 60% of core EPS in 2016. In declaring dividends, we take into consideration the interest of our shareholders, as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs.

However, in view of our elevated capital expenditures to build out a robust, superior network to suppor the continued growth of data traffic, plans to invest in new adjacent businesses that will complement the current business and provide future sources of profits and dividends, and management of our cash and gearing levels, the PLDT Board of Directors approved on August 2, 2016, the amendment of our dividend policy, reducing the regular dividend payout to 60% core EPS. As part of the dividend policy, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

No changes were made in our objectives, policies or processes for managing capital during the years ended December 31, 2017, 2016 and 2015.

29. Notes to the Statement of Cash Flows

The following table shows the changes in liabilities arising from financing activities:

	January 1, 2017	Cash flows	Foreign exchange movement	Others	December 31, 2017
			(in million pesos)		
Interest-bearing financial liabilities	185,032	(13,097)	417	259	**172,611**
Long-term financing for capital expenditures	13,673	(7,735)	—	(358)	**5,580**
Dividends	1,544	(16,617)	—	16,648	**1,575**
	200,249	**(37,449)**	**417**	**16,549**	**179,766**

Others include the effect of accretion of long-term borrowings, effect of accrued but not yet paid interest on interest-bearing loans and borrowings and accrual of dividends that were not yet paid at the end of the period.

Item 19. Exhibits

See Item 18. "Financial Statements" above for details of the financial statements filed as part of this annual report.

Exhibits to this report:

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
1(a)	Amended Articles of Incorporation (as amended on June 14, 2016)
1(b)	Amended By-Laws (as amended on August 30, 2016)
2	We have not included as exhibits certain instruments with respect to our long-term debt, the amount of debt authorized under each of which does not exceed 10% of our total assets, and we agree to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
4(a)	Stock Purchase and Strategic Investment Agreement, dated September 28, 1999, by and among PLDT, First Pacific Limited, Metro Pacific Corporation, Metro Pacific Asia Link Holdings, Inc., Metro Pacific Resources, Inc. and NTT Communications Corporation (incorporated by reference to PLDT's Form 6-K for the month of September 1999) (P)
4(b)	Executive Stock Option Plan (incorporated by reference to PLDT's Form 20-F as filed with the Securities and Exchange Commission in May 2001) (P)
4(c)	Master Restructuring Agreement, dated June 21, 2000, as amended on December 12, 2000 and December 19, 2000, between PCEV, PCEV (Cayman) Limited, PLDT, The Chase Manhattan Bank, as escrow agent, Metropolitan Bank and Trust Company, as administrative agent and the creditors named therein (incorporated by reference to PLDT's Form 20-F as filed with the Securities and Exchange Commission in May 2001) (P)
4(d)	The Cooperation Agreement, dated January 31, 2006, entered into by and among PLDT, First Pacific, Metro Pacific Corporation, Metro Asia Link Holdings, Inc., Metro Pacific Resources, Inc., Larouge B.V., Metro Pacific Assets Holdings, Inc., NTT Communications and NTT DOCOMO (incorporated by reference to Schedule 13D/A (Amendment No. 2) as filed with the United States Securities and Exchange Commission by Nippon Telegraph and Telephone Corporation and NTT Communications Corporation on January 31, 2006)
4(e)	Deed of Assignment dated April 30, 2013 between SPi Global Holdings, Inc. and Asia Outsourcing Philippines Holdings, Inc. (incorporated by reference to PLDT's Form 20-F as filed with the Securities and Exchange Commission on April 2, 2014)
4(f)	Investment Agreement, dated as of August 6, 2014, among Global Founders GmbH, Emesco AB, AI European S.a.r.l, Rocket Beteiligungs GmbH, PLDT and Rocket Internet AG (incorporated by reference to PLDT's Form 20-F as filed with the Securities and Exchange Commission on March 26, 2015)
4(g)	First Addendum to Investment Agreement, dated as of August 15, 2014, among Global Founders GmbH, Emesco AB, AI European S.a.r.l, Rocket Beteiligungs GmbH, PLDT and Rocket Internet AG (incorporated by reference to PLDT's Form 20-F as filed with the Securities and Exchange Commission on March 26, 2015
4(h)	Joint Venture Agreement, dated as of August 6, 2014, between PLDT and Rocket Internet AG (incorporated by reference to PLDT's Form 20-F as filed with the Securities and Exchange Commission on March 26, 2015)
4(i)	Sale and Purchase Agreement, dated May 30, 2016, by and among San Miguel Corporation, Philippine Long Distance Telephone Company, Globe Telecom, Inc., and Vega Telecom, Inc.
4(j)	First Amendment to the Sale and Purchase Agreement, dated July 26, 2016, by and among San Miguel Corporation, Philippine Long Distance Telephone Company, Globe Telecom,

Exhibit Number	Description of Exhibit
	Inc., and Vega Telecom, Inc.
4(k)	Sale and Purchase Agreement, dated May 30, 2016, by and among Grace Patricia W. Vilchez-Custodio, Philippine Long Distance Telephone Company, Globe Telecom, Inc., and Brightshare Holdings Corporation.
4(l)	Sale and Purchase Agreement, dated May 30, 2016, by and among Schutzengel Telecom, Inc., Philippine Long Distance Telephone Company, Globe Telecom, Inc., and Bow Arken Holding Company, Inc.
4(m)	Share Purchase Agreement, dated May 30, 2016, by and between PLDT Communications and Energy Ventures, Inc. and Metro Pacific Investments Corporation
4(n)*	Share Purchase Agreement, dated May 19, 2017, by and between Asia Outsourcing Gamma Limited and Partners Group
4(o)*	Share Purchase Agreement, dated June 13, 2017, by and between PLDT Communications and Energy Ventures, Inc. and Metro Pacific Investments Corporation
6*	Computation of Earnings Per Share is included in Note 8 to the Audited Financial Statements
7*	Calculation of Ratio of Earnings to Fixed Charges
8*	Subsidiaries
12.1*	Certification of CEO required by Rule 13a-14(a) of the Exchange Act
12.2*	Certification of the Principal Financial Officer required by Rule 13a-14(a) of the Exchange Act
13.1*	Certification of CEO required by Rule 13a-14(b) of the Exchange Act
13.2*	Certification of the Principal Financial Officer required by Rule 13a-14(b) of the Exchange Act
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith
(P) – Paper filings

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

March 27, 2018

PLDT INC.

By: /s/ Ma. Lourdes C. Rausa-Chan
MA. LOURDES C. RAUSA-CHAN
Senior Vice President, Corporate Affairs and Legal
Services Head and Corporate Secretary

Exhibit 4(n)

C L I F F O R D
C H A N C E

CLIFFORD CHANCE
高 偉 紳 律 師 行

Execution Version

ASIA OUTSOURCING NETHERLANDS B.V. AND
ASIA OUTSOURCING GAMMA LIMITED AND
SPI GLOBAL CONTENT HOLDING PTE. LTD.

AGREEMENT FOR THE SALE AND PURCHASE OF SHARES IN
(A) ASIA OUTSOURCING PHILIPPINES HOLDINGS, INC. AND
CERTAIN OF ITS SUBSIDIARIES AND (B) SPI GLOBAL SHARED
SERVICES PTE. LTD.

CONTENTS

THIS AGREEMENT is made on 19 May 2017

BETWEEN:

(1) **ASIA OUTSOURCING NETHERLANDS B.V.**, a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands, having its seat (*statutaire zetel*) in Amsterdam, The Netherlands, having its office address at Schiphol Boulevard 369, 7th floor, 1118 BJ Luchthaven Schiphol, The Netherlands and registered with the Dutch Commercial Register (*Handelsregister*) under number 57218064 (the "**AOPH Seller**");

(2) **ASIA OUTSOURCING GAMMA LIMITED**, an exempted company with limited liability incorporated under the laws of the Cayman Islands, whose registered address is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands (the "**ROHQ Seller**", and together with the AOPH Seller, the **"Sellers"** and each a **"Seller"**); and

(3) **SPI GLOBAL CONTENT HOLDING PTE. LTD**., a company incorporated with limited liability in Singapore (registered number 201712651C) whose registered address is at 77 Robinson Road, #13-00, Robinson 77, Singapore 068896 (the "**Buyer**").

RECITALS:

(A) The Target Companies (as defined below) are engaged in the businesses of providing content outsourcing services globally.

(B) The Sellers and the Seller Entities (as defined below) wish to sell, and the Buyer wishes to purchase, the Sale Shares (as defined below) owned by the Sellers and the Seller Entities, on the terms and subject to the conditions of this Agreement.

THE PARTIES AGREE as follows:

1. **INTERPRETATION**

1.1 In this Agreement:

"**Accounts**" means the unconsolidated audited balance sheet, audited profit and loss statement and audited cash flows (where applicable) of each of the Target Group Companies, to the extent that they are audited, as outlined in Schedule 1, for the years ending, and as at, 31 December 2014, 31 December 2015 and the Last Accounting Date (unless otherwise indicated in Schedule 1), along with any notes, reports, statements or documents included in or annexed or attached to them prepared in accordance with IFRS (or the relevant local accounting framework).

"A**ffiliate**" means, in relation to a person, any other person which, directly or indirectly, controls, is controlled by or is under the common control of the first mentioned person, where "control" means the ownership, directly or indirectly, of more than 50 per cent. of the voting shares, registered capital or other equity interest of the relevant person or the possession, directly or indirectly, of the power to direct the shareholders' general meeting, to appoint or elect a majority of the directors, or otherwise to direct the management of the relevant person and "**controlled**" and

"**controlling**" shall be construed accordingly, provided that in relation to each of the Seller Entities and Target Group Companies, its Affiliates shall exclude all CVC Portfolio Companies.

"**Aggregate Purchase Price**" means US$324,000,000 plus the Locked Box Interest. "**Agreed Leakage Amount**" has the meaning given to it in Clause 3.4. "**Anticorruption Laws**" means any laws, regulations, or orders relating to anti-

bribery, anti-corruption (governmental or commercial), including laws that prohibit the corrupt payment, offer, promise, or authorisation of the payment or transfer of anything of value (including gifts or entertainment), directly or indirectly, to any foreign government official, foreign government employee, person or commercial entity, to obtain a business advantage, or the offer, promise, or gift of, or the request for, agreement to receive or receipt of a financial or other advantage to induce or reward the improper performance of a relevant function or activity. such as, without limitation, the U.S. Foreign

Corrupt Practices Act of 1977, as amended from time to time, the UK Bribery Act of 2010, all national and international laws enacted to implement the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and any other applicable Law, rule, regulation or other legally binding measure of the jurisdictions in which the Target Group conducts business that relates to bribery or corruption.

"**Annual Budget**" means the annual budget of the Target Group annexed to the Disclosure Letter**.**

"**Alternative Completion**" has the meaning given to it in Clause 6.1. "**Alternative Completion Date**" has the meaning given to it in Clause 6.1.

"**AOPH**" means Asia Outsourcing Philippines Holdings, Inc., a company incorporated in the Philippines, whose registered address is at SPi Building, Pacific Information Technology Center, Pascor Drive, Sto. Niño, Parañaque City.

"**AOPH Locked Box Financial Statements**" means the audited consolidated special purpose financial information (which includes the consolidated statement of financial position and the consolidated statement of total comprehensive income only, with no comparative information or disclosure notes) of AOPH and its subsidiaries as at and for year ended 31 December 2016, prepared in accordance with the accounting policies of the Asia Outsourcing Group.

"**AOPH Purchase Price**" means an amount equal to the sum of: (a) US$210,900,000 plus the Locked Box Interest, less (b) an amount allocated to AOPH as set out in Clause 3.7 (if any).

"**AOPH Seller's Account**" means the bank account in the name of the AOPH Seller with ING Bank, account number IBAN NL38 INGB 0020 0617 49 and SWIFT code INGBNL2A or such other account as shall have been notified to the Buyer by the AOPH Seller at least three Business Days before the Completion Process Commencement Date.

"**AOPH Shares**" means 12,754,956 fully-paid common shares in AOPH of PHP1.00 each comprising the entire allotted and issued share capital of AOPH after the redemption of the AOPH Preference Shares held by the AOPH Seller.

"**AOPH Preference Shares**" means 191,494,839 fully-paid preferred shares in AOPH of PHP1.00 each.

"**Asia Outsourcing Group**" means Asia Outsourcing Beta Limited and its subsidiaries.

"**Authority**" means any nation or government, any state, municipality, or other political subdivision thereof, and any agency, department or other entity exercising executive, legislative, judicial, regulatory, administrative or other similar functions.

"**Bachieve Asset Purchase Transaction**" means the purchase of assets pursuant to the asset transfer agreement dated 1 November 2013 between SPi Asia Ventures Pte. Ltd., Zhou Yaping and Bachieve International (Xi'an) Inc. and the transactions contemplated thereunder.

"**Business Day**" means any day (other than a Saturday or Sunday or public holiday in Cayman Islands, the Netherlands, Hong Kong, New York or the Philippines and a day on which a typhoon signal number 8 or a black rainstorm warning is hoisted in Hong Kong at any time) on which banks are open for the transaction of normal business in Cayman Islands, Hong Kong and the Philippines.

"**Buyer's Account**" means the USD bank account in the name of the Buyer as shall have been notified to the Sellers by the Buyer at least three Business Days before a payment is due to be paid to the Buyer under this Agreement.

"**Buyer Designee**" means the Buyer and/or Affiliates of the Buyer which the Buyer designates by written notice to the Sellers at least ten (10) Business Days prior to the anticipated Completion Process Commencement Date to acquire the Sale Shares.

"**Buyer's Group**" means Global Content Alpha Partners Holdco Pte. Ltd. and each company which is, on or at any time after the date of this Agreement, a subsidiary of the Buyer and includes, for the avoidance of doubt each Target Group Company after Completion, and "**Buyer's Group Company**" means any member of the Buyer's Group.

"**Buyer's Warranty**" means a statement contained in Schedule 4 and "**Buyer's Warranties**" means all those statements.

"**Carved-Out Entities Settlement**" means the steps set out in Schedule 11 (as may be amended in accordance with paragraph Schedule 111 of Schedule 11 from time to time).

"**China Equity Transfer Agreement**" has the meaning given to it in paragraph 4.3 of Schedule 2.

"**Claim**" means a claim by the Buyer under or pursuant to the provisions of this Agreement or any other document entered into pursuant to this Agreement (including other Transaction Documents).

"**Companies Ordinance**" means the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

"**Completion**" means completion of the sale and purchase of the Sale Shares in accordance with this Agreement or, if an Alterative Completion takes place, the Alternative Completion.

"**Completion Date**" has the meaning given to it in Clause 5.2 or, if an Alternative Completion takes place, means the Alternative Completion Date.

"**Completion Process Commencement Date**" has the meaning given to it in Clause 5.1.

"**Condition**" means a condition set out in Clause 4.1 and "**Conditions**" means all those conditions.

"**Conifer Transaction**" means the sale of shares in Asia Outsourcing US Inc. pursuant to the stock purchase agreement dated 11 August 2014 between Asia Outsourcing Alpha Limited, as seller, and Conifer Holdings, Inc., as buyer and the transactions contemplated thereunder.

"**Conversion Date**" means the date on which SIHL has completed all the steps set out in Schedule 7.

"**Core Warranty**" means any statement contained in Part A of Schedule 3.

"**Core Warranty Claim**" means a claim by the Buyer under or pursuant to the provisions of this Agreement in respect of a breach of any Core Warranty.

"**CRM Disposal**" means the sale of shares in SPi CRM, Inc. and Infocom Technologies, Inc. pursuant to a sale and purchase agreement dated 22 July 2016 between Asia Outsourcing Gamma Limited, as seller, and Relia, Inc., as buyer, and the transactions contemplated thereunder.

"**CRM Payables 2016**" means the outstanding amounts alleged to be payable by the Target Group set out in Part B of Schedule 10.

"**CRM Receivables 2016**" means the amounts being claimed against the relevant party by the Target Group set out in Part A of Schedule 10.

"**CRM Receivables 2017**" means the amounts being claimed against the relevant party by the Target Group set out in Part C of Schedule 10.

"**CVC Fund III**" means CVC Capital Partners Asia Pacific III L.P. and CVC Capital Partners Asia Pacific III Parallel Fund-A, L.P.

"**CVC Fund IV**" means CVC Capital Partners Asia Pacific IV L.P., CVC Capital Partners Asia IV Associates L.P. and CVC Capital Partners Investment Asia IV L.P.

"**CVC Party**" means either:

(a) in respect of Clause 3 only, any of (i) the CVC Fund III or the CVC Fund IV;

(ii) any general partner or manager of the CVC Fund III or the CVC Fund IV;
(iii) CVC Asia Pacific Limited or any of its subsidiaries; (iv) the CVC Portfolio Companies and the CVC Portfolio Companies IV; and (v) any employee or partner of any person described in (ii) or (iii) above; or

(b) in other cases, any of (a) the CVC Fund III; (b) any general partner or manager of the CVC Fund III; (c) the CVC Portfolio Companies,

and "**CVC Parties**" shall be construed accordingly.

"**CVC Party IV**" means any of (a) the CVC Fund IV; (b) any general partner or manager of the CVC Fund IV; (c) the CVC Portfolio Companies IV.

"**CVC Portfolio Companies**" means direct or indirect controlled portfolio companies of investment funds advised or managed by any person described in limb (b) of the definition of CVC Party (for the avoidance of doubt, excluding the Sellers' Group Companies and the Target Group Companies), provided that for the purpose of Clause 17.2.1(b) this definition shall be construed without reference to the word "controlled" used above.

"**CVC Portfolio Companies IV**" means direct or indirect controlled portfolio companies of investment funds advised or managed by any person described in limb

(b) of the definition of CVC Party IV, provided that for the purpose of Clause 17.2.1(b) this definition shall be construed without reference to the word "controlled" used above.

"**Data Room**" means the virtual data room containing documents and information relating to the Target Group made available by the Sellers, and includes the answers and documentation provided by or on behalf of the Sellers or the Target Group in the virtual data room in response to the requests for information by the Purchaser as at

5.00 pm on 15 May 2017, which has been copied onto two identical hard drives of which one copy has been provided to the Sellers and the other to the Buyer on or prior to the date of this Agreement.

"**Debt Refinancing and Recapitalization**" means the repayment or refinancing of the facilities directly or indirectly obtained by the CVC Fund III to for its indirect acquisition of the Target Group, and any recapitalization of the Target Group in connection therewith.

"**Deferred Purchase Price**" means an amount equal to US$17,000,000, less any reduction pursuant to Clause 2.3.

"**Disclosed**" means fairly disclosed by or on behalf of the Sellers to the Buyer (with sufficient detail to enable the Buyer to identify the nature and scope of the matter disclosed) (a) in the Disclosure Letter, (b) in any of the documents in the Data Room, or (c) in this Agreement.

"**Disclosure Letter**" means the letter from the Sellers to the Buyer in relation to the Sellers' Warranties having the same date as this Agreement the receipt of which has been acknowledged by the Buyer.

"**Dormant Companies**" has the meaning given to it in Clause 17.1.5.

"**Economic Sanctions Law**" means any economic or financial sanctions administered by OFAC, the US State Department, the United Nations, the European Union or any member state thereof, or any other national economic sanctions authority.

"**EHS Consents**" means any permits, licences, consents, certificates, registrations, approvals, notifications waivers, exemptions, allowances, credits or other authorisations relating to EHS Matters and required by or under any EHS Laws for the operation of the Target Group's business or the use of, or any activities or operations carried out at, any of the properties owned, controlled, used or occupied by the Target Group Companies.

"**EHS Laws**" means all applicable laws (including, for the avoidance of doubt, common law), statutes, regulations, statutory guidance notes, by-laws, codes (including codes of practice), regulations, decrees, orders and any final and binding court, tribunal or other official decision of any relevant authority in any jurisdiction, insofar as they relate or apply to EHS Matters from time to time.

"**EHS Matters**" means matters relating to human health, safety and welfare, the Environment, the use or exploitation of any environmental or natural resources and/or any Hazardous Substances.

"**Employees**" means the individuals employed by any of the Target Group Companies under a contract of employment as of the date of this Agreement.

"**Employment Costs**" means:

(a) the amounts payable or paid to or in respect of the employment of employees (including salary, wages, Tax and social security contributions, employer's pension contributions, bonuses, insurance premiums, payments or allowances or any other consideration for employment); and

(b) the costs of providing any non-cash benefits which the employer is required to provide by Law or contract or customarily provides in connection with such employment (including other employee benefit provisions);

"**Employment Liabilities**" means any and all losses, excluding Employment Costs, directly arising out of or directly connected with employment or the employment relationship, or the initiation or the termination of employment, or of the employment relationship (including but not limited to all losses in connection with any claim, award, judgment or agreement for transition allowance (*transitievergoeding*) or fair compensation (*billijke vergoeding*) or otherwise.

"**Encumbrance**" means a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest or equity, other encumbrance or security interest of any kind, or another type of preferential

arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect or any agreement to create any of the above.

"**Environment**" means all or any of the following media (alone or in combination): air (including the air within buildings or other natural or man-made structures whether above or below ground). water (including water under or within land or in drains or sewers); and soil and land (including buildings) and any ecological systems and living organisms supported by these media (including, for the avoidance of doubt, man).

"**Escrow Agent**" means JPMorgan Chase Bank, N.A.

"**Escrow Agreement**" means the escrow agreement in agreed form, by and among the Sellers, the Buyer and the Escrow Agent to be entered into at Completion, as amended from time to time.

"**Escrow Claim**" means a Claim made by the Buyer for any breach by a Seller of this Agreement except for any Insured Tax Claim or Warranty Claims for breach of paragraphs 21 or 22 of Part B of Schedule 3, which has been notified in writing to the relevant Seller.

"**Escrow Account**" means the separately designated account with the Escrow Agent or such other bank account designated by the Escrow Agent in the name of the Sellers and the Buyer into which payment of the Escrow Completion Amount and the relevant portion of the Deferred Purchase Price will be made by the Buyer in accordance with Clause 2.2.3.

"**Escrow Completion Amount**" means US$201,700,000 plus the Locked Box Interest.

"**Government Entity**" means (a) any national, federal, state, county, municipal, local, or foreign government or any entity exercising executive, legislative, judicial, regulatory, taxing, or administrative functions of or pertaining to government, (b) any public international organization, (c) any agency, division, bureau, department, or other political subdivision of any government, entity, or organization described in the foregoing clauses (a) or (b) of this definition, (d) any company, business, enterprise, or other entity owned, in whole or in part, or controlled by any government, entity, organization, or other Person described in the foregoing clauses (a), (b), or (c) of this definition, or (e) any political party.

“**Government Official**” means:

(a) any official, employee or representative of, or any other person acting in an official capacity for or on behalf of:

(i) any Governmental Entity, including any entity owned or controlled thereby.

(ii) any political party or political candidate; or

(iii) any public international organisation; and

(b) any candidate for political office or a person acting on his or her behalf.

“**Hazardous Substances**” means any wastes, pollutants, contaminants and any other natural or artificial substance (whether in the form of a solid, liquid, gas or otherwise and whether alone or in combination with any other material or substance) which is capable of causing harm or damage to the Environment or a nuisance to any person.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China.

“**IFRS**” means International Financial Reporting Standards as issued by the International Accounting Standards Board and in force from time to time.

“**Insurance Policy**” means the warranty and indemnity insurance policy in connection with this Agreement provided by Allied World Assurance Company Limited in the agreed form that was issued on or about the date of this Agreement in favour of the Buyer.

“**Insured Tax Claim**” has the meaning given to it in Schedule 9.

“**Intellectual Property**” means patents, registered and unregistered designs, copyright, database rights, trademarks and trading names, internet domain names, and other rights of the same or similar effect as any of the foregoing anywhere in the world, in each case whether registered or not, including pending applications for registration of such rights.

“**Intellectual Property Rights**” means all material Intellectual Property used or required to be used by any Target Group Company in, or in connection with, its business.

“**IT Systems**” means all computer hardware, including peripherals and ancillary equipment and network and telecommunications equipment, and all computer software, including associated proprietary materials, user manuals and other related documentation used or required to be used by any of the Target Group Companies in, or in connection with, its business.

“**Key Customer Contracts**” means all agreements, contracts or arrangements between the Target Group Companies and its top ten customers by revenue, being:

(a) Springer International Publishing AG;

(b) John Wiley & Sons, Inc.;

(c) Pearson Education, Inc.;

(d) McGraw-Hill Global Education Holdings, LLC;

(e) Wolters Kluwer United States Inc.;

(f) Cengage Learning, Inc.;

(g) Elsevier BV, a division of RELX Group PLC;

(h) Houghton Mifflin Harcourt Publishing Company;

(i) Rovi Corporation;

(j) LexisNexis, a division of RELX Group PLC or LexisNexis Risk Solutions Inc Springer**.**

"**Key Supplier Contracts**" means the agreements between the Target Group Companies and PLDT and/or its Affiliates.

"**Last Accounting Date**" means 31 December 2016.

"**Law**" means any national, state, provincial, local, municipal, foreign, international, multinational or other law, regulation, administrative order, award, constitution, ordinance, decree, principle of common law, statute or treaty and includes, without limitation to the generality of the foregoing, EHS Laws, the rules, regulations, guidelines, directives and licences and any other instrument which has the force of law issued by any relevant Authority and applicable to the relevant party.

"**Leakage**" has the meaning given to it in Clause 3.4. "**Leakage Credit**" has the meaning given to it in Clause 3.6.2.

"**Leased Property**" means all the real property leased by the Target Group, as set out in the Disclosure Letter.

"**Locked Box Date**" means 31 December 2016.

"**Locked Box Financial Statements**" means, collectively, the AOPH Locked Box Financial Statements and the ROHQ Locked Box Financial Statements.

"**Locked Box Interest**" means:

(a) if Completion Process Commencement Date does not take place on or prior to 21 August 2017, the sum of:

(i) the amount calculated in accordance with (b) below in this definition, on the basis that 21 August 2017 shall be the Completion Process Commencement Date in the formula; and

(ii) the amount calculated at the rate of US$1,500,000 per calendar month (which is to be pro-rated for any partial calendar month) for the period from 22 August 2017 (inclusive) to the earlier of (y) Completion Process Commencement Date and (z) the Alternative Completion Date (exclusive) in accordance with the following formula:

Additional Locked Box Interest = (*D2*/365) x (12 x US$1,500,000) where *D2* is the number of days from 22 August 2017 (inclusive) to the Completion Process Commencement Date (exclusive); and

(b) in other cases, the incremental amount calculated at the rate of US$1,000,000 per calendar month (which is to be pro-rated for any partial calendar month)

for the period from 1 January 2017 (inclusive) to the Completion Process Commencement Date (exclusive) in accordance with the following formula:

Locked Box Interest = (*D*/365) x (12 x US$1,000,000)

where ***D*** is the number of days from 1 January 2017 (inclusive) to the Completion Process Commencement Date (exclusive).

"**Long Stop Date**" means 30 September 2017, or such later date as the parties may agree in writing.

"**Material Contracts**" means any of the Key Customer Contracts and the Key Supplier Contracts.

“**Management Accounts**” means (a) the unaudited monthly and quarterly management accounts of the Target Group for each of the calendar quarters in the financial year ending 31 December 2014, 31 December 2015 and 31 December 2016;

(b) the consolidated unaudited balance sheet and consolidated unaudited profit and loss statement of ROHQ for the financial year ending, and as at, 31 December 2014,

31 December 2015 and 31 December 2016; and (c) the monthly management accounts of the Target Group for the period from 1 January 2017 to 31 March 2017, which are prepared consistently in accordance with the accounting policies of the Target Group and in the ordinary course of business.

“**Misrepresentation Ordinance**” means the Misrepresentation Ordinance (Chapter 284 of the Laws of Hong Kong).

“**Non-Target Group Companies**” means the Dormant Companies, SIHL, SPi Asia Ventures Pte. Ltd., SPi America LLC and SPi Litigation Direct LLC.

“**Outstanding Amounts Claimed**” has the meaning given to it in Clause 7.5. “**Owned Property**” means all the real property owned by the Target Group, as set out

in the Disclosure Letter.

“**PCA**” means Republic Act No. 10667, otherwise known as the ‘Philippine Competition Act’.

“**PCA Notifications**” means the notifications to the PCC submitted by the Sellers and the Buyer respectively on or prior to the date of this Agreement in compliance with all applicable requirements as may be determined by the PCC pursuant to the PCA, and “**PCA Notification**” means any of them.

“**PCC**’ means the Philippine Competition Commission.

“**Pension Benefits**” means any pension, superannuation, retirement (including on early retirement) incapacity, sickness, disability, accident, healthcare or death benefits (including in the form of a lump sum).

“**Pension Scheme**” means the pension scheme described at paragraph 14 of the Disclosure Letter.

“**Personal Data**” has the meaning given by the Data Protection Act 1998.

“**Permitted Leakage**” means any payment by a Target Group Company to or for the benefit of a Sellers’ Group Company which is set out in Schedule 6.

“**PHP**” means Philippine Peso, the lawful currency of the Republic of the Philippines. “**PLDT**” means PLDT Inc.

“**Properties**” means the Owned Property and the Leased Property.

“**Representative**” means, in relation to a Sellers’ Group Company or a Target Group Company, their respective directors, officers, employees, duly authorised agents and contracted consultants.

“**Reinvesting Managers**” means Ratnadeep Datta, John David Prabhu Vasantharaj, Jishnu Gupta, Dhaneesh Kumar Madan Kollan, Kumar Subramaniam, Michael O’Brien, Srinivasan Karunganni Govindarajan, Felma Sumagaysay Magnata, Lorena Santos Sison, Rina Fernandez Bautista, Maria Cecilia Cortez Ampeloquio, Celestina Bagtas Ilagan and Arindam Das.

“**Related Parties**” means, with respect to any person: (i) any of its officers, directors, employees, direct or indirect shareholders or Affiliates; (ii) any spouse, sibling, parents or children (including step and adopted siblings, parents and children) to that person or any of that person’s directors or direct or indirect shareholders referred to in sub-paragraph (i); or (iii) any entity in which that person and/or any such person in sub-paragraphs (i) or (ii) holds or controls, in the aggregate, more than 50 per cent. of the voting rights or economic interest in such entity, provided that in relation to each of the Seller Entities and Target Group Companies, its Related Parties shall exclude all CVC Portfolio Companies.

"**Related Parties Transactions**" has the meaning given to it in Clause 17.3.1.

"**ROHQ**" means SPi Global Shared Services Pte. Ltd., a company with limited liability incorporated under the laws of Singapore, whose company number is 201206564C.

"**ROHQ Locked Box Financial Statements**" means (i) the audited financial statements (including the statements of assets, liabilities and head office account, the statements of total comprehensive income, the statements of changes in head office account, the statements of cash flows, and the accompanying notes to the financial statements) of the regional operating headquarters in the Philippines of ROHQ as at and for the years ended 31 December 2015 and the Last Accounting Date, prepared in accordance with the Philippine Financial Reporting Standards, together with (ii) the unaudited management accounts (including the balance sheet and the profit and loss statement) of ROHQ (excluding the regional operating headquarters in the Philippines of ROHQ) for the year ended the Last Accounting Date, prepared in accordance with the accounting policies of the Asia Outsourcing Group.

"**ROHQ Purchase Price**" means an amount equal to the sum of: (a) US$5,200,000, less (b) an amount allocated to ROHQ as set out in Clause 3.7 (if any).

"**ROHQ Seller's Account**" means the bank account in the name of the ROHQ Seller with Bank of America N.A., Hong Kong Branch, account number 6055-80926-013 and SWIFT code BOFAHKHX or such other account as shall have been notified to the Buyer by the ROHQ Seller at least three Business Days before the Completion Process Commencement Date.

"**ROHQ Shares**" means 50,000 fully-paid ordinary shares in ROHQ, comprising the entire allotted and issued paid-up share capital of ROHQ.

"**Sale Shares**" means, collectively:

(a) in the case where parties proceed with the Alternative Completion, the AOPH Shares and the ROHQ Shares to be sold by the AOPH Seller and the ROHQ Seller, respectively; and

(b) in other cases, the AOPH Shares, the ROHQ Shares, the SPi India Majority Shares, the SPi India Minority Shares and the SPi China Shares.

"**Sanctioned Person**" means any person or organisation:

(a) designated on the OFAC list of "Specially Designated Nationals and Blocked Persons", or on any list of targeted persons issued under the Economic Sanctions Law of any other country;

(b) that is, or is part of, a government of a Sanctioned Territory;

(c) owned or controlled by, or acting on behalf of, any of the foregoing;

(d) located within or operating from a Sanctioned Territory; or

(e) otherwise targeted under any Economic Sanctions Law.

"**Sanctioned Territory**" means any country or other territory subject to a general export, import, financial or investment embargo under Economic Sanctions Law, which countries, as of the date of this Agreement, include Cuba, Iran, North Korea, Sudan, Syria and the Crimea Region of Ukraine.

"Seller Entities" means the Sellers and the entities listed in the first column of Schedule 8.

"**Seller Related Party**" means any of (a) the Seller Group and its directors, employees and officers; (b) any person referred to in limb (a) of the definition of "CVC Party"; (c) the members of the PLDT group; (d) the directors of any Target Group Company and the Employees; and (e) Related Parties of the persons referred to in (d).

"**Sellers' Group Company**" means Asia Outsourcing Alpha Limited or a company which is, from time to time, a subsidiary of Asia Outsourcing Alpha Limited, excluding the Target Group Companies and "**Sellers' Group**" shall be construed accordingly.

"**Sellers' Solicitors**" means Clifford Chance of 27th Floor, Jardine House, One Connaught Place, Hong Kong.

"**Sellers' Warranty**" means a statement contained in Schedule 3 and "**Sellers' Warranties**" means all those statements.

"**Senior Employees**" means, collectively, the following employees:

(a) Ratan Datta (Chief Executive Officer);

(b) Kumar Subramaniam (Chief Finance Officer);

(c) Marie Cecilia Ampeloquio (Chief People Officer);

(d) John Prahbu (Senior Vice President);

(e) Jishnu Gupta (Senior Vice President);

(f) Dhaneesh Kumar (Senior Vice President); and

(g) Mike O'Brien (Executive Vice President).

"**Settled Claim**" means an Escrow Claim in respect of which:

(a) has been fully withdrawn by the Buyer;

(b) the Buyer and the relevant Seller have agreed in writing that the relevant Escrow Claim be fully and finally settled; or

(c) the arbitral tribunal has made a final determination, in accordance with Clause 25.

"**SIHL**" means SPi India Holdings (Mauritius), Limited, a limited liability company incorporated in Mauritius, whose company number is 48772 C2/GBL.

"**SIHL Tax Demand**" means any notice, demand, assessment, letter or other document issued, or action taken by, or on behalf of any Tax Authority from which it appears that a Tax Liability is, or is likely to be, incurred by or imposed on SIHL or its shareholder(s) in respect of the liability referred to in Clause 11.1.

"**SPi China**" means SPi Global (Xi'an) Information Technology Ltd., a limited liability company incorporated in the People's Republic of China, whose company number is 91610131081048101A.

"**SPi China Purchase Price**" means an amount equal to the sum of:

(a) US$2,600,000; less (b) an amount allocated to SPi China as set out in Clause 3.7 (if any).

"**SPi China Shares**" means the entire RMB 16,500,000 registered capital of SPi China.

"**SPi CRM Group**" means Relia, Inc. and any of its subsidiaries.

"**SPi Healthcare Disposal**" means the sale of shares in SPi Healthcare, Inc. pursuant to the stock purchase agreement entered into in April 2017 between SPi Technologies as seller and Adec Innovations, Ltd as buyer.

"**SPi India**" means SPi Technologies India Private Limited, a private company limited by shares incorporated in Pondicherry, India, whose company number is U22110PY1999PTC001459.

"**SPi India Buyer Designee**" means the Buyer Designee which is to be incorporated in India to purchase by itself and through its nominee the SPi India Majority Shares and the SPi India Minority Shares (in such proportion as such Buyer Designee deems fit).

“**SPi India Majority Purchase Price**” means an amount equal to the sum of:

(a) US$63,148,410, less (b) an amount allocated to SPi India in respect of the SPi India Majority Shares as set out in Clause 3.7 (if any).

“**SPi India Majority Shares**” means 1,510 equity shares in SPi India, comprising 59.97% of the allotted and issued share capital of SPi India.

“**SPi India Minority Purchase Price**” means an amount equal to the sum of:

(a) US$42,151,590, less (b) an amount allocated to SPi India in respect of the SPi India Minority Shares as set out in Clause 3.7 (if any).

“**SPi India Minority Shares**” means 1,008 equity shares in SPi India, comprising 40.03% of the allotted and issued share capital of SPi India.

“**SPi Technologies**” means SPi Technologies, Inc., a private company limited by shares incorporated in Philippines, whose company number is CS200407011.

“**Target Companies**” means AOPH, ROHQ, SPi India and SPi China, and each a “**Target Company**”.

“**Target Group Companies**” means, collectively, the Target Companies and each of the Target Subsidiaries as detailed in Schedule 1, and “**Target Group Company**”, “**Target Group**” and “**member of the Target Group**” shall be construed accordingly.

“**Target Subsidiary**” means any subsidiary of any of the Target Companies as referred to in Schedule 1 (for the avoidance of doubt, excluding the Non-Target Group Companies) and “**Target Subsidiaries**” means all those subsidiaries.

“**Tax**” means:

(a) all forms of tax, levy, impost, contribution, duty, liability and charge in the nature of taxation and all related withholdings or deductions of any nature, including, for the avoidance of doubt, any excise, property, value added, sales, use, occupation, transfer, franchise and payroll taxes and any social security or social fund contributions; and

(b) all related fines, penalties, charges and interest,

imposed or collected by a Tax Authority whether directly or primarily chargeable against, recoverable from or attributable to any of the Target Group Companies or another person **(**and “**Taxes**” and “**Taxation**” shall be construed accordingly**).**

“**Tax Authority**” means a taxing or other governmental (local or central), state or municipal authority competent to impose a liability for or to collect Tax.

“**Tax Warranty**” means any statement contained in paragraph 4 of Part B of Schedule 3.

“**Transaction Documents**” means this Agreement, the Disclosure Letter and the Escrow Agreement.

“**Transfer Date**” has the meaning given to it in Clause 17.4.1. “**Uninsured Tax Claim**” has the meaning given to it in Schedule 9.

“**US$**” or “**US Dollar**” means the lawful currency of the United States of America.

“**Warranty Claim**” means a claim by the Buyer under or pursuant to the provisions of this Agreement in respect of a breach of the Sellers’ Warranties (other than any Core Warranty).

“**Working Hours**” means 9:30am to 5:30pm on a Business Day.

“**Wrong Pocket Cash**” means the cash that a Sellers’ Group Company has received or receives during the period from the Locked Box Date to the date falling five (5) Business Days prior to the Completion Date (both exclusive) for and on behalf of a Target Group Company in relation to the services that such Target Group Company performs for its customers.

"**Wrong Pocket Employee**" means the following employee of AOPH Seller: Bart Loevens.

1.2 In this Agreement, a reference to:

1.2.1 a "**subsidiary**" or "**holding company**" is to be construed in accordance with sections 13 to 15 of the Companies Ordinance;

1.2.2 a "**person**" includes a reference to any individual, firm, company, corporation or other body corporate, government, state or agency of a state or any joint venture, association or partnership, works council or employee representative body (whether or not having separate legal personality) and includes a reference to that person's legal personal representatives, successors and permitted assigns;

1.2.3 a "**party**" or "**parties**", unless the context otherwise requires, is a reference to a party or parties to this Agreement and includes a reference to that party's legal personal representatives, successors and permitted assigns;

1.2.4 a document in the "**agreed form**" is a reference to a document in a form approved and for the purposes of identification initialled by or on behalf of the Buyer and the Sellers;

1.2.5 a Clause, Paragraph or Schedule, unless the context otherwise requires, is a reference to a clause or paragraph of, or schedule to, this Agreement;

1.2.6 a statutory provision includes a reference to:

(a) the statutory provision as modified or re-enacted or both from time to time (whether before or after the date of this Agreement); and

(b) any subordinate legislation made under the statutory provision (as so modified or re-enacted and whether before or after the date of this Agreement);

1.2.7 any Hong Kong legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official or any legal concept or thing shall in respect of any jurisdiction other than Hong Kong be deemed to include what most nearly approximates in that jurisdiction to the Hong Kong legal term and any Hong Kong ordinance or regulation shall be construed so as to include equivalent or analogous laws of any other jurisdiction;

1.2.8 liability under, pursuant to or arising out of (or any analogous expression) any agreement, contract, deed or other instrument includes a reference to contingent liability under, pursuant to or arising out of (or any analogous expression) that agreement, contract, deed or other instrument;

1.2.9 a time of day is a reference to the time in Hong Kong;

1.2.10 the singular includes the plural and vice versa; and

1.2.11 one gender includes all genders.

1.3 The ejusdem generis principle of construction shall not apply to this Agreement.
Accordingly, general words shall not be given a restrictive meaning by reason of their being preceded or followed by words indicating a particular class of acts, matters or things or by examples falling within the general words. Any phrase introduced by the terms "other", "including", "include" and "in particular" or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms.

1.4 The headings in this Agreement do not affect its interpretation.

1.5 A reference in this Agreement to the Sellers' knowledge, awareness or belief of a fact, matter or circumstance means the actual knowledge of any of the following persons as at the date of this Agreement (without imposing any obligation on such persons to make enquiry of any other person):

1.5.1 the directors of each of the Sellers;

1.5.2 Ratan Datta, Kumar Subramaniam, Marie Cecilia Ampeloquio, John Prahbu, Jishnu Gupta, KG Govindarajan and Francis Victoria; and

1.5.3 Brian Hong and Xuan Wang.

1.6 and the Sellers shall not be required to make any enquiry of any other person nor shall the Sellers be deemed to have knowledge of any matter not within the actual knowledge of such persons at such time.

2. **SALE AND PURCHASE**

2.1 At Completion, subject to and in accordance with the terms and conditions of this Agreement:

2.1.1 the AOPH Seller shall, and shall procure the other Seller Entities (other than the ROHQ Seller) to, sell to the Buyer or the applicable Buyer Designee, and the Buyer shall, and shall procure the applicable Buyer Designee to, purchase, the Sale Shares (other than the ROHQ Shares) free of any Encumbrance, together with all rights attaching to such Sale Shares as at Completion (including all dividends and distributions declared, paid or made in respect of such Sale Shares after the Completion Date);

2.1.2 the ROHQ Seller shall sell to the Buyer or the applicable Buyer Designee, and the Buyer shall, and shall procure the applicable Buyer Designee to, purchase, the ROHQ Shares free of any Encumbrance, together with all rights attaching to such shares as at Completion (including all dividends and distributions declared, paid or made in respect of such shares after the Completion Date).

2.2 The consideration of the Sale Shares shall be the Aggregate Purchase Price and the Buyer shall pay or procure the payment of:

2.2.1 the Escrow Completion Amount, less the amount to be deducted in accordance with Clause 3.7, in the manner set out in Clause 7.1.1 and Schedule 2;

2.2.2 the SPi India Majority Purchase Price and the SPi India Minority Purchase Price, in the manner set out in Schedule 2 or Schedule 2B (as the case may be); and

2.2.3 the Deferred Purchase Price (after deducting any amount payable accordance with Clause 2.3 pursuant to any Settled Claim (each a "**Deferred Purchase Price Deduction**")), if any, as follows:

(a) the first US$4.5 million of the Deferred Purchase Price to the AOPH Seller's Account; and

(b) the remaining portion of the Deferred Purchase Price to the Escrow Account,

in each case, on the earlier of (i) the date that falls 6 months after the date of this Agreement, or (ii) 31 December 2017.

2.3 Any amount payable under a Deferred Purchase Price Deduction shall first be applied to reduce the Buyer's obligation to pay the portion of the Deferred Purchase Price payable pursuant to Clause 2.2.3(a), followed by the amount to be paid into the Escrow Account pursuant to Clause 2.2.3(b).

3. LOCKED BOX

3.1 The AOPH Seller (in respect of the Target Group Companies other than ROHQ) and the ROHQ Seller (in respect of ROHQ) covenants and undertakes to the Buyer that in the period from (and excluding) the Locked Box Date up to (and including) the Completion Date (save to the extent comprising a Permitted Leakage):

3.1.1 no dividend or other distribution of profits or assets (whether in cash or in kind) has been or will be declared, paid or made by any Target Group Company or would be treated as having been paid or made by any Target Group Company to or for the benefit of any Seller Entity or any Seller Related Party (but excluding any Target Group Company);

3.1.2 no payments have been or will be made by or on behalf of a Target Group Company to or for the benefit of any Seller Entity or any Seller Related Party (but excluding any Target Group Company, and excluding any payments to the extent reimbursed to the relevant Target Group Company by or on behalf of such Seller Entity or Seller Related Party);

3.1.3 no share or loan capital of any Target Group Company has been or will be redeemed, repurchased or repaid or result in a payment to any Seller Entity or any Seller Related Party (but excluding any Target Group Company);

3.1.4 no amounts owed to a Target Group Company by any Seller Entity or any Seller Related Party (but excluding any Target Group Company) have been or will be waived or forgiven;

3.1.5 no assets or other economic benefits have been or will be transferred by a Target Group Company to any Seller Entity or any Seller Related Party (but excluding any Target Group Company);

3.1.6 no new liabilities have been or will be assumed or incurred (or any indemnity or guarantee given in respect thereof) by a Target Group Company for the benefit of any Seller Entity or any Seller Related Party (but excluding any Target Group Company);

3.1.7 no new Encumbrance has been created over any shares in or any of the assets of any Target Group Company in favour of or for the benefit of any Seller Entity or any Seller Related Party (but excluding any Target Group Company);

3.1.8 no management, monitoring or other shareholder or directors' fees or bonuses or payments of a similar nature have been or will be paid by or on behalf of a Target Group Company to or for the benefit of any Seller Entity or any Seller Related Party (but excluding any Target Group Company) or to any directors of any Target Group Company or any Employee;

3.1.9 no costs or expenses in relation to the sale of the Sale Shares, the CRM Disposal or Debt Refinancing and Recapitalization (including any professional advisers' fees and any transaction or sale bonuses or other payments payable in relation thereto) have been or will be paid or incurred, by or on behalf of any Target Group Company;

3.1.10 no Target Group Company has amended or will amend the terms of its borrowing or indebtedness in the nature of borrowing owed by it to any Seller Entity or any Seller Related Party (but excluding any Target Group Company) to the benefit of any Seller Entity or any Seller Related Party (but excluding any Target Group Company);

3.1.11 no agreements, understandings or arrangements have been or will be entered into whereby the person directly benefiting from any of the matters referred to in Clauses 3.1.1 to 3.1.10 confers (directly or indirectly) a benefit on any Seller Entity or any of its Related Parties (but excluding any Target Group Company);

3.1.12 none of the Seller Entities and any of its Related Parties (but excluding any Target Group Company) has agreed or committed or will agree or commit to do any of the things set out in Clauses 3.1.1 to 3.1.11 (inclusive); or

3.1.13 no liability to Tax has arisen in respect of or as a consequence of any of the matters set out in Clauses 3.1.1 to 3.1.12 (inclusive) above.

3.2 The relevant Seller shall notify the Buyer in writing promptly if it becomes aware of a payment or transaction which constitutes or which might constitute a breach of Clause 3.1.

3.3 Subject always to Completion having taken place, in the event of any breach of Clause 3.1, the relevant Seller shall on demand by the Buyer pay to the Buyer, on a US Dollar for US Dollar basis, as a reduction of the relevant portion of the Aggregate Purchase Price, an amount that is equal to the amount received by, or the benefit obtained by, the relevant Seller Entity or any Seller Related Party in respect of any breach of any of the covenants and undertakings set out in Clause 3.1.

3.4 The Sellers shall notify the Buyer as soon as reasonably practicable upon becoming aware that any leakage has occurred between the Locked Box Date and the Completion Date in breach of Clause 3.1 (the "**Leakage**"). If any Leakage comes to the attention of the Buyer (through notification by the Sellers or otherwise) on or prior to the date falling five (5) Business Days prior to Completion, then, subject to the Seller agreeing in writing that such Leakage has occurred and agreeing the amount of such Leakage, the amount of such Leakage shall be deemed to be an "**Agreed Leakage Amount**".

3.5 The Sellers and the Buyer agree that the Carved-Out Entities Settlement will be undertaken in accordance with Schedule 11 and in particular with the general principles set out in Schedule 11.

3.6 The Sellers and the Buyer agree:

3.6.1 the following shall be an Agreed Leakage Amount:

(a) the Agreed Leakage Amount referred to in the Carved-Out Entities Settlement;

(b) settlement of the net intercompany balances owed by the Target Group Companies to the Sellers' Group Companies, being US$3,343,763 as at 31 March 2017 which as at the date of this Agreement are Disclosed in paragraph 20 of the Disclosure Letter;

(c) to the extent the Wrong Pocket Cash is not remitted by SPi America LLC to SPIT on or prior to the Completion Date;

(d) to the extent the Wrong Pocket Cash is not remitted by Non-Target Group Companies to Target Group Companies on or prior to the Completion Date as evidenced to the Buyer's reasonable satisfaction; and

3.6.2 the amount referred to as "Leakage Credit" in the Carved-Out Entities Settlement ("**Leakage Credit**") shall be set off against the Leakage Amount.

3.7 The Buyer shall be entitled to deduct the Agreed Leakage Amount from the Aggregate Purchase Price, allocated to the extent practicable (based on the entity in which the Leakage occurred) to the relevant part of, the Aggregate Purchase Price to be agreed between the Parties (acting reasonably).

3.8 A claim under Clause 3.3 shall be the sole remedy available (subject to Schedule 5) to the Buyer arising (directly or indirectly) from a breach of Clause 3.1.

4. CONDITIONS

4.1 Completion is conditional on the following Conditions being satisfied on or before 5:00pm on the Long Stop Date:

4.1.1 the approval by the PCC or the expiry or termination of the waiting period (and any extension thereof) without any objection having been raised by the PCC, in each case under the mandatory merger control filing required under the PCA and its implementing rules in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereunder; and

4.1.2 following receipt of complete notifications, the competition Authority of Germany and Austria respectively issuing a decision allowing the parties to proceed with the transactions contemplated in this Agreement.

4.2 The actions and events set out in Schedule 2 shall occur in accordance with Clause 5.2 and Schedule 2 to effect Completion.

4.3 The Buyer and the Sellers shall make all reasonable efforts to achieve satisfaction of each of the Conditions set out in Clause 4.1, as soon as possible after the date of this Agreement and in any event no later than 5:00pm on the Long Stop Date. The Sellers shall co-operate with the Buyer, and shall procure that each Target Group Company co-operates with the Buyer, to provide reasonable assistance upon request in relation to the satisfaction of the Conditions set out in Clause 4.1.

4.4 If any Authority is prepared to grant its consent or approval which is required to fulfil a Condition only subject to compliance with specific conditions or obligations to be imposed upon the Buyer, the Buyer shall only be required to accept such conditions and obligations and the relevant Condition shall only be deemed satisfied, if the acceptance and/or compliance with all such conditions and/or obligations would not require material cost or expense or disposal of any material asset.

4.5 The Buyer shall keep the Sellers informed as to the progress towards satisfaction of the Conditions set out in Clause 4.1 and shall promptly:

4.5.1 notify the Sellers and provide to the Sellers copies of any material communications from any governmental or regulatory body or other person in relation to obtaining any consent, approval or action where such communications have not been independently or simultaneously supplied to the Sellers;

4.5.2 provide the Sellers with draft copies of all material submissions and communications to any governmental or regulatory body or other person in relation to obtaining any consent, approval or action at such time as will allow the Sellers a reasonable opportunity to provide comments on such submissions and communications before they are submitted or sent and promptly provide the Sellers with copies of all such submissions and communications in the form submitted or sent; and

4.5.3 where requested, and permitted by the relevant Authority allow persons nominated by the Sellers to attend any meeting or telephone call with any governmental or regulatory body or other person in relation to obtaining any consent, approval or action,

provided that nothing in this Clause 4.5 shall require the Buyer to disclose to the Sellers any information which is commercially sensitive in respect of the business and operations of the Buyer's Group.

4.6 If, at any time, the Buyer becomes aware of a fact, matter or circumstance that would be likely to prevent a Condition from being satisfied, it shall promptly inform the Sellers in writing.

4.7 If any Condition has not been satisfied by 5:00pm on the Long Stop Date, this Agreement shall automatically terminate with immediate effect.

4.8 Each party's further rights and obligations cease immediately on termination (excluding those under Clauses 18, 19, 20, 21, 22, 23, 24 and 25), but termination does not affect a party's accrued rights and obligations at the date of termination.

5. COMPLETION

5.1 Subject to Clause 6, Completion shall take place at the offices of the Sellers' Solicitors (or at any other location mutually agreed by the Sellers and the Buyer in writing) and shall commence on the date referred to below in Clauses 5.1.1 or 5.1.2 which shall not be earlier than 21 August 2017 (or any other date mutually agreed by the Sellers and the Buyer in writing) (the "**Completion Process Commencement Date**"):

5.1.1 subject to Clause 5.1.2, the steps to effect Completion shall commence on the date falling five (5) Business Days after the date (not being earlier than 21 August 2017 or later than the Long Stop Date) on which the last of the Conditions to be satisfied or waived is satisfied or waived; or

5.1.2 if:

(a) all the Conditions have been satisfied or waived on any day prior to the Long Stop Date; and

(b) the Buyer elects, by notice in writing to the Sellers, to postpone the date of Completion,

then the steps to effect Completion in Schedule 2 shall commence on the date falling two (2) weeks after the original date referred to in Clause 5.1.1.

5.2 To effect Completion, each of the AOPH Seller and ROHQ Seller shall, and shall procure that the relevant Seller Entity shall, and the Buyer shall and shall procure that the relevant Buyer Designee shall, do all those things respectively required of it in Schedule 2. The AOPH Seller and the ROHQ Seller shall procure that each Target Group Company co-operates with and provides, and the Buyer shall, and shall procure each Buyer Designee, co-operate with and provide, in each case all assistance upon written request to the other parties in relation to the performance and completion of all those things and actions set out in Schedule 2. Completion shall be regarded to have occurred only upon the completion of all of the things and actions set out in Schedule 2 unless the parties otherwise agree in writing (the date on which all of such things and actions have been completed, being the "**Completion Date**").

5.3 None of the parties is obliged to complete this Agreement and Completion shall subject to Clause 5.4.3 not have occurred unless:

5.3.1 the other party complies with all of its obligations under this Clause 5 and Schedule 2;

5.3.2 the sale and purchase of all the Sale Shares is completed in accordance with Schedule 2; and

5.3.3 all of the actions described in Schedule 2 have been completed, unless the parties otherwise agree in writing.

5.4 If Completion does not take place within seven (7) Business Days following the Completion Process Commencement Date because a party fails to comply with any of its obligations under this Clause 5 and Schedule 2 (whether such failure by the party amounts to a repudiatory breach or not), the other party may by notice to the first party:

5.4.1 postpone Completion to a date not more than 20 Business Days after the Completion Process Commencement Date and not later than the Long Stop Date;

5.4.2 terminate this Agreement; or

5.4.3 proceed to Completion to the extent practicable including taking steps to give effect to an Alternative Completion.

5.5 If either party postpones Completion to another date in accordance with Clause 5.4.1, the provisions of this Agreement apply as if that other date on which all the steps and actions set out in Schedule 2 having been completed, is the Completion Date.

5.6 If any of the parties terminate this Agreement pursuant to Clause 5.4.2 or 6.2.2, each party's further rights and obligations cease immediately on termination (excluding those under Clauses 18, 19, 20, 21, 24 and 25), but termination does not affect a party's accrued rights and obligations at the date of termination.

6. ALTERNATIVE COMPLETION

6.1 If (a) all the Conditions have been satisfied or waived on or prior to the Long Stop Date and (b) Completion does not occur on or prior to the Long Stop Date, each of the AOPH Seller and ROHQ Seller shall, and the Buyer shall:

6.1.1 do all those things respectively required of it in Schedule 2B on the third Business Day immediately following the Long Stop Date (the "**Alternative Completion Date**"); and

6.1.2 execute and deliver all such documents and do all such things as is reasonably required for the purpose of giving full effect to the Alternative Completion and to secure for each of the parties the full benefit of the rights, powers and remedies conferred upon it for the purchase and sale of the AOPH Shares and ROHQ Shares, including, if necessary, amending various provisions of this Agreement.

The Sellers shall procure that each of AOPH and ROHQ co-operates, and the Buyer shall co-operate, with and provide all assistance upon written request to the other parties in relation to the performance and completion of all those things and actions set out in Schedule 2B. Completion of the sale and purchase of the AOPH Shares and ROHQ Shares in accordance with Schedule 2B (the "**Alternative Completion**") shall be regarded to have occurred only upon the completion of all of the things and actions set out in Schedule 2B, unless the Sellers and the Buyer otherwise agree in writing.

6.2 If Alternative Completion does not take place on the Alternative Completion Date because the Sellers or the Buyer fails to comply with any of its obligations under this Clause 6 and Schedule 2B (whether such failure by the party amounts to a repudiatory breach or not), the other party may by notice to the first party:

6.2.1 postpone Alternative Completion to a date not more than 20 Business Days after the Alternative Completion Date;

6.2.2 terminate this Agreement; or

6.2.3 proceed to Alternative Completion to the extent practicable**.**

7. ESCROW

7.1 Each of the Sellers and the Buyer agree that:

7.1.1 the Buyer shall deposit the Escrow Completion Amount to the Escrow Account on the earlier of (i) the Completion Process Commencement Date and

(ii) the Alternative Completion Date;

7.1.2 the Buyer shall deposit the SPi India Minority Purchase Price to the bank account of the SPi India Buyer Designee for the SPi India Minority Shares in India by way of electronic transfer in immediately available funds for same day value on the Completion Process Commencement Date and deliver evidence to the Sellers of such remittance;

7.1.3 the Buyer shall deposit the SPi India Majority Purchase Price to the bank account of the SPi India Buyer Designee for the SPi India Majority Sale Shares in India by way of electronic transfer in immediately available funds for same day value on the Completion Process Commencement Date and deliver evidence to the Sellers of such remittance;

7.1.4 the money in the Escrow Account shall only be used in accordance with the provisions set out in this Clause 7 and in the Escrow Agreement;

7.1.5 if Completion does not occur on or prior to the Long Stop Date (or in the case of an Alternative Completion, on the proposed Alternative Completion Date (as may be postponed pursuant to Clause 6.2)), the Sellers and Buyer shall jointly instruct the Escrow Agent to release all monies in the Escrow Account to the Buyer within three (3) Business Days of the Long Stop Date or the proposed Alternative Completion Date (as applicable);

7.1.6 the parties shall jointly instruct the Escrow Agent, within the timeframes set out in the relevant paragraph of Schedule 2 or Schedule 2B (as the case may be), to pay such monies from the Escrow Account as may be necessary to discharge the Buyer's obligations under paragraphs 4.4, 5.3 and 6.3 of Schedule 2 (or, in the case of the Alternative Completion, paragraphs 2.3 and 3.3 of Schedule 2B) as part of the steps to effect Completion;

7.1.7 following the deposit of the relevant portion of the Deferred Consideration into the Escrow Account in accordance with Clause 2.2.3, the Buyer shall be entitled to be paid monies from the Escrow Account pursuant to an Escrow Claim, in accordance with the provisions set out in this Clause 7;

7.1.8 it shall ensure that all rights to the Escrow Account remain free from any Encumbrance, set off or counterclaim except as referred to in this Clause 7; and

7.1.9 the costs of the Escrow Agent in relation to the Escrow Account and the Escrow Agreement shall be shared as to 50% by the Sellers and as to 50% by the Buyer.

7.2 Interest accruing from time to time on the balance of money standing to the credit of the Escrow Account (if any) shall be added to the money standing to the credit of the Escrow Account and shall form part of it for the purposes of this Clause 7.

7.3 Upon any Escrow Claim becoming a Settled Claim in respect of which it has been finally agreed or determined that an amount is due and payable by the relevant Seller to the Buyer, the Buyer shall be entitled to be paid from the Escrow Account the amount which has been finally agreed or determined to be so due and payable in satisfaction of the relevant Seller's liability in respect of such Settled Claim.

7.4 At any time the Sellers may deliver to the Buyer a guarantee executed on behalf of the CVC Fund III, in a form reasonable satisfactory to the Buyer, and together with such evidence as is reasonably required by the Buyer as to the financial substance of the CVC Fund III supporting the guarantee, to guarantee payment of an amount up to the balance standing to the credit of the Escrow Account at such time on behalf of the Sellers. Upon the delivery of such guarantee to the Buyer, an equivalent amount of the money standing to the credit of the Escrow Account shall be released to the AOPH Seller's Account.

7.5 On the date that falls 36 months after the Completion Date, the money then standing to the credit of the Escrow Account less the total of the then outstanding amounts claimed by the Buyer in accordance with this Agreement in respect of any Escrow Claim (the "**Outstanding Amounts Claimed**"), shall be released to the AOPH Seller.

7.6 All or any part of the Outstanding Amounts Claimed shall cease to form part of the Outstanding Amounts Claimed and be released to the AOPH Seller or the Buyer (as appropriate) upon the earliest to occur of:

7.6.1 the Escrow Claim to which the relevant part of the Outstanding Amounts Claimed relates becomes a Settled Claim;

7.6.2 it being agreed between the Buyer and the relevant Seller that the Outstanding Amounts Claimed in respect of any Escrow Claim be reduced, in which case the amount of such reduction shall cease to form part of the Outstanding Amounts Claimed; and

7.6.3 if proceedings on any underlying Escrow Claim have not by such time been properly issued and validly served on the relevant Seller, on the date falling six (6) months after the relevant Seller's receipt of the written notice of the Escrow Claim given by the Buyer, in which case the whole amount of such Escrow Claim shall cease to form part of the Outstanding Amounts Claimed.

7.7 If either the relevant Seller, on the one hand, or the Buyer, on the other hand, is entitled to money from the Escrow Account, the relevant Seller and the Buyer shall, within ten (10) Business Days of the date on which the entitlement arises, jointly instruct the Escrow Agent in writing to release the money to the AOPH Seller's Account (where the Sellers are entitled to money from the Escrow Account) or the Buyer's Account (where the Buyer is entitled to money from the Escrow Account), as the case may be, in accordance with Clause 21.8.

8. WARRANTIES

8.1 The AOPH Seller warrants to the Buyer that, at the date of this Agreement and as at Completion, each Sellers' Warranty set out in paragraphs 1, 2, 4, 5, 6 and 7 of Part A of Schedule 3 is true and accurate.

8.2 The ROHQ Seller warrants to the Buyer that, at the date of this Agreement and as at Completion, each Sellers' Warranty set out in paragraphs 1, 3, 4, 5, 6 and 7 of Part A of Schedule 3 is true and accurate.

8.3 Each Seller warrants to the Buyer that, at the date of this Agreement and as at Completion, each Sellers' Warranty set out in Part B of Schedule 3 is true and accurate.

8.4 Each of the Sellers' Warranties is separate and independent and, unless otherwise specifically provided, shall not be restricted or limited by reference to any other representation, warranty or term of this Agreement and each of the Sellers' Warranties set out in Part B of Schedule 3 is qualified by all matters and circumstances Disclosed.

8.5 If at any time prior to or at Completion, the Sellers, any member of the Sellers' Group or any of the Target Group Companies become aware that any matter would or would be reasonably likely to constitute a breach of any Sellers' Warranty, the Sellers shall promptly notify the Buyer in sufficient detail to enable the Buyer to make a reasoned assessment of the situation (and, for the avoidance of doubt, the delivery of such notice shall not limit or otherwise affect the remedies available to the Buyer).

8.6 The Buyer acknowledges and agrees that, except for the Sellers' Warranties, none of the Sellers gives any warranty, representation or undertaking as to the accuracy or completeness of any information (including any of the forecasts, estimates, projections, statements of intent or statements of opinion) provided to the Buyer or any of its advisers or agents (howsoever provided).

8.7 The Buyer warrants to each Seller that each Buyer's Warranty is true and accurate at the date of this Agreement.

8.8 Each of the Seller waives and shall procure that all members of the Sellers' Group and all CVC Parties (excluding all CVC Portfolio Companies) shall waive any rights and remedies they may have against any Target Group Companies or any of their respective present or former employees, directors, agents, officers or advisers with respect to claims arising out of any information, opinion or advice supplied or given (or omitted to be supplied or given) in connection with the transactions contemplated by this Agreement and/or the other Transaction Documents or any part thereof other than in the case of fraud and agrees that no such rights or remedies shall constitute a defence to any claim by the Buyer under this Agreement.

9. TAX COVENANT

9.1 The Sellers covenant to the Buyer on the terms set out in Schedule 9.

10. PRE-COMPLETION CONDUCT

10.1 Between the execution of this Agreement and Completion:

10.1.1 each Seller shall cause each Target Group Company to conduct its business, in the ordinary course consistent with past practice and policies; and

10.1.2 the AOPH Seller undertakes to carry out the steps set out in Schedule 7 and use reasonable endeavours to keep the Buyer informed (and on the third Business Day prior to Completion Process Commencement Date, deliver all supporting documents reasonably requested by the Buyer to reflect completion of such steps) as to the progress towards the actions taken with respect to such undertaking and the satisfaction of the AOPH Seller's obligation with respect to such undertaking.

10.2 Without prejudice to the generality of and subject to Clause 10.1, each Seller undertakes to procure that, between the date of this Agreement and Completion, each Target Group Company shall not, except (a) as may be required to comply with this Agreement, or (b) as required by applicable Laws or regulations, without the prior written consent of the Buyer:

10.2.1 amend the constitutional documents of a Target Group Company;

10.2.2 dispose of, create, allot or issue, acquire, repay, redeem or grant an option to subscribe for, any share capital, loan capital of any Target Group Company;

10.2.3 acquire or agree to acquire, an interest in a corporate body or merge or consolidate with a corporate body or any other person;

10.2.4 enter into any demerger transaction or participate in any other type of corporate reconstruction;

10.2.5 dispose of, or agree to dispose of, any asset with a value or consideration exceeding US$1,000,000; or acquire, or agree to acquire, any asset with a value or consideration exceeding US$1,000,000;

10.2.6 enter into any agreement or arrangement with any Seller or any Seller Related Party other than any agreement or arrangement with any member of the PLDT group in the ordinary course of business or any agreement or arrangement entered into in accordance with Clauses 10.2.11 and 10.2.12;

10.2.7 conclude, amend or terminate a material agreement, arrangement or obligation outside the ordinary course of its business;

10.2.8 amend, waive any term of, or terminate any Material Contract (other than to seek or agree to change of control waivers);

10.2.9 make any change to its accounting and tax reporting practices or policies or amend its constitutional documents except as required by Law or to comply with a new accounting standard in any relevant jurisdiction;

10.2.10 create, grant, issue or vary any Encumbrance over, or sell or dispose of, the Sale Shares, any interest in any share or loan capital or other security, assets or undertaking of any of the Target Group Companies;

10.2.11 make any changes (other than those required by Law) to the terms and conditions of employment (including the provision of any contractual or non- contractual benefits) of the Senior Employees (including granting any new options or other entitlements under existing schemes or benefits) (other than changes to remuneration which in aggregate do not exceed US$100,000);

10.2.12 make any changes (other than those required by Law) to the terms and conditions of employment (including the provision of any contractual or non- contractual benefits) of the Employees (including granting any new options or other entitlements under existing schemes or benefits) (other than changes to remuneration made in the ordinary course of business consistent with past practices);

10.2.13 declare, make or pay a dividend or other distribution (whether in cash, stock or in kind) (except for any distribution to any Target Group Company) or make any reduction of its paid-up share capital;

10.2.14 incur any capital expenditure in excess of US$1,000,000 in the aggregate in excess of the amounts as specified for capital expenditure in the Annual Budget;

10.2.15 borrow any money or enter into any agreement for the purposes of borrowing, interest rate swaps, foreign exchange contracts or other derivative instruments (except in the case of foreign exchange contracts and working capital facilities as required in the ordinary course of business consistent with past practices);

10.2.16 grant or modify the terms of any loans or other financial facilities or any guarantees or indemnities for the benefit of any person (except in the case of loans to Employees as required in the ordinary course of business consistent with past practice);

10.2.17 enter into any joint venture, partnership or agreement or arrangement for the sharing of profits or assets;

10.2.18 enter into any lease, lease hire or hire purchase agreement or agreement for payment on deferred terms (except as required in the ordinary course of business and in each case for an amount or value not exceeding US$1,000,000 in the aggregate);

10.2.19 institute, engage in or settle any legal proceedings (except in respect of debt collection in the ordinary course of business);

10.2.20 engage or employ or make any offer to employ any new person with annual base salary in excess of US$150,000 (excluding bonuses or other benefits), other than the Wrong Pocket Employee pursuant to Clause 17.4;

10.2.21 make any amendment, other than solely to comply with legislative requirements, to any agreements or arrangements for the payment of pensions or other benefits on retirement to present or former directors, officers or Employees of any of the Target Group Companies or any of their dependants; or

10.2.22 enter into any agreement or arrangement (whether in writing or otherwise) to do any of the foregoing or allow or permit any of the foregoing.

10.3 If at any time prior to or at Completion, the Sellers, any member of the Sellers' Group or any of the Target Group Companies become aware that any of the matters set out in this Clause 10 has occurred or that any of the actions set out in Schedule 2 cannot be completed, or there is a reasonable expectation that any of the matters set out in this Clause 10 might occur or that any of the actions set out in Schedule 2 cannot be completed, the Sellers shall immediately:

10.3.1 notify the Buyer in sufficient detail to enable the Buyer to make an accurate assessment of the situation (and, for the avoidance of doubt, the delivery of such notice shall not limit or otherwise affect the remedies available to the Buyer); and

10.3.2 if requested by the Buyer, use its best endeavours to procure that the notified occurrence is prevented or remedied.

11. BUYER'S INDEMNIFICATION AND UNDERTAKING

11.1 Subject always to Completion having taken place, the Buyer covenants with the AOPH Seller to pay to the AOPH Seller an amount equal to the sum of:

11.1.1 any Tax liability arising in respect of Indian capital gains tax of SIHL or its shareholder(s) arising as a result of the Indian tax authorities disallowing or ruling against any waiver or exemption under the India-Mauritius Treaty relied upon by SIHL in respect of the transfer of the SPi India Minority Shares from SIHL to the SPi India Buyer Designee after the Completion Date; and

11.1.2 all the costs and expenses reasonably and properly incurred in taking any action in connection with or defending any investigation made by any Indian Tax Authority in relation to Clause 11.1.1 above.

11.2 The Buyer shall not be liable under Clause 11.1 above:

11.2.1 to the extent that the Tax liability in question arises or is increased as a result of a change in legislation or a change in the administrative or published practice of any Tax Authority or an increase in the rates of Tax, in each case taking effect after the Completion Date and retrospectively and not prospectively in force or announced at the date of this Agreement;

11.2.2 to the extent that the Tax liability in question would not have arisen but for a voluntary act (including the making or failure to make any claim, election, surrender or disclaimer or the giving or failure to give any notice in relation to Tax) of SIHL or its shareholder(s) after the Completion Date but only in circumstances where the Sellers knew or ought to have known that the liability in question would have arisen as a result of the voluntary act and where an alternative course of action was available that would have reduced or eliminated the liability;

11.2.3 to the extent that a Relief is available to SIHL or its shareholder(s) at no cost to SIHL or its shareholder(s), as the case may be, to set against or otherwise mitigate the Tax liability; or

11.2.4 to the extent that the amount of the Tax liability in question has been recovered from a person without cost to SIHL or its shareholder(s).

11.3 If the AOPH Seller or SIHL becomes aware of a SIHL Tax Demand which would or might reasonably be expected to give rise to a liability for the Buyer or the SPi India Buyer Designee:

11.3.1 the AOPH Seller shall give notice to the Buyer of the SIHL Tax Demand (including reasonably sufficient details of the SIHL Tax Demand) (in writing no later than five (5) Business Days) after the AOPH Seller or SIHL becomes aware of the SIHL Tax Demand (but for the avoidance of doubt, the giving of such notice shall not be a condition precedent to the liability of the Buyer under this Clause 11);

11.3.2 subject to other provisions of this Clause 11, AOPH Seller shall not and shall procure that SIHL shall not make any admission of liability, consent to the entry of any judgment or enter into any settlement or compromise in relation to any SIHL Tax Demand, or make any payments, or deposit any monies or issue any bank guarantee or otherwise communicate in writing with any Tax Authority or any person acting for or on behalf of any Tax Authority in relation to any SIHL Tax Demand, without the Buyer's prior written consent.

11.4 Provided the SIHL Tax Demand does not exceed or might not reasonably be expected to exceed the Buyer's total liability limit of US$8,000,000 under Clause 11.8 (with the expectation as to Buyer's total liability under the SIHL Tax Demand to be evidenced by the Buyer's Tax or legal adviser), the Buyer may elect to defend any SIHL Tax Demand in accordance with the terms of this Clause 11. If it so elects, it shall and at its own expense, be entitled to take any of the following actions:

11.4.1 leading discussions and negotiations with any Tax Authority and other regulatory and Governmental Authority in relation to such SIHL Tax Demand;

11.4.2 in the case of correspondence or documents which are not required by Law to be executed and/or submitted by SIHL, preparing and submitting to the Tax Authorities, to the extent lawful, any such correspondence and documents as the Buyer may deem fit, in the name of and on behalf of SIHL, in connection with such SIHL Tax Demand and in the case of documents which are required by Law to be executed and/or submitted by SIHL, prepare such documents for execution and/or submission by SIHL, as the case may be;

11.4.3 appointing and providing instructions to any legal and/or tax advisers, including any and all counsel, barristers and advocates in relation to such SIHL Tax Demand;

11.4.4 agreeing the terms of any monetary settlement of such SIHL Tax Demand with the Tax Authorities, subject to giving the AOPH Seller a prior written notification detailing the monetary settlement of such SIHL Tax Demand and the terms relating thereto; and

11.4.5 having conduct and control of any and all court proceedings and court filings in relation to such SIHL Tax Demand.

If the SIHL Tax Demand exceeds or might reasonably be expected to exceed the Buyer's total liability limit of US$8,000,000 under Clause 11.8 (with the expectation as to Buyer's total liability under the SIHL Tax Demand to be evidenced by the Buyer's Tax or legal adviser), the Buyer shall not be entitled to lead and/or control the defence, conduct and resolution of the SIHL Tax Demand pursuant to this Clause 11.4 or Clause 11.5 and the actions to defend, conduct and resolve the SIHL Tax Demand under this Clause 11.4 or Clause 11.5 shall be undertaken jointly by and/or subject to the mutual agreement of the AOPH Seller and the Buyer.

11.5 Subject to the immediately preceding paragraph in the event Buyer elects to control the preparation, prosecution, defence or conduct of any proceedings in relation to a SIHL Tax Demand, AOPH Seller shall procure that SIHL shall at the expense of the Buyer take any of the following actions (including legal proceedings or making claims under any insurance policies, if available) as the Buyer may reasonably require to dispute, resist, defend, appeal, compromise or mitigate the underlying matter, circumstance or SIHL Tax Demand:

11.5.1 keep the Buyer promptly informed of any new facts, circumstances, material developments (including any queries, correspondence and meetings with or from any relevant Tax Authority) as they arise with respect to such SIHL Tax Demand, and shall provide the Buyer with copies of all correspondence and documentation and such other information, assistance and access to records as they reasonably require, in each case, relating to the SIHL Tax Demand or action referred to in this Clause 11;

11.5.2 execute suitable powers of attorney, authority letters in favour of the Buyer or its authorized representative and/or such other documents as may be reasonably necessary or expedient in Buyer's opinion in order for Buyer to control the preparation, prosecution, defence or conduct of any proceedings in relation to such SIHL Tax Demand;

11.5.3 execute and submit (to any Tax Authority or other relevant judicial authority) such pleadings, filings, affidavits and other documents which the Buyer may reasonably request SIHL to execute and submit in relation to the preparation, prosecution, defence or conduct of any proceedings in relation to such SIHL Tax Demand; and

11.5.4 allow the Buyer to take such action with respect to the preparation, prosecution, defence or conduct of any proceedings in relation to such SIHL Tax Demand and/or the underlying matter of such SIHL Tax Demand, in such manner as the Buyer deems fit, subject to the AOPH Seller and SIHL being fully and promptly informed of the preparation, prosecution, defence or conduct of any proceedings in relation to such SIHL Tax Demand.

11.6 The rights of the Buyer under Clauses 11.4 and 11.5 (other than the right to receive notice) are subject to the Buyer having indemnified the AOPH Seller and/or SIHL (as applicable) against all costs reasonably and properly incurred and any further liability to Tax which may be incurred in connection with any such action as is referred to in Clauses 11.4 and 11.5.

11.7 If the Buyer does not elect to defend any SIHL Tax Demand within 20 Business Days of receipt of notice by the Buyer under Clause 11.3.1, or does not indemnify the AOPH Seller and/or SIHL as required by Clause 11.1 within a reasonable period of time following written request from the AOPH Seller to the Buyer for the same, the AOPH Seller shall be free to satisfy or settle the relevant liability on such terms as it may reasonably think fit.

11.8 Notwithstanding any other provision in this Agreement, the Buyer's total liability in respect of Clauses 11.1 and 11.3 to 11.7 is limited to US$8,000,000 and the Buyer shall not be liable under such Clauses after the date which is three (3) years from Completion Date.

11.9 The Buyer shall not be liable under Clauses 11.1 and 11.3 to 11.7 to the extent that the liability imposed on SIHL or its shareholder(s) referred to in Clause 11.1 is caused by:

11.9.1 the breach by the AOPH Seller of its undertaking in Clause 10.1.2 to carry out the steps set out in Schedule 7;

11.9.2 the failure by the AOPH Seller to procure that SIHL maintains its corporate existence, and is not liquidated, wound up, placed in receivership or the subject of any insolvency or similar proceedings, for a period of two (2) years after the Completion Date; and/or

11.9.3 the breach of the AOPH Seller's obligations under Clause 11.3.

11.10 If the Buyer makes a payment to the AOPH Seller pursuant to Clause 11.1 above (a "**Buyer Indemnity Payment**"), and the AOPH Seller (or any member of the Seller's Tax Group) receives a refund in respect of such Buyer Indemnity Payment, the AOPH Seller shall pay an amount to the Buyer which the AOPH Seller determines (acting in good faith) will leave it (or any member of the Seller's Tax Group, as appropriate), after making that payment, in the same after-tax position as it would have been had the Buyer not been required to make the Buyer Indemnity Payment.

11.11 The Buyer undertakes to each Seller that it shall not terminate, amend or vary any term or condition of the equity commitments or debt commitments from the Buyer's financing sources (the terms and conditions of which the Buyer has provided to the Sellers) in the case of the debt commitments in any manner which would adversely affect the Buyer's and the ability to fulfil its payment obligations pursuant to this

Agreement and in the case of the equity commitments in any manner whatsoever (other than to effect a reallocation of commitments as between the existing committed investors) without the Seller's prior written consent, and the Buyer shall comply with all such terms and conditions to ensure that the relevant facilities become available to the Buyer for drawdown to fulfil its payment obligations pursuant to this Agreement.

12. **CRM CLAIMS**

12.1 Subject always to Completion having taken place:

12.1.1 the Sellers covenant and undertake to pay, subject to Clause 12.5, to the Buyer within 10 Business Day following the Cut-off Date an amount equal to:

A + B

where:

A = the aggregate CRM Payables 2016 which are referred to as 'agreed but unpaid' in Part B of Schedule 10 which remain outstanding as at the date falling 5 Business Days prior to the earlier of (i) six months after Completion Date and (ii) 31 December 2017 (the "**Cut-Off Date**"); and

B = the aggregate CRM Receivables 2017 which remain unpaid to the Target Group as at the Cut-Off Date,

provided that in the case of B above the Buyer covenants and undertakes that, if at any time after payment by the Sellers to the Buyer of such unpaid CRM Receivables 2017, the Buyer or any Target Group Company receives payment of any part or all of such amount from the SPi CRM Group, the Buyer shall pay within 10 Business Days following receipt of such amount to the AOPH Seller (or its Affiliate as designated by the AOPH Seller in writing) any such amount.

12.1.2 the Buyer covenants and undertakes to pay to the AOPH Seller (or its Affiliate as designated by the AOPH Seller in writing) within 10 Business Days of receipt of any CRM Receivables 2016 received by the Buyer or any Target Group Company within the 12 months following the Cut-Off Date net of any costs incurred and Tax payable by any Target Group Company.

12.2 In relation to each matter relating to or item constituting any of the CRM Receivables 2016, the CRM Payables 2016 or the CRM Receivables 2017, the Sellers shall continue to conduct the proceedings and/or negotiation with the counterparty(-ies) and, in relation to such matters or items which would or might give rise to an obligation to pay under Clause 12.1:

12.2.1 the Buyer shall, and shall ensure that the Target Group Company will, provide to the Sellers and their advisers, at the Sellers' cost, all reasonable cooperation and assistance for the purposes of investigating the matter and enabling the Sellers to take any action to resolve the matter; and

12.2.2 the Buyer shall not, and shall ensure that no Target Group Company will, admit liability in respect of, or compromise or settle, the matter without the prior written consent of the Sellers,

and the Buyer shall promptly forward to the Sellers any correspondences received by the Target Group or the Buyer's Group from the relevant counter-parties or any Authority relating to any of the CRM Receivables 2016, the CRM Payables 2016 or the CRM Receivables 2017.

12.3 The Sellers covenant and undertake to pay the Buyer an amount equal to any Losses incurred by the Target Group arising out of any Event occurring prior to Completion in respect of:

12.3.1 any amounts payable by any of the Target Group Companies to the SPi CRM Group (other than the CRM Payables 2016 which are referred to as "agreed but unpaid" in Part B of Schedule 10); and

12.3.2 amounts claimed against any of the Target Group Companies by Relia Inc. as a result of or arising out of the CRM Disposal.

In this Clause 12, "**Losses**" means all losses, liabilities, damages, claims, demands, proceedings, costs and expenses (including reasonable legal and other professional fees), penalties imposed by any Authority (in each case, excluding any punitive, indirect or consequential loss (including loss of profit) unless and to the extent such loss is a reasonable foreseeable consequence of such Event); and the term "**Event**" includes (without limitation) any event, transaction (including, without limitation, the execution of this Agreement and Completion), act, payment, action, circumstance, state of affairs, default, omission or occurrence of any nature whatsoever and whether or not the Buyer or any Target Group Company is a party to it.

12.4 In relation to each matter relating to or item constituting any Loss, the Sellers may elect to conduct the proceedings and/or negotiation with the counterparty(-ies) and, in relation to such matters or items which would or might give rise to an obligation to pay under Clause 12.3:

12.4.1 the Buyer shall promptly give notice to the Sellers of the matter and shall consult with the Sellers with respect to the matter;

12.4.2 the Buyer shall, and shall ensure that the Target Group Company will, provide to the Sellers and their advisers, at the Sellers' cost, all reasonable cooperation and assistance for the purposes of investigating the matter and enabling the Sellers to take any action to resolve the matter; and

12.4.3 the Buyer shall not, and shall ensure that no Target Group Company will, admit liability in respect of, or compromise or settle, the matter without the prior written consent of the Sellers,

and the Buyer shall promptly forward to the Sellers any correspondences received by the Target Group or the Buyer's Group from the relevant counterparty(-ies) or Authority relating to any Event or Loss referred to in Clause 12.3.

12.5 If any such amount payable under Clause 12.1.1 or 12.3 comes to the attention of the Buyer (through notification by the Sellers or otherwise) prior to payment of the Deferred Consideration in accordance with Clause 2.2.3, such amount, subject to the Sellers agreeing to such amount (acting reasonably), shall be deemed to reduce the Aggregate Purchase Price and the Buyer shall be entitled to deduct such amount from the Deferred Purchase Price, otherwise such amount shall become the subject of an Escrow Claim.

12.6 The Sellers undertake that as at the date of this Agreement, the CRM Payables 2016, the CRM Receivables 2016 and the CRM Receivables 2017 accurately reflect the amounts alleged to be payable, or claimed (as applicable).

13. LIMITATIONS ON THE SELLERS' AND BUYER'S LIABILITY

13.1 Each Seller's liability for Claims shall be limited or excluded, as the case may be, as set out in Schedule 5.

13.2 The Buyer's total liability in respect of all claims under this Agreement and/or the Transaction Documents shall not exceed the Aggregate Purchase Price. Nothing in this Clause 13 shall have the effect of limiting or restricting any liability of the Buyer's fraud or wilful misconduct or wilful concealment.

14. SELLERS MATTERS

14.1 From the date of this Agreement to Completion, the Sellers procure that each Seller Entity appoints the ROHQ Seller (or such other Seller's Group Company as may be notified to the Buyer from time to time with no less than two Business Day prior notice) to act as the Seller Entity's representative (the "**Seller Representative**") and to represent each Seller Entity for the purposes contemplated by this Agreement.

14.2 Notices given by the Buyer to the Seller Representative in accordance with this Agreement shall be a valid notice to the Seller Entities. All instructions, consents and approvals received by the Buyer from the Seller Representative in accordance with this Agreement shall be deemed a valid instruction, consent or approval (as the case may be) from the Seller Entities.

15. **INSURANCE**

On or prior to the date of this Agreement, the Buyer shall take out an Insurance Policy, and:

15.1 the Buyer shall fully pay and settle the premium in respect of the Insurance Policy, the brokerage fee payable to the broker who arranges the Insurance Policy and all other costs and expenses of the broker or the underwriter payable in order to put the Insurance Policy in place (together with, in each case, any applicable Taxes thereon), in each case, within the time period prescribed for such payment in the Insurance Policy; and

15.2 provide evidence reasonably satisfactory to the Seller Representative that the Insurance Policy is unconditionally valid and in effect, and the Sellers shall use commercially reasonable efforts to assist the Buyer to do so.

16. **CERTAIN PRE AND POST CLOSING UNDERTAKINGS**

16.1 Undertaking in relation to the PCA Notification

From the date of this Agreement, each of the Sellers on the one hand and the Buyer on the other hand shall:

16.1.1 use its reasonable best efforts to provide any supplemental information requested by the PCC or any regulator or government body pursuant to applicable Law in connection with the PCA Notifications as soon as practicable after such request is made;

16.1.2 without limiting the generality of Clause 4.4, procure their respective Affiliates to furnish to the other party such information and assistance as the other may reasonably request in connection with the PCA Notifications, or any other filing or submission which is otherwise requested by the PCC or any other Authority in relation to the transactions contemplated under this Agreement, other than information which is deemed by the Buyer or the Sellers, as the case may be, to be commercially sensitive information to it or its Affiliates.

16.2 From the date of this Agreement, each of the Sellers undertake to procure that the Target Group Companies shall on or prior to Completion:

16.2.1 use its reasonable endeavours to obtain written consent from (a) 788 Morris Turnpike LLC, as lessor in respect of the lease of the property at 788 Morris Turnpike, Short Hills, New Jersey, United States, (b) Elsevier BV, (c) John Wiley & Sons, Inc., and (d) HDFC Bank Ltd of the change in ownership of SPi India contemplated under this Agreement;

16.2.2 use its reasonable endeavours to obtain compliance certificates from the Philippines Economic Zone Authority in respect of the Target Group Companies' properties at Laguna in the Philippines for the year 2017;

16.2.3 use its reasonable endeavours to obtain renewals of the local business permits for AOPH (in respect of Paranaque) and for the Philippines registered branch of SPi Global Shared Services Pte. Ltd. for the year 2017;

16.2.4 use its reasonable endeavours to obtain the approval or consent from the Philippines Economic Zone Authority for the Target Group Companies' sharing of the Paranaque property with SPi Healthcare, Inc. and a letter of no objection from the Philippines Economic Zone Authority for the Target Group Companies' sharing of the Dumaguete property with SPi CRM Inc.;

16.2.5 use its reasonable endeavours to file the annual reports of SPi India for the year 2015 – 2016;

16.2.6 provide the Buyer and its Affiliates with such information and cooperation as is reasonably requested by the Buyer in order to facilitate:

(a) the implementation of insurance policies on substantially identical terms as the insurance policies identified in the Disclosure Letter;

(b) the Buyer and its Affiliates entering into employment agreements, and discussing employment and incentive terms, with the Senior Employees;

(c) any debt financing and debt syndication in connection with the transaction contemplated by this Agreement and/or the discharge of any outstanding indebtedness of and the release of any security provided (or any obligation to provide such security) by or in respect of the shares and assets of, the Target Group Companies at Completion (including pursuant to the facilities agreement with Australia and New Zealand Banking Group Limited, CTBC Bank Co., Ltd. and Taipei Fubon Commercial Bank Co., Ltd, dated 29 March 2017); and

16.2.7 allow the Buyer and its employees, agents and advisors, upon reasonable notice and during Working Hours, access to its books and records, other than materials subject to any confidentiality restrictions in favour of third parties, and to the properties owned, occupied or used by the Target Group, and the Target Group's management, where such access is reasonably required by the Buyer for the purpose of monitoring the Target Group Companies during the period prior to Completion.

17. **OTHER UNDERTAKINGS**

17.1 **Tax Matters**

17.1.1 The Sellers undertake to submit a Tax Treaty Relief Application in respect of each of:

(a) the sale and purchase of the AOPH Shares contemplated in this Agreement (which shall set out grounds that are based on substantially the same facts and basis as the opinion of the AOPH Seller's tax advisor with respect to the sale and purchase of the AOPH Shares, to be based on the principles in the agreed form, addressed to the AOPH Seller an executed copy of which is to be delivered to the Buyer pursuant to Clause 17.1.2. and paragraph 2.6 of Schedule 2 ("**AOPH Tax Opinion**")); and

(b) the redemption of the AOPH Preference Shares contemplated in this Agreement,

(collectively, the "**TTRA**"), in each case, to the Bureau of Internal Revenue of the Philippines within two (2) Business Days after the Completion Date, and to provide any supplemental information requested by the Bureau of Internal Revenue of the Philippines (with a copy delivered to the Buyer) as soon as practicable after such request is made.

17.1.2 The AOPH Seller shall deliver to the Buyer a copy of the AOPH Tax Opinion dated as of, and at least, two (2) Business Days prior to the date of submission of the TTRA, and copies of the final TTRA (together with all accompanying documents (including a valid and effective Netherlands tax residency certificate of the AOPH Seller)) on or prior to the date of submission of the TTRA.

17.1.3 On or prior to the applicable due date for the payment of each of the relevant Taxes with respect to the transfer of the AOPH Shares, the AOPH Seller shall:

(a) pay all relevant Taxes with respect to the transfer of the AOPH Shares; and

(b) file and apply for a certificate authorizing registration with the Bureau of Internal Revenue of the Philippines for the transfer of the AOPH Shares in the name of the Buyer in the books of AOPH, and the AOPH Seller shall use reasonable endeavours to procure that such certificate (with respect to AOPH) will be delivered to the Buyer as soon as practicable after Completion.

17.1.4 Subject to Completion taking place, the Buyer shall procure the Target Group Companies to provide all assistance reasonably requested by the AOPH Seller to perform its obligations under Clauses 17.1.1 and 17.1.3.

17.1.5 The Sellers shall procure that as at Completion, no Target Group Company shall legally or beneficially hold any shares or interest in any of Kolam Inc. and Syntegra Philippines Inc. (the "**Dormant Companies**") and the transfer by the relevant Target Group Company of the Dormant Companies shall be carried out in accordance with Schedule 11.

17.1.6 From the date of this Agreement, the Sellers undertake to use its reasonable endeavours to provide to any Tax Authority (with a copy to the Buyer) any information requested by such Tax Authority with respect to the transfer of the AOPH Shares, SPi India Minority Shares, the shares of each of SIHL, Syntegra Philippines Inc and Kolam Inc.

17.1.7 With effect from the earlier of the Conversion Date or Completion, the Sellers undertake to use its reasonable endeavours to ensure that for a period of two (2) years after the Completion Date SIHL complies with (i) all the conditions of its Global Business Licence and (ii) the requirements imposed by the Mauritius Revenue Authority to obtain a Tax Residency Certificate, including:

(a) the board of directors of SHIL has at least two (2) directors resident in Mauritius and board meetings with the presence of such directors;

(b) SIHL maintains, at all times, its registered office and accounting records at its registered office in Mauritius;

(c) if required by Mauritian law, SIHL prepares its statutory financial statements in Mauritius and audits such financial statements in Mauritius; and

(d) SIHL conducts directors meetings with at least two (2) directors resident in Mauritius.

17.1.8 The Sellers undertake to deliver on or around Completion signed letters from a director or company secretary of each Target Group Company confirming that all corporate minute books, statutory registers and seals are in the possession of the relevant Target Group Company.

17.2 Non-Solicitation

17.2.1 In order to confer upon the Buyer the full benefit of the business and goodwill of the Target Group, each of the Sellers undertakes to the Buyer and each member of the Buyer's Group that:

(a) it shall not and shall procure that no member of the Sellers' Group (except for PLDT or any member of the PLDT group) or CVC Party shall at any time during the period of one (1) year beginning with the Completion Date, offer employment to, enter into a contract for the services of, or attempt to entice away from any of the Target Group Companies, any Senior Employees (except a person who responds, without any form of approach or solicitation by or on behalf of any member of the Sellers' Group, to a general public advertisement made in the ordinary course of business) or procure or facilitate the making of any such attempt by any other person; and

(b) it shall procure that no nominee director of any CVC Party in the Seller Entities shall at any time during the period of one (1) year beginning with the Completion Date, takes any action to facilitate, procure, promote, endorse or authorise the offer of employment to, entry into a contract for the services of, or attempt to entice away from any of the Target Group Companies, any Senior Employees, in each case, in his capacity as a director of any CVC Portfolio Companies or CVC Portfolio Companies IV.

17.2.2 The undertakings in this Clause 17.2.1(a) are intended for the benefit of the Buyer and each Target Group Company and apply to actions carried out by the Sellers, any member of the Sellers' Group (except for PLDT or any member of the PLDT group) or CVC Party in any capacity whatsoever and whether directly or indirectly, on the Sellers's behalf, on any member of the Sellers' Group's (except for PLDT or any member of the PLDT group) behalf, or on behalf of any other person or jointly with any other person.

17.2.3 The Seller agrees that the undertakings contained in this Clause 17.2.1(a) are reasonable and necessary for the protection of the Buyer's legitimate interests in the goodwill of the Target Group Companies and shall be construed as separate and independent undertakings. If any such undertaking is held to be void or unenforceable, the validity of the remaining undertakings shall not be affected. If any such undertaking is found to be void or unenforceable but would be valid and enforceable if some part or parts of the undertaking were deleted, such undertaking shall apply with such modification as may be necessary to make it valid and enforceable.

17.2.4 Without prejudice to this Clause 17.2.1(a), if any undertaking in this Clause 17.2.1(a) is found by any court or other competent authority to be void or unenforceable the parties shall negotiate in good faith to replace such void or unenforceable undertaking with a valid provision which, as far as possible, has the same commercial effect as the provision which it replaces.

17.2.5 The consideration for the undertakings contained in this Clause 17.2.1(a) is included in the Aggregate Purchase Price.

17.3 Termination of Related Party Transactions

The Sellers shall with effect from Completion:

17.3.1 procure that there will be no, or shall procure the immediate termination of all, arrangements, agreements or obligations between (on the one hand) a Target Group Company and (on the other hand) any member of the Sellers' Group or any CVC Party (excluding all CVC Portfolio Companies) (other than arms' length trading arrangements which have been Disclosed to the Buyer and the Key Supplier Contracts) (the "**Related Parties Transactions**"); and

17.3.2 waive or procure the waiver by the Sellers' Group and the CVC Parties (excluding all CVC Portfolio Companies) of any amounts owing by any member of the Target Group pursuant the Related Parties Transactions.

17.4 Transfer of a Wrong Pocket Employee and Post Closing Payment for CRM

17.4.1 The parties acknowledge and agree that the Wrong Pocket Employee shall be transferred to a Target Group Company before Completion (the "**Transfer Date**"). To that effect, AOPH Seller shall cause such relevant Target Group Company to make an offer of employment to the Wrong Pocket Employee.

17.4.2 In the offer of employment to be made under this Clause 17.4 the Wrong Pocket Employee shall be offered:

(a) the position that the Wrong Pocket Employee performed pursuant to his employment agreement with AOPH Seller immediately prior to the moment of transfer;

(b) terms and conditions that are overall materially equivalent to the terms and conditions of his employment, immediately prior to the moment of transfer. Where replication of existing benefits is not possible or suitable, alternative equivalent benefits or compensation will be offered; and

(c) that the Wrong Pocket Employee's period of continuous service shall be counted as continuous service with the relevant Target Group Company, whereby AOPH Seller shall waive the post termination restrictions included in the employment agreement between AOPH Seller and the Wrong Pocket Employee to the extent that these would restrict the Wrong Pocket Employee from entering into the employment of the relevant Target Group Company and/or from performing his duties under the employment contract to be entered into with the relevant Target Group Company.

17.4.3 If the Wrong Pocket Employee accepts the offer made under Clause 17.4.2, AOPH Seller shall facilitate that the employment of the Wrong Pocket Employee will terminate as from the Transfer Date and will be liable and indemnify the Buyer's Group and the Target Group Companies for all Employment Costs and Employment Liabilities in relation to the Wrong Pocket Employees up to the Transfer Date. The relevant Target Group Company will employ the Wrong Pocket Employee and will, together with the Buyer's Group, be liable for all Employment Costs and Employment Liabilities in relation to the Wrong Pocket Employee only from the Transfer Date.

17.4.4 If the Wrong Pocket Employee refuses to accept the offer of employment made by the relevant Target Group Company pursuant to Clause 17.4.2, and such Wrong Pocket Employee is still employed by a Sellers' Group Company at Completion, the parties shall use their respective commercially reasonable efforts to procure the transfer of the relevant Wrong Pocket Employee to the relevant Target Group Company on the basis set out in this Clause 17.4.

17.4.5 If the Wrong Pocket Employee cannot be transferred to and is not employed by the relevant Target Group Company by the end of one (1) month after the Completion Date (or such longer period as agreed between the AOPH Seller and the Buyer), AOPH Seller shall be entitled to terminate the existing employment contract of the Wrong Pocket Employee without any liability towards the Buyer's Group or the Target Group Companies as a result thereof.

17.4.6 The Sellers undertake with effect from Completion that if a Sellers' Group Company Carved-Out Entities has received or receives any cash for and on behalf of a Target Group Company in relation to the services that such Target Group Company has performed or performs for its customers, the Sellers shall within ten (10) Business Days of such receipt of cash, pay an equivalent amount in cash to the Buyer.

17.5 Management Reinvestment

Upon receipt of irrevocable instruction letters from the Reinvesting Managers in a form reasonably satisfactory to the Sellers, the Sellers shall procure that the reinvestment amounts set out in USD in such instruction letters are applied directly to the Buyer's Account or such other USD account as may be notified at least three Business Days before the instruction letters are received by the Sellers, provided that all such instruction letters shall be received by the Sellers no later than the Completion Process Commencement Date.

17.6 Undertakings for transfer of Spi India Sale Shares

To facilitate the Buyer satisfying its obligations under paragraphs 3.3, 3.5 and 3.6 of Schedule 2, the Sellers and the Buyer shall cooperate:

17.6.1 to procure the delivery to the Buyer (if not already delivered) prior to Completion Process Commencement Date of all relevant documents (including originals) and information required for the Buyer to submit and/or file the Form FC-TRS with the Reserve Bank of India under Indian exchange control regulations for the purposes of certification of Form FC-TRS, Form 15CA and Form 15 CB;

17.6.2 to procure the delivery to the Buyer (if not already delivered) prior to Completion Process Commencement Date of all relevant documents and information required to obtain:

(a) the original notice issued by the State Administration for Industry and Commerce of the PRC or its competent local counterpart (the "**AIC**") agreeing to process the application of SPi China to (a) register the Buyer (or the Buyer Designee) as the sole shareholder of SPi China as contemplated by the China Equity Transfer Agreement, (b) file the appointment of the individuals nominated by the Buyer (or the Buyer Designee) as the director(s), supervisor and general manager of SPi China;

(b) the original alteration filing receipt issued by the Ministry of Commerce of the PRC or its local counterpart, reflecting the Buyer (or the Buyer Designee) as the sole shareholder of SPi China as contemplated by the China Equity Transfer Agreement; and

(c) the updated business licence by AIC of SPi China;

17.6.3 to procure the delivery to the Buyer of the tax filing completed by SPi Ventures Pte. Ltd. on the capital gains applicable to the sale of SPi China as soon as possible following its receipt of the SPi China Purchase Price.

18. **CONFIDENTIAL INFORMATION**

18.1 Each Seller undertakes to the Buyer, for itself and as agent and trustee for each Buyer's Group Company, and the Buyer undertakes to each Seller, for itself and as agent and trustee for each Sellers' Group Company that it shall treat as confidential all information received or obtained as a result of entering into or performing this Agreement which relates to:

18.1.1 any other party including, where such other party is any of the Sellers, each of the Sellers' Group Companies;

18.1.2 the provisions or the subject matter of this Agreement or the other Transaction Documents and any claim or potential claim hereunder or thereunder;

18.1.3 in respect of each Seller, information relating to the Target Group;

18.1.4 the negotiations relating to this Agreement or the other Transaction Documents.

18.2 Clause 18.1 does not apply to disclosure of any such information as is referred to in Clause 18.1 where such disclosure is:

18.2.1 in respect of the Buyer, information relating to the Target Group;

18.2.2 to a director, officer or employee of the Buyer or any of the Sellers whose function requires him to have the Confidential Information;

18.2.3 in respect of each Seller, to its shareholders and their ultimate investors and their respective advisers and managers;

18.2.4 in respect of the Buyer, to its shareholders and their ultimate or prospective investors and their respective advisers and managers, or to any lenders to the Buyer's Group from time to time and their respective advisers, provided that each prospective investor shall be bound by confidentiality obligations;

18.2.5 required to be disclosed by law, by a rule of a listing authority by which any party, it subsidiaries or its holding company is subject to or submits or by a governmental authority or other authority with relevant powers to which any party, its subsidiaries or its holding company is subject or submits, whether or not the requirement has the force of law provided that the disclosure shall, so far as is practicable, be made after consultation with the other party and after taking into account the other party's reasonable requirements as to its timing, content and manner of making or despatch;

18.2.6 to an adviser for the purpose of advising a party in connection with the transactions contemplated by this Agreement provided that such disclosure is essential for these purposes and is on the basis that Clause 18.1 applies to the disclosure by the adviser; or

18.2.7 to the extent that the information has been made public by, or with the consent of, the other party.

18.3 The restrictions contained in this Clause 18 shall continue to apply after the termination of this Agreement without limit in time.

18.4 The provisions of this Clause 18 shall supersede those contained in the non-disclosure agreement dated 2 March 2016 signed between Partners Group (Singapore) Pte. Ltd. and Asia Outsourcing Alpha Limited in relation to the transaction contemplated by this Agreement with effect from Completion, and in the event of any conflict between the terms of such non-disclosure agreement and this Agreement, the terms of this Agreement shall prevail.

19. ANNOUNCEMENTS

19.1 Subject to Clause 19.2, no party may, before or after Completion, make or send a public announcement, communication or circular concerning the transactions referred to in this Agreement unless it has first obtained the other party's written consent, which may not be unreasonably withheld or delayed.

19.2 Clause 19.1 does not apply to a public announcement, communication or circular:

19.2.1 made or sent by the Buyer after Completion to:

(a) any employees of a Target Group Company;

(b) any lenders to the Buyer's Group from time to time and their respective advisers; and

(c) a customer, client or supplier of a Target Group Company informing it of the Buyer's purchase of the Sale Shares; or

19.2.2 required by law, by a rule of a listing authority by which a party's shares or shares of a party's holding company are listed, a stock exchange on which a party's shares or shares of a party's holding company are listed or traded or by a governmental authority or other authority with relevant powers to which a party or a party's holding company is subject or submits, whether or not the requirement has the force of law, provided that the public announcement, communication or circular shall so far as is practicable be made after consultation with the other party and after taking into account the reasonable requirements of the other party as to its timing, content and manner of making or despatch.

20. **COSTS**

20.1 Except where this Agreement (including but not limited to Clauses 20.2 and 20.3) provides otherwise, each party shall pay its own costs, expenses and taxes relating to the negotiation, preparation, execution and performance by it of this Agreement and of each document referred to in it.

20.2 Subject to Clause 20.3.2, all the Taxes on gain generated, donor's tax, stamp duty and other transfer or securities transaction taxes and duties payable in respect of:

20.2.1 the transfer of the AOPH Shares and ROHQ Shares; and

20.2.2 the winding up or dissolution of the Dormant Companies, SIHL and SPi Asia Ventures Pte. Ltd., shall be borne entirely by the Sellers.

20.3 All the:

20.3.1 stamp duty and other transfer or securities transaction taxes and duties payable (if any) in respect of the transfer of the Sale Shares (other than the AOPH Shares and ROHQ Shares), the transfer of the Dormant Companies pursuant to Clause 17.1.5, the transfer of SPi Asia Ventures Pte. Ltd. and SIHL as set out in Schedule 2 and the distribution or return of proceeds up to AOPH from the steps as set out in Schedule 2;

20.3.2 Taxes on gains generated in respect of the sale of the SPi India Majority Shares and shares in SIHL pursuant to Schedule 2;

20.3.3 the fees, costs and expenses to be incurred by the Buyer or the Buyer Designee in respect of the transfer of the Sale Shares (other than in relation to transfer of the AOPH Shares and ROHQ Shares); and

20.3.4 filing fees payable to a Government Entity required to enable satisfaction of each of the Conditions referred to in Clauses 4.1.1 and 4.1.2 shall be borne entirely by the Buyer.

20.4 The Sellers shall bear the costs of the implementation of the steps set out in Schedule 7 and Schedule 11, save to the extent such costs constitute Permitted Leakage.

21. **GENERAL**

21.1 A variation of this Agreement is valid only if it is in writing and signed by or on behalf of each party.

21.2 The failure to exercise or delay in exercising a right or remedy provided by this Agreement or by law does not impair or constitute a waiver of the right or remedy or an impairment of or a waiver of other rights or remedies. No single or partial exercise of a right or remedy provided by this Agreement or by law prevents further exercise of the right or remedy or the exercise of another right or remedy.

21.3 Each party's rights and remedies contained in this Agreement are cumulative and not exclusive of rights or remedies provided by law.

21.4 Each Seller shall be jointly and severally liable for the obligations of the relevant Seller under this Agreement.

21.5 Except to the extent that they have been performed and except where this Agreement provides otherwise, the obligations contained in this Agreement remain in force after Completion.

21.6 Save as otherwise provided in this Agreement, any payment to be made by any party under this Agreement shall be made in full without any set-off, restriction, condition or deduction for or on account of any counterclaim or withholding of any kind other than any deduction or withholding required by law. If a deduction or withholding is required by law from a payment under this Agreement, the sum due shall be increased to the extent necessary to ensure that, after the making of any deduction or withholding, the recipient receives a sum equal to the sum it would have received had no deduction or withholding been made.

21.7 Each of the parties agrees to perform (or procure the performance of) all such acts and things and/or to execute and deliver (or procure the execution and delivery of) all such documents, as may be required by law or as may be reasonably necessary to implement and give full effect to this Agreement.

21.8 Any payment to be made pursuant to this Agreement by the Buyer to any Seller shall be made to the AOPH Seller's Account (save as specified to the contrary in Schedule 2 or Schedule 2B) and any payment to be made pursuant to this Agreement by any Seller to the Buyer shall be made to the Buyer's Account, in each case by way of electronic transfer in immediately available funds of same day value on or before the due date for payment. Receipt of such sum in such account on or before the due date for payment shall be a good discharge by the payor of its obligation to make such payment.

22. **ENTIRE AGREEMENT**

22.1 This Agreement and each document referred to in it constitute the entire agreement and supersede any previous agreements between the parties relating to the subject matter of this Agreement.

22.2 Each party acknowledges and represents that it has not relied on or been induced to enter into this Agreement by a representation, warranty or undertaking given by the other party other than the Warranties or otherwise as set out in this Agreement.

22.3 The Buyer acknowledges and agrees that its only right and remedy in relation any representation, warranty or undertaking made or given in connection with this Agreement shall be for breach of the terms of this Agreement and the Buyer waives all other rights and remedies (including those in tort or arising under statute) in relation to any such representation, warranty or undertaking.

22.4 None of the Sellers is liable to the Buyer (in equity, contract or tort (including negligence), under the Misrepresentation Ordinance or in any other way) for a representation, warranty or undertaking that is not set out in this Agreement.

22.5 Nothing in this Clause 22 shall have the effect of limiting or restricting any liability arising as a result of any fraud, wilful misconduct or wilful concealment.

22.6 If at any time any provision of this Agreement is or becomes illegal, invalid or unenforceable under the laws of any jurisdiction, that shall not affect:

22.6.1 the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement; or

22.6.2 the legality, validity or enforceability under the law of any other jurisdiction of that or another provision of this Agreement.

23. **ASSIGNMENT**

23.1 The Buyer may assign the benefit of this Agreement and/or of any other Transaction Document to which it is a party, in whole or in part, to, and it may enforced by:

23.1.1 any member of the Buyer's Group or an investment vehicle managed and/or advised by Partners Group AG or its Affiliates;

23.1.2 any lender to the Buyer's Group from time to time by way of security or otherwise.

Any such person to whom an assignment is made under this Clause 23.1 may itself make an assignment as if it were the Buyer under this Clause 23.1.

23.2 Any assignment made pursuant to Clause 23.1 shall be on the basis that:

23.2.1 the Sellers may discharge their obligations under this Agreement to the assignor until it receives notice of the assignment;

23.2.2 the liability of the Sellers to any assignee shall not be greater than their liability to the Buyer; and

23.2.3 the Buyer will remain liable for any obligations under this Agreement.

24. **NOTICES**

24.1 A notice or other communication under or in connection with this Agreement (a "Notice") shall be:

24.1.1 in writing;

24.1.2 in English; and

24.1.3 delivered personally or sent by courier by an internationally recognised courier company (e.g. FedEx, DHL) or by fax or by electronic mail (e-mail), to the party due to receive the Notice at its address set out in Clause 24.3 or to such other address, fax number or e-mail address as the party may specify by not less than seven days' written notice to the other party received before the Notice was despatched.

24.2 In the absence of evidence of earlier receipt, a Notice shall be deemed to have been duly given if:

24.2.1 delivered personally, when left at the address referred to in Clause 24.1.3;

24.2.2 sent by courier, two Business Days after posting it;

24.2.3 sent by fax, when confirmation of its transmission has been recorded on the sender's fax machine; and

24.2.4 sent by e-mail, when sent subject to confirmation of uninterrupted transmission by a transmission report.

24.3 The address, fax number or e-mail address referred to in Clause 24.1.3 is:

	Address	**Fax No.**	**E-mail address**	**For the attention of**
The AOPH Seller	Schiphol Boulevard 369, Tower F, 7th Floor, 1118 BJ Schiphol, The Netherlands	+31 20 654 3229	sboermans@cvc.com	Stefan Boermans
The ROHQ Seller	Suites 2009-11, ICBC Tower, 3 Garden Road, Central, Hong Kong	+852 3518 6380	bhong@cvc.com (Brian Hong) / xwang@cvc.com (Xuan Wang)	Brian Hong / Xuan Wang
The Buyer	77 Robinson Road, #13-00, Robinson 77, Singapore 068896	+65 6671 3501	pgadmin@partnersgroup.com / florian.marquis@partnersgroup.com	Cyrus Driver / Florian Marquis

25. **GOVERNING LAW AND JURISDICTION**

25.1 This Agreement is governed by, and shall be construed in accordance with, the laws of Hong Kong.

25.2 Subject to Clause 25.3, any dispute, controversy, difference, claim, suit, action or proceedings which may arise out of or in connection with this Agreement (respectively, "**Arbitration Proceedings**" and "**Disputes**") including a Dispute regarding the existence, validity, interpretation, performance, breach or termination of this Agreement or the consequences of its nullity, shall be referred to and finally resolved by arbitration administered by the Hong Kong International Arbitration Centre (HKIAC) under the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted. The law of this arbitration clause shall be the laws of Hong Kong, and the seat of arbitration shall be Hong Kong. The number of arbitrators shall be three (3). The Arbitration Proceedings shall be conducted in English.

25.3 The parties may seek equitable, interim or provisional measures, including injunctive relief, pre-arbitral attachments or injunctions, and an order for specific performance, from the Hong Kong courts (to the jurisdiction of which the parties hereby submit) and any such request shall not be deemed incompatible with the agreement to arbitrate or a waiver of the right to arbitrate.

26. **COUNTERPARTS**

This Agreement may be executed in any number of counterparts, each of which when executed and delivered is an original and all of which together evidence the same agreement.

27. **THIRD PARTY RIGHTS**

27.1 Except for the relevant Target Group Company with respect to the rights conferred to it pursuant to Clause 17.2, a person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623) to enforce any term of this Agreement but this does not affect any right or remedy of a third party which exists or is available apart from that Ordinance.

SCHEDULE 1 TARGET GROUP COMPANIES

The table below sets forth the Target Group Companies and their respective jurisdictions of incorporation:

	Name of Target Group Company	Availability of audited accounts (with financial year ended 31 December 2014, 31 December 2015 and 31 December 2016, unless otherwise stated)	Jurisdiction of Organization
1.	Asia Outsourcing Philippines Holdings, Inc. Registered number: **CS201307193**	Yes	Philippines
	Registered office: **SPi Building, Pacific Information Technology Center, Pascor Drive, Sto. Niño, Parañaque City** Date of incorporation: **12 April 2013** Directors: **Minki Brian Hong, Alvin Tsz- Wang Lam, Maulik Parekh, Florentino M. Herrera III, and Ratnadeep Datta** Secretary: **Florentino M. Herrera III** Authorised share capital:		

Authorised share capital:

Type	Number	Amount (in PHP)
Common	**12,754,956**	**12,754,956.00**
Preferred	**191,494,839**	**191,494,839.00**
Total	**204,249,795**	**204,249,795.00**

Issued share capital:

Type	Number	Amount (in PHP)
Common	**12,754,956**	**12,754,956.00**
Preferred	**191,494,839**	**191,494,839.00**
Total	**204,249,795**	**204,249,795.00**

Note: 113,017,000 preferred shares were redeemed as of 30 December 2016

Shareholders and shares held:

Shareholder	Type of Share	Number of Shares Held
Asia	Common	**12,754,951**
Outsourcing Netherlands	Preferred	**191,494,839**
B.V.		

Minki Brian Hong	Common	**1**
Alvin Tsz-Wang Lam	Common	**1**
Maulik Parekh	Common	**1**
Florentino M. Herrera III	Common	**1**
Ratnadeep Datta	Common	**1**
Total	Common	**12,754,956**
	Preferred	**191,494,839**

Accounting reference date: Fiscal year end at 31 December

2.	SPi Technologies, Inc. Registered number: **CS200407011** Registered office: **Pacific Information Technology Center, Pascor Drive, Sto. Niño, Parañaque City** Date of incorporation: **4 May 2004** Directors: **Minki Brian Hong, Ratnadeep Datta, Anabelle L. Chua, Alvin Tsz-Wang Lam, and Florentino M. Herrera III** Secretary: **Florentino M. Herrera III**	Yes	Philippines

Authorised share capital:

Type	**Number**	**Amount (in PHP)**
Common	**29,935**	**898,050,000.00**
Total	**29,935**	**898,050,000.00**

Issued share capital:

Type	**Number**	**Amount (in PHP)**
Common	**26,009**	**780,270,000.00**
Total	**26,009**	**780,270,000.00**

Shareholders and shares held:

Shareholder	**Type of Share**	**Number of Shares Held**
Asia Outsourcing	Common	**26,003**

Philippines Holdings, Inc.		
Minki Brian Hong	Common	**2**
Alvin Tsz-Wang Lam	Common	**1**
Maulik Parekh	Common	**1**
Florentino M. Herrera III	Common	**1**
Ratnadeep Datta	Common	**1**
Total	Common	**<u>26,009</u>**

Accounting reference date: **Fiscal year end at 31 December**

3. Pacific Space International Development Corp. | Yes | Philippines

Registered number: **162326**

Registered office: **Pacific Information Technology Center, Pascor Drive, Sto. Niño, Parañaque City**

Date of incorporation: **14 April 1989**

Directors: **Maria Cecilia C. Ampeloquio, Celestina B. Ilagan, Ma. Lea D. Villanueva, Felma S. Magnata, and Edilberto R. Juan**

Secretary: **Florentino M. Herrera III**

Authorised share capital:

Type	**Number**	**Amount (in PHP)**
Common	**500,000**	**50,000,000.00**
Total	**<u>500,000</u>**	**<u>50,000,000.00</u>**

Issued share capital:

Type	**Number**	**Amount (in PHP)**
Common	**500,000**	**50,000,000.00**
Total	**<u>500,000</u>**	**<u>50,000,000.00</u>**

Shareholders and shares held:

Shareholder	**Type of Share**	**Number of Shares Held**
SPi Group of Companies Retirement	Common	**300,000**

Plan/Fund		
SPi Technologies, Inc.	Common	**199,995**
Maria Cecilia C. Ampeloquio	Common	**1**
Celestina B. Ilagan	Common	**1**
Ma. Lea D. Villanueva	Common	**1**
Felma S. Magnata	Common	**1**
Edilberto R. Juan	Common	**1**
Total	Common	**500,000**

Accounting reference date: **Fiscal year end at 31 December**

4.	SPi Global Shared Services Pte. Ltd. Registered number: **201206564C** Registered office: **6 Temasek Boulevard #29-00 Suntec Tower Four, Singapore 038986** Date of incorporation: **16 March 2012** Directors: **Ratnadeep Datta, Kumar Subramaniam, Siti Noraida Binte Mohamed Noordin, Sharimala Rasanayagam, and Sim Siew Kiang** Secretary: **Kinetica Pte. Ltd.** Authorised share capital: **US$50,000** Issued share capital: **US$50,000** Shareholders and shares held: **Asia** **Outsourcing Gamma Limited (100%)** Accounting reference date: **14 October 2016**	Yes with respect to financial years ended 31 December 2014 and 31 December 2015; No with respect to financial year ended 31 December 2016	Singapore
5.	SPi Technologies India Private Limited Registered number: **U22110PY1999PTC001459** Registered office: **R.S. 4/5 and 4/6 Vazhudavur Road Kuramampet Revenue Village, Villianur Commune Pondicherry 605009 India** Date of incorporation: **31 March 1999** Directors: **Ratnadeep Datta, Alvin Tsz Wang Lam, Ezhil Arasan, and Brian Minki Hong** Secretary: **Kumar Subramaniam** Authorised share capital: **INR52,500,000** Issued share capital: **INR251,800** Shareholders and shares held: **SPi** **Technologies Inc: 1,510 shares (59.97%) and SPi India Holdings (Mauritius), Inc.: 1,008 shares (40.03%)** Accounting reference date: **April to March**	Yes with respect to financial years ended 31 March 2015 and 31 March 2016; No with respect to financial year ended 31 March 2017	India
6.	Laserwords U.S., Inc. Registered number: **27-0137422** Registered office: **2603 Camino Ramon, Suite 200, San Ramon, California, 94583 (4230, ARGOSY CT. MADISON, WI-**	No	Delaware, USA

	53714-3102) Date of incorporation: **2 Februay 2006** Directors: **Brian Minki Hong, Michael O'Brien, Christopher Hojilo, and Ratnadeep Datta** Secretary: **Kumar Subramaniam** Authorised share capital: **N/A** Issued share capital: **US$11,259,000.00** Shareholders and shares held: **SPi Technologies India Private Limited (100%)** Accounting reference date: **January to December**		
7.	Tighe Publishing Services, Inc. **Tighe Publishing Services, Inc.** Registered number: **D6112-235-4** Registered office: **1161 Lake Cook Road B. Deerfield, Illinois, 60015, United States of America** Date of incorporation: **13 June 2000** Directors: **Michael O'Brien, and Ratnadeep Datta** Secretary: **Kumar Subramaniam** Authorised share capital: **N/A** Issued share capital: **US$1,219,749** Shareholders and shares held: **Laserwords US Inc. (100%)** Accounting reference date: **January to December 2016**	No	Illinois, USA
8.	Tighe Publishing Services of New Jersey, Inc. Registered number: **0100982901** Registered office: **830 Bear Tavern Road, West Trenton, New Jersey 08628-USA** Date of Incorporation: **6 August 2007** Directors: **Michael O'Brien, and Ratnadeep Datta** Secretary: **Kumar Subramaniam** Authorised share capital: **N/A**	No	New Jersey, USA

	Issued share capital: **US$1,000** Shareholders and shares held: **Laserwords US Inc. (100%)** Accounting reference date: **January to December 2016**		
9.	SPi Vietnam Co., Ltd. Registered number: **011043000060** Registered office: **Hanoi City People's Committee** Date of incorporation: **15 December 2006** Directors: **Nguyen Thi Thanh Hai** Secretary: **Kumar Subramaniam** Authorised share capital: **$1,000,000** Issued share capital: **N/A** Shareholders and shares held: **SPi Technologies, Inc. (100%)** Accounting reference date: **31 December 2016**	Yes	Vietnam
10	SPi Global (Xi'an) Information Technology Ltd. Registered number: **91610121081048101A** Registered office: **2nd Floor, 01Square, 72 Keji 2nd Road, Xi'an Software Park, Xi'an, Shaanxi, 710075, China** Date of incorporation: **1 April 2014** Directors: **Ratnadeep Datta, Alvin Tsz- Wang Lam, Xuan Wang, and Zhikui Chian** Secretary: **Kumar Subramaniam** Authorised share capital: **$1,650** Issued share capital: **$1,650** Shareholders and shares held: **SPi Asia Ventures Pte. Ltd.** Accounting reference date: **N/A**	Yes with respect to financial years ended 31 December 2014 and 31 December 2015; No with respect to financial year ended 31 December 2016	People's Republic of China
11	SPi Technologies (Nicaragua) S.A. Registered number: **MG00-22-004809** Registered office: **Managua Public Registry Office**	No	Nicaragua

	Date of incorporation: **12 January 2017** Directors: **SPi Technologies, Inc. (President and owner of 98 shares), represented by Mr. Kumar Subramaniam; Roxana Giselle Pérez (Vocal and owner of 1 share); Michael Navas Gutiérrez (Secretary and owner of 1 share)** Secretary: **Michael Navas Gutiérrez** Authorised share capital: **C$100,000 (approximately US$3,000.00)** Issued share capital: **C$100,000 (approximately US$ 3,000.00)** Shareholders and shares held: **SPi Technologies, Inc (98 shares); Roxana** **Giselle Pérez (1 share); Michael Navas Gutiérrez (1 share, endorsed to SPi Technologies, Inc.)** Accounting reference date: **January 2017**		
12	Regional operating headquarters in the Philippines of SPi Global Shared Services Pte. Ltd. Registered number: **FS201212017** Registered office: **2/F SPi Building, Pacific Information Technology Center, Pascor Drive, Sto, Paranaque City** Date of incorporation: **5 July 2012** Directors: **N/A** Secretary: **Kumar Subramaniam** Authorised share capital: **N/A** Issued share capital: **N/A** Shareholders and shares held: **Asia Outsourcing Gamma Limited (100%)** Accounting reference date: **14 October 2016**	Yes	Philippines

SCHEDULE 2 COMPLETION STEPS

1. With effect from the Completion Process Commencement Date, in order to effect Completion, each of:

1.1 the AOPH Seller and the ROHQ Seller shall, and shall procure that the relevant Seller Entity shall; and

1.2 the Buyer shall, and shall procure that the relevant Buyer Designee shall,

do all those things respectively required of it, and any other actions that may be required pursuant to or in connection with such things:

1.2.1 with the first action to be taken at paragraph 2 of this Schedule 2;

1.2.2 thereafter, with all subsequent actions to be taken in sequential manner according to the paragraph numbers set out below (except for paragraphs 3 and 4 of this Schedule 2 which shall commence concurrently); and

1.2.3 if SIHL, SPi Technologies and/or AOPH have insufficient retained earnings to declare and pay a dividend in cash equal to the SPi India Minority Purchase Price and the SPi India Majority Purchase Price, the parties agree to reasonably cooperate to implement steps (which may include intercompany loans, and/or capital reduction (or, if not possible, by any other means of return of capital permitted under applicable Laws)) to enable the payment of the SPi India Minority Purchase Price and the SPi India Majority Purchase Price to such entities' respective shareholders.

2. **GENERAL**

At the Completion Process Commencement Date:

2.1 the AOPH Seller shall procure to be delivered to the Buyer:

2.1.1 (if not already delivered) as evidence of the authority of each person executing this Agreement and the other Transaction Documents to which the AOPH Seller is a party:

(a) a copy of the minutes of a duly held meeting of the directors or the written resolutions of the board of directors of the AOPH Seller authorising the execution by the AOPH Seller of each relevant document; or

(b) a copy of the power of attorney conferring such authority, and the board resolutions authorising the grant of such power.

2.2 the ROHQ Seller shall procure to be delivered to the Buyer:

2.2.1 (if not already delivered) as evidence of the authority of each person executing this Agreement, the assignment and assumption agreement by and between the ROHQ Seller and the Buyer (or the Buyer Designee) and the other Transaction Documents to which the ROHQ Seller is a party:

(a) a copy of the minutes of a duly held meeting of the directors or the written resolutions of the directors of the ROHQ Seller authorising the execution by the ROHQ Seller of each relevant document; or

(b) a copy of any power of attorney conferring such authority, and the board resolutions authorising the grant of such power.

2.3 the Sellers shall procure to be delivered to the Buyer:

2.3.1 copy of the relevant resolutions of the board of the Target Group Companies (if applicable) (a) authorising the revocation of any existing mandate given by the relevant Target Group Companies for the operation of their bank accounts subject to the fulfilment of any conditions required to be satisfied by any new director or secretary and (b) subject to the Buyer fulfilling any requirements that it needs to satisfy, appointing persons nominated by the Buyer (as notified by the Buyer to the Sellers no later than fifteen (15) Business Days prior to the Completion Process Commencement Date) as directors and secretary of the relevant Target Group Companies;

2.3.2 signed resignations from such director or company secretary of each relevant Target Group Company as notified by the Buyer to the Sellers no later than 15 Business Days prior to the Completion Process Commencement Date (or any other director and company secretary who is a nominee of the Sellers or their Affiliates) expressed to take effect from the Completion Date.

2.4 the Buyer shall:

2.4.1 (if not already delivered) deliver to the Sellers evidence (by way of certificate of the Buyer's Solicitors or otherwise) of satisfaction of the Conditions;

2.4.2 (if not already delivered) deliver to the Sellers as evidence of the authority of each person executing this Agreement and the other Transaction Documents to which the Buyer or the Buyer Designees is a party:

(a) a copy of the minutes of a duly held meeting of the directors of each of the Buyer and the Buyer Designees, as the case may be (or a duly constituted committee thereof) authorising the execution by the Buyer or the Buyer Designees, as the case may be of the document and, where such execution is authorised by a committee of the board of directors of the Buyer or the Buyer Designees, as the case may be, a copy of the minutes of a duly held meeting of the directors constituting such committee or the relevant extract thereof; or

(b) a copy of the power of attorney conferring the authority, and the board resolutions authorising the grant of such power;

2.5 the Sellers shall deliver to the Buyer evidence of consent or approval from PLDT to the Transaction.

2.6 (if not already delivered) the Sellers shall deliver to the Buyer a copy of the AOPH Tax Opinion.

2.7 the Sellers shall deliver to the Buyer a non-solicitation undertaking in agreed form from the general partner of the CVC Fund III on the terms set out in Clause 17.2.

3. ACQUISITION OF SPI INDIA

Immediately upon the completion of the actions set out in the preceding paragraph, the parties shall on the same day (or such other day as the parties may agree) do the following things (as may be applicable to it):

3.1 the AOPH Seller shall procure the delivery to the Buyer of:

3.1.1 resolutions of SPi Technologies and SIHL authorising the transfer of the SPi India Majority Shares and SPi Minority Shares to the SPi India Buyer Designee on the terms set out in this Agreement;

3.1.2 evidence that the share certificates of SPi India Majority Shares and SPi India Minority Shares have been dematerialized; and

3.1.3 evidence of the delivery of duly executed depository or instruction slips to SPi Technologies' and SIHL's depository participant and National Securities Depository Limited (NSDL) to transfer the SPi India Majority Shares and SPi India Minority Shares, respectively, to the depository account(s) of the SPi India Buyer Designee.

3.2 the SPi India Buyer Designee shall procure the delivery of instructions to the specific depository participant holding the demat account of the SPi India Buyer Designee, the details of which shall be provided to the Sellers no later than five (5) Business Days before the Completion Process Commencement Date, to receive the SPi India Majority Shares and SPi India Minority Shares in the depository account of the SPi India Buyer Designee.

3.3 the Buyer shall procure that the SPi India Buyer Designee (i) submits the Form FC- TRS along with the scanned copies of the signed consent letters, valuation certificate, shareholding pattern, telegraphic transfer application form, Form 15 CB and other relevant documentation with the Reserve Bank of India (through its authorized dealer bank) including the originals if so required by the authorized dealer bank; and (ii) submits the Form FC-TRS endorsed by its authorized dealer bank with the board of directors of SPi India.

3.4 the Buyer shall procure that the SPi India Buyer Designee shall pay by electronic transfer, in immediately available funds in US Dollar (which shall be converted from Indian Rupees from the SPi India Buyer Designee's account), cash equal to the SPi India Minority Purchase Price to the bank account in Mauritius in the name of SIHL that is designated by SIHL in writing to the Buyer not less than three (3) Business Days prior to the date of payment.

3.5 the Buyer shall procure that the SPi India Buyer Designee shall pay by electronic transfer, in immediately available funds in US Dollar (which shall be converted from Indian Rupees from the SPi India Buyer Designee's account), cash equal to the SPi India Majority Purchase Price to the bank account in the name of SPi Technologies that is designated by SPi Technologies not less than three (3) Business Days prior to the date of payment.

3.6 the Buyer shall procure the delivery to the Sellers (if not already delivered) scanned copies of the following documents required to be submitted to the Reserve Bank of India by the Buyer under Indian exchange control regulations for the purposes of certification of Form FC-TRS:

(a) a certified true copy of the board resolution passed by the SPi India Buyer Designee authorizing their representatives to execute all documents required for the purchase of the SPi India Minority Shares;

(b) a certified true copy of the board resolution passed by the SPi India Buyer Designee authorizing their representatives to execute all documents required for the purchase of the SPi India Majority Shares;

(c) a consent letter duly executed by the authorized representative of the SPi India Buyer Designee, indicating its consent to purchase the SPi Indian Minority Shares from SIHL;

(d) a consent letter duly executed by the authorized representative of the SPi India Buyer Designee, indicating its consent to purchase the SPi Indian Majority Shares from SPi Technologies;

(e) undertaking from the SPi India Buyer Designee indicating that it has adhered to the pricing guidelines under Indian exchange control regulations; and

(f) a certificate in Form 15CB issued by an independent chartered accountant as of the Completion Date in relation to the remittance of the SPi India Majority Purchase Price and the SPi India Minority Purchase Price.

3.7 subject to submission of the Form FC-TRS in accordance with the previous paragraphs, following the completion of paragraphs 3.1, 3.4 and 3.5 of this Schedule 2, the AOPH Seller shall procure a board meeting of SPi India be held at which the board of directors authorize the following actions:

3.7.1 taking on record the transfer of the SPi India Minority Shares from SIHL to the SPi India Buyer Designee;

3.7.2 taking on record the transfer of the SPi India Majority Shares from SPi Technologies to the SPi India Buyer Designee; and

3.7.3 entering the name of the SPi India Buyer Designee in connection with the SPi India Majority Shares and the SPi India Minority Shares in the register of members.

3.8 the AOPH Seller shall procure the delivery to the Buyer of copies of the resolutions of the board of directors of SPi India specified in paragraph 3.7 of this Schedule 2.

Repatriation of SPi India Minority Purchase Price from SIHL and SPi India Majority Purchase Price from SPi Technologies

3.9 following the completion of paragraphs 3.4 and 3.5 of this Schedule 2, the AOPH Seller shall procure:

3.9.1 the delivery to the Buyer of copies of the resolutions of the board of directors and shareholders resolutions of SIHL which, to the extent permitted by applicable Laws, approve the declaration and payment of a dividend, or with the Buyer's consent (such consent not to be unreasonably withheld or delayed) by way of an intercompany loan, and/or capital reduction (or, if not possible, by any other means of return of capital permitted under applicable Law)) for an amount of up to the SPi India Minority Purchase Price, on condition that such payment shall be made to SPi Technologies only three (3) Business Days after the receipt of the SPi India Minority Purchase Price by SIHL;

3.9.2 the payment by SIHL of the SPi India Minority Purchase Price to SPi Technologies after three (3) Business Days after SIHL's receipt of the SPi India Minority Purchase Price, by electronic transfer of immediately available funds to the AOPH Seller's Account;

3.9.3 the resolutions of the board of directors and shareholders resolutions of SPi Technologies which approve the declaration and payment of a dividend, or with the Buyer's consent (such consent not to be unreasonably withheld or delayed) by way of an intercompany loan, and/or capital reduction (or, if not possible, by any other means of return of capital permitted under applicable Law)) to AOPH for an amount of up to the aggregate of the SPi India Majority Purchase Price and SPi India Minority Purchase Price; and

3.9.4 the payment by SPi Technologies of the SPi India Majority Purchase Price to AOPH by electronic transfer of immediately available funds to the AOPH Seller's Account.

Disposal of SPi India Holdings (Mauritius), Ltd

3.10 the AOPH Seller shall procure the delivery to the Buyer of copies of the resolutions of the board of directors of SIHL which approve the sale and transfer of the entire share capital of SIHL to Asia Outsourcing Gamma Limited ("**AOGL**") (or any other party nominated by the AOPH Seller) and vote in favour of the registration of such entity as the sole shareholder of SIHL.

3.11 the AOPH Seller shall procure the delivery to the Buyer of copies of the resolutions of the board of directors of SPi Technologies which approve the sale and transfer of the entire share capital of SIHL to AOGL (or any other party nominated by the AOPH Seller).

3.12 the AOPH Seller shall procure that SPi Technologies sells and transfers the entire share capital of SIHL to AOGL (or any other party nominated by the AOPH Seller) for an amount equal to the net asset value of SIHL from AOGL to SPi Technologies ("**AOGL Receivable**").

3.13 the AOPH Seller shall procure the delivery to the Buyer of:

3.13.1 an executed share transfer form duly signed by the SPi Technologies;

3.13.2 copies of the board and shareholder resolutions of SIHL authorising and approving the transfer of the shares of SIHL; and

3.13.3 copies of the share register of SIHL evidencing entry of the name of AOGL as holder of the shares of SIHL.

Distribution of the AOGL Receivable to AOPH

3.14 following the completion the steps in paragraphs 3.9 and 3.12 of this Schedule 2, the AOPH Seller shall procure the delivery to the Buyer of copies of the resolutions of the board of directors and shareholder resolutions of SPi Technologies which, to the extent permitted by applicable Laws, approve the declaration and payment of a dividend (and if agreed by the Buyer (such consent shall not be unreasonably withheld), intercompany loan, assignment of the AOGL Receivable and/or capital reduction (or, if not possible, by any other means of return of capital permitted under applicable Laws)) for an aggregate of amount up to the SPi India Majority Purchase Price, SPi India Minority Purchase Price and the AOGL Receivable made pursuant to paragraph 3.9 of this Schedule 2.

Return of cash to AOPH Seller

3.15 concurrently with the completion of the steps in paragraphs 3.9.2, 3.9.4 and 3.14 of this Schedule 2, the AOPH Seller shall procure the delivery to the Buyer of copies of the resolutions of the board of directors of AOPH which approve the redemption of the AOPH Preference Shares in exchange for cash and an assignment of the AOGL Receivable to the AOPH Seller for an amount equal to the aggregate of the SPi India Majority Purchase Price and the SPi India Minority Purchase Price.

3.16 AOPH shall issue the notice of redemption to the AOPH Seller to redeem the AOPH Preference Shares, and deliver to the Buyer of a waiver from the AOPH Seller of the period required under AOPH's articles of incorporation to set the redemption date and deed of assignment addressed to the AOPH Seller of the assignment of AOGL Receivable to the AOPH Seller.

4. ACQUISITION OF SPI CHINA

Immediately upon the completion of the actions set out in paragraph 2 of this Schedule 2, the parties shall on the same day (or such other day as the parties may agree) do the following things (as may be applicable to it):

Resolutions

4.1 the AOPH Seller shall procure the delivery to the Buyer of an original of the written decision of SPi Asia Ventures Pte. Ltd. as the sole shareholder of SPi China which:

4.1.1 approves the sale and transfer of the SPi China Shares to the Buyer (or the Buyer Designee); and

4.1.2 removes each director and supervisor and the legal representative of SPi China as notified by the Buyer to the AOPH Seller no later than 15 Business Days prior to the Completion Date with effect from the date of such written decision.

4.2 the AOPH Seller shall procure the delivery to the Buyer of the original written resolutions of the board of directors of SPi China which removes the general manager of SPi China as notified by the Buyer to the AOPH Seller no later than 15 Business Days prior to the Completion Date with effect from the date of such written resolutions.

Transfer documents

4.3 the AOPH Seller shall procure the delivery to the Buyer of the original equity transfer agreement in agreed form duly executed by SPi Asia Ventures Pte. Ltd. in respect of the sale and transfer of the SPi China Shares to the Buyer (or the Buyer Designee) (the "**China Equity Transfer Agreement**").

Payment

4.4 the Buyer and Sellers shall jointly instruct the Escrow Agent to pay to SPi Asia Ventures Pte. Ltd. an amount in cash equal to the SPi China Purchase Price by electronic transfer of immediately available funds in US$ to the AOPH Seller's Bank Account;

Disposal of SPi Asia Ventures Pte. Ltd.

4.5 the AOPH Seller shall:

4.5.1 procure the delivery to the Buyer of certified true copies of the resolutions of the board of directors of SPi Asia Ventures Pte. Ltd. which approve the sale and transfer of the entire share capital of SPi Asia Ventures Pte. Ltd. to the ROHQ Seller (or any other party nominated by the AOPH Seller) and vote in favour of the registration of such entity as the sole shareholder of SPi Asia Ventures Pte. Ltd.;

4.5.2 procure the delivery to the Buyer of certified true copies of the resolutions of the board of directors of SPi Technologies, Inc. which approve the sale and transfer of the entire share capital of SPi Asia Ventures Pte. Ltd. to the ROHQ Seller (or any other party nominated by the AOPH Seller);

4.5.3 procure that SPi Technologies, Inc. sells and transfers the entire share capital of SPi Asia Ventures Pte. Ltd. to the ROHQ Seller (or any other party nominated by the AOPH Seller) for a purchase price of US$1.00; and

4.5.4 procure the delivery to the Buyer of a business profile search result from the Accounting and Corporate Regulatory Authority of Singapore evidencing the registration of the ROHQ Seller (or such other party nominated by the ROHQ Seller) as the sole shareholder of SPi Asia Ventures Pte. Ltd.

5. ACQUISITION OF ROHQ

Against the satisfaction of the obligation under paragraph 5.3 of this Schedule 2, on the same day (or such other day as the parties may agree (acting reasonably)), the parties shall do the following things (as may be applicable to it):

Resolutions

5.1 the ROHQ Seller shall procure the delivery to the Buyer of copies of the resolutions of the board of directors of ROHQ which approve the sale and transfer of the ROHQ Shares to the Buyer (or the Buyer Designee) and the registration of the Buyer (or the Buyer Designee) as the sole member of ROHQ;

Transfer documents

5.2 the ROHQ Seller shall deliver to the Buyer:

5.2.1 the original instrument of transfer duly executed by the ROHQ Seller (and accompanying worksheets for the purposes of stamp duty calculation); and

5.2.2 the original share certificate(s) for the ROHQ Shares.

Payment

5.3 The Buyer and Sellers shall jointly instruct the Escrow Agent to pay to the ROHQ Seller an amount in cash equal to the ROHQ Purchase Price by electronic transfer of immediately available funds in US$ to the ROHQ Seller's Account.

6. ACQUISITION OF AOPH

Against the satisfaction of the obligation of the Buyer under paragraph 6.3 of this Schedule 2, on the same day (or such other day as the parties may agree (acting reasonably)):

Resolutions

6.1 the AOPH Seller shall procure the delivery to the Buyer of copies of the resolutions of the board of directors of AOPH which approve the sale and transfer of the AOPH Shares to the Buyer (or the Buyer Designee) and vote in favour of the registration of the Buyer (or the Buyer Designee) as member of AOPH in respect of the AOPH Shares.

Transfer documents and Others

6.2 the AOPH Seller shall deliver to the Buyer:

6.2.1 the deed of sale in respect of the sale and transfer of the AOPH Shares to the Buyer (or the Buyer Designee) duly executed by the AOPH Seller, which shall have been acknowledged before a notary public and, if executed outside the Philippines, authenticated by the appropriate Philippine consulate;

6.2.2 an irrevocable proxy in the agreed form acknowledging that the Buyer (or the Buyer Designee) is the beneficial owner of the AOPH Shares and constituting the Buyer (or the Buyer Designee) as the AOPH Seller's attorney-in-fact, with full power and authority to vote the AOPH Shares at any meeting of the shareholders of AOPH;

6.2.3 deeds of assignment transferring the qualifying shares held by resigning directors in SPi Technologies to nominee directors of the Buyer (or the Buyer Designee) in SPi Technologies, and declarations of trust between such directors and AOPH;

6.2.4 deeds of assignment transferring the qualifying shares held by resigning directors in AOPH to nominee directors of the Buyer (or the Buyer Designee) in AOPH, and declarations of trust between such directors and AOPH Seller; and

6.2.5 the original share certificate(s) of the AOPH Shares and all of the shares of the Target Group Companies (other than the Sale Shares and 60% of the shares of Pacific Space International Development Corporation which is not owned by SPi Technologies).

Payment

6.3 The Buyer and the Sellers shall jointly instruct the Escrow Agent to pay to the AOPH Seller an amount in cash equal to the AOPH Purchase Price (after deducting US$17,000,000) by electronic transfer of immediately available funds in US$ to the AOPH Seller's Account.

SCHEDULE 2B ALTERNATIVE COMPLETION STEPS

1. **GENERAL**

At the Alternative Completion Date:

1.1 the AOPH Seller shall procure to be delivered to the Buyer:

1.1.1 (if not already delivered) as evidence of the authority of each person executing this Agreement and the other Transaction Documents to which the AOPH Seller is a party:

(a) a copy of the minutes of a duly held meeting of the directors or the written resolutions of the board of directors of the AOPH Seller authorising the execution by the AOPH Seller of each relevant document; or

(b) a copy of the power of attorney conferring such authority, and the board resolutions authorising the grant of such power.

1.2 the ROHQ Seller shall procure to be delivered to the Buyer:

1.2.1 (if not already delivered) as evidence of the authority of each person executing this Agreement, the assignment and assumption agreement by and between the ROHQ Seller and the Buyer and the other Transaction Documents to which the ROHQ Seller is a party:

(a) a copy of the minutes of a duly held meeting of the directors or the written resolutions of the directors of the ROHQ Seller authorising the execution by the ROHQ Seller of each relevant document; or

(b) a copy of the power of attorney conferring such authority, and the board resolutions authorising the grant of such power.

1.3 the Sellers shall procure to be delivered to the Buyer:

1.3.1 copy of the relevant resolutions of the board of the Target Group Companies (if applicable) (a) authorising the revocation of any existing mandate given by the relevant Target Group Companies for the operation of their bank accounts subject to the fulfilment of any conditions required to be satisfied by any new director or secretary; and (b) subject to the Buyer fulfilling any requirements that it needs to satisfy, appointing persons nominated by the Buyer (as notified by the Buyer to the Sellers no later than fifteen (15) Business Days prior to the Completion Process Commencement Date) as directors and secretary of the relevant Target Group Companies;

1.3.2 signed resignations from such director or company secretary of each relevant Target Group Company as notified by the Buyer to the Sellers no later than 15 Business Days prior to the Completion Process Commencement Date (or any other director and company secretary who is a nominee of the Sellers or their Affiliates) expressed to take effect from the Alternative Completion Date.

1.4 the Buyer shall:

1.4.1 (if not already delivered) deliver to the Sellers evidence (by way of certificate of the Buyer's Solicitors or otherwise) of satisfaction of the Conditions;

1.4.2 (if not already delivered) deliver to the Sellers as evidence of the authority of each person executing this Agreement and the other Transaction Documents to which the Buyer is a party:

(a) a copy of the minutes of a duly held meeting of the directors of the Buyer (or a duly constituted committee thereof) authorising the execution by the Buyer of the document and, where such execution is authorised by a committee of the board of directors of the Buyer, a copy of the minutes of a duly held meeting of the directors constituting such committee or the relevant extract thereof; or

(b) a copy of the power of attorney conferring such authority, and the board resolutions authorising the grant of such power.

1.5 the Sellers shall deliver to the Buyer evidence of consent or approval from PLDT to the Transaction.

1.6 (if not already delivered) the Sellers shall deliver to the Buyer a copy of the AOPH Tax Opinion.

1.7 the Sellers shall deliver to the Buyer a non-solicitation undertaking in agreed form from the general partner of the CVC Fund on the terms set out in Clause 17.2.

2. ACQUISITION OF ROHQ

At the Alternative Completion Date, against the satisfaction of the obligation of the Buyer under paragraph 2.3 of this Schedule 2B, on the same day (or such other day as the parties may agree (acting reasonably)), the parties shall do the following things (as may be applicable to it):

Resolutions

2.1 the ROHQ Seller shall procure the delivery to the Buyer of copies of the resolutions of the board of directors of ROHQ which approve the sale and transfer of the ROHQ Shares to the Buyer (or the Buyer Designee) and the registration of the Buyer (or the Buyer Designee) as the sole member of ROHQ;

Transfer documents

2.2 the ROHQ Seller shall deliver to the Buyer:

2.2.1 the original instrument of transfer duly executed by the ROHQ Seller (and accompanying worksheets for the purposes of stamp duty calculation); and

2.2.2 the original share certificate(s) for the ROHQ Shares.

Payment

2.3 The Buyer and Sellers shall jointly instruct the Escrow Agent to pay to the ROHQ Seller an amount in cash equal to the ROHQ Purchase Price by electronic transfer of immediately available funds in US$ to the ROHQ Seller's Account.

3. ACQUISITION OF AOPH

At the Alternative Completion Date, against the satisfaction of the obligation of the Buyer under paragraph 3.3 of this Schedule 2B, on the same day (or such other day as the parties may agree (acting reasonably)):

Resolutions

3.1 the AOPH Seller shall procure the delivery to the Buyer of copies of the resolutions of the board of directors of AOPH which approve the sale and transfer of the AOPH Shares to the Buyer (or the Buyer Designee) and vote in favour of the registration of the Buyer (or the Buyer Designee) as member of AOPH in respect of the AOPH Shares.

Transfer documents and Others

3.2 the AOPH Seller shall deliver to the Buyer:

3.2.1 the deed of sale in respect of the sale and transfer of the AOPH Shares to the Buyer (or the Buyer Designee) duly executed by the AOPH Seller, which shall have been acknowledged before a notary public and, if executed outside the Philippines, authenticated by the appropriate Philippine consulate;

3.2.2 an irrevocable proxy in the agreed form acknowledging that the Buyer (or the Buyer Designee) is the beneficial owner of the AOPH Shares and constituting the Buyer (or the Buyer Designee) as the AOPH Seller's attorney-in-fact, with full power and authority to vote the AOPH Shares at any meeting of the shareholders of AOPH;

3.2.3 deeds of assignment transferring the qualifying shares held by resigning directors in SPi Technologies to nominee directors of the Buyer (or the Buyer Designee) in SPi Technologies, and declarations of trust between such directors and AOPH;

3.2.4 deeds of assignment transferring the qualifying shares held by resigning directors in AOPH to nominee directors of the Buyer (or the Buyer Designee) in AOPH, and declarations of trust between such directors and AOPH Seller; and

3.2.5 the original share certificate(s) of the AOPH Shares and all of the shares of the Target Group Companies (other than 60% of the shares of Pacific Space International Development Corporation which is not owned by SPi Technologies).

Payment

3.3 The Buyer and the Sellers shall jointly instruct the Escrow Agent to pay to the AOPH Seller an amount in cash equal to the AOPH Purchase Price, the SPi India Minority Purchase Price, the SPi India Majority Purchase Price and the SPi China Purchase Price in aggregate (after deducting US$17,000,000) by electronic transfer of immediately available funds in US$ to the AOPH Seller's Account.

SCHEDULE 3 SELLERS’ WARRANTIES

PART A

1. CAPACITY AND AUTHORITY

1.1 The relevant Seller has the right, power and authority, and has taken all action necessary, to execute, deliver and exercise its rights, and perform its obligations, under this Agreement and each Transaction Document to be executed by the relevant Seller at or before Completion.

1.2 The execution and delivery of, and the performance by each Seller of its obligations under, the Transaction Documents to which it is a party will not:

1.2.1 result in a breach of any provision of the memorandum or articles of association or by laws or equivalent constitutional documents of such Seller;

1.2.2 result in a breach of, or constitute a default under, any agreement or instrument to which the relevant Seller is a party or by which such Seller is bound;

1.2.3 result in a breach of any Law, order, judgment or decree of any court or governmental agency to which such Seller is a party or by which such Seller is bound or submits, in each case, where such breach or default (as the case may be) would or would be reasonably likely to have a material adverse effect on the ability of such Seller to perform its obligations under the Transaction Documents to which it is a party;

1.2.4 require any consent, approval or authorisation from, or registration, declaration, notification or filing with or to any Authority (other than those referred to in this Agreement); or

1.2.5 require any consent or other action by any person under, constitute a default under, or give rise to any right of termination, cancellation or acceleration of any right or obligation of any Target Group Company or to a loss of any benefit to which such Target Group Company is entitled under, any provision of any agreement or other instrument binding upon such Target Group Company (other than the change of control consents as Disclosed to the Buyer).

1.3 Each Seller’s obligations under this Agreement and each Transaction Document to be executed by such Seller at or before Completion are, or when the relevant Transaction Document is executed will be, valid and legally binding upon such Seller, as the case may be.

2. AOPH SHARES

2.1 (a) The AOPH Seller is the sole beneficial owner of the AOPH Shares, out of which five common shares are held by the AOPH Seller’s nominees (each of whom is a director of AOPH) and the legal title to the remaining shares are held by the AOPH Seller. (b) The AOPH Seller is entitled to transfer the full ownership of the AOPH Shares and cause the redemption of the AOPH Preference Shares on the terms set out in this Agreement.

2.2 The AOPH Shares and AOPH Preference Shares comprise the whole of AOPH’s allotted and issued share capital, have been properly allotted and issued and are fully paid or credited as fully paid.

2.3 Immediately following Completion, there will be no Encumbrance, and there will be no agreement, arrangement or obligation to create or give an Encumbrance, in relation to any of the AOPH Shares or unissued shares in the capital of AOPH.

2.4 From 2013 to 2016, AOPH redeemed 113,017,000 fully-paid preferred shares in AOPH of PHP1.00 each. Other than this redemption and this Agreement, there is no agreement, arrangement or obligation requiring the creation, allotment, issue, transfer, redemption or repayment of, or the grant to a person of the right (conditional or not) to require the allotment, issue, transfer, redemption or repayment of, any shares in the capital of AOPH (including an option or right of pre emption or conversion).

3. **ROHQ SHARES**

3.1 The ROHQ Seller is the sole legal and beneficial owner of the ROHQ Shares and is entitled to transfer the full ownership of the ROHQ Shares on the terms set out in this Agreement.

3.2 The ROHQ Shares comprise the whole of ROHQ's allotted and issued share capital, have been properly allotted and issued and are fully paid or credited as fully paid.

3.3 Immediately following Completion, there will be no Encumbrance, and there will be no agreement, arrangement or obligation to create or give an Encumbrance, in relation to any of the ROHQ Shares or unissued shares in the capital of ROHQ.

3.4 Other than this Agreement, there is no agreement, arrangement or obligation requiring the creation, allotment, issue, transfer, redemption or repayment of, or the grant to a person of the right (conditional or not) to require the allotment, issue, transfer, redemption or repayment of, any shares in the capital of the ROHQ (including an option or right of pre-emption or conversion).

4. **SALE SHARES**

4.1 SPi Technologies is the sole legal and beneficial owner of the SPi India Majority Shares and is entitled to transfer the full ownership of the SPi India Majority Shares on the terms set out in this Agreement. SPi India Holdings (Mauritius), Inc. is the sole legal and beneficial owner of the SPi India Minority Shares and is entitled to transfer the full ownership of the SPi India Minority Shares on the terms set out in this Agreement.

4.2 SPi Asia Ventures Pte. Ltd. is the sole legal and beneficial owner of the SPi China Shares and is entitled to transfer the full ownership of the SPi China Shares on the terms set out in this Agreement.

5. **TARGET COMPANY**

5.1 Each Seller and each of the Target Companies is duly incorporated, validly existing, duly registered and in good standing under the laws of the jurisdiction of its incorporation.

5.2 No administrator, receiver or statutory manager has been appointed in respect of the whole or part of the assets and undertaking of each Target Company.

5.3 None of the Target Companies is in liquidation and no order has been made or effective resolution passed for the liquidation or winding up of any of the Target Companies.

6. **TARGET GROUP COMPANIES**

6.1 The information relating to the Target Group Companies in Schedule 1 is true and accurate.

6.2 AOPH is the sole beneficial owner of 26,009 fully-paid common shares in SPi Technologies, out of which the legal title to six common shares are held by AOPH's five nominees (each of whom is a director of SPi Technologies) and the legal title to the remaining shares are held by AOPH. SPi Technologies is the sole beneficial owner of 200,000 fully-paid common shares in Pacific Space International Development Corporation, out of which the legal title to five common shares are held by SPi Technologies' five nominees (each of whom is a director of Pacific Space International Development Corporation) and the legal title to the remaining shares are held by SPi Technologies. Other than as set out in this paragraph, each of the Target Group Companies is the sole legal and beneficial owner of the wholly allotted and issued share capital of its respective Target Subsidiary and all such shares are fully paid up and free from all Encumbrances, except in the case of Pacific Space International Development Corporation in which SPi Technologies is the legal and beneficial owner of 40% of the allotted and issued share capital.

6.3 Other than their interest prior to Completion in the Dormant Companies, SPi Asia Ventures Pte. Ltd. and SIHL and as set out in Schedule 2, none of the Target Companies has or beneficially owns an interest in, or has otherwise agreed to acquire an interest of any nature in any shares, debentures or other securities of, or merge or consolidate with, a corporate body or any other person other than the Target Subsidiaries.

6.4 Each Target Subsidiary is duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation.

6.5 There is no Encumbrance, and there is no agreement, arrangement or obligation to create or give an Encumbrance, in relation to any of the shares or unissued shares in the capital of any of the Target Subsidiaries.

6.6 There is no agreement, arrangement or obligation requiring the creation, allotment, issue, transfer, redemption or repayment of, or the grant to a person of the right (conditional or not) to require the allotment, issue, transfer, redemption or repayment of, any shares in the capital of the Target Subsidiaries (including an option or right of pre-emption or conversion).

7. **INSOLVENCY**

7.1 No administrator, receiver or statutory manager has been appointed, nor have any documents been filed with the court for such appointment or any notice of an intention to make such appointment been given by the relevant company, its directors or any creditor for such appointment, in respect of the whole or part of the assets and undertaking of any Target Group Company.

7.2 No Target Group Company is insolvent or unable to pay its debts (within the meaning of any insolvency legislation applicable to the Target Group Company concerned), has stopped paying its debts as they fall due, or is in liquidation, and no order has been made or effective resolution passed for the liquidation or winding up of any Target Group Company.

PART B

1. **CONSTITUTIONAL AND CORPORATE DOCUMENTS**

1.1 All returns, particulars, resolutions and other documents which each Target Group Company is required by Law to file with or deliver to any Authority in any jurisdiction have been correctly made up and filed or delivered in all material respects.

1.2 All statutory books and registers of the Target Group Companies have been properly kept in all material respects and so far as the Sellers are aware, no notice that any of them is incorrect or should be rectified has been received.

2. **ACCOUNTS**

2.1 Having regard to the purpose for which they were prepared, the AOPH Locked Box Financial Statements show a true and fair view of the assets, liabilities and state of affairs of AOPH and its subsidiaries as at the Locked Box Date and of the profits and losses of AOPH and its subsidiaries for the financial year ended on the Locked Box Date that is not misleading in any material respect, and have been prepared in accordance with the accounting policies of the Asia Outsourcing Group consistent with those used in the preparation of the Accounts.

2.2 The financial statements described in limb (i) of the definition of ROHQ Locked Box Financial Statements show a true and fair view of the assets, liabilities and state of affairs of the regional operating headquarters in the Philippines of ROHQ as at 31 December 2015 and the Locked Box Date and of the profits and losses and cash flows of the regional operating headquarters in the Philippines of ROHQ for the financial years ended 31 December 2015 and the Locked Box Date, and have been prepared in accordance with the Philippine Financial Reporting Standards.

2.3 The Accounts that are audited (as specified in Schedule 1) show a true and fair view of the assets, liabilities and state of affairs of each of the relevant Target Group Companies as at the date on which such Accounts were prepared and of the profits and losses and cash flows (where applicable) of each of the relevant Target Group Companies for the financial year for which such Accounts were prepared.

2.4 The Accounts that are unaudited (as specified in Schedule 1), the financial statements described in limb (ii) of the definition of ROHQ Locked Box Financial Statements and the Management Accounts (a) have been properly prepared on a basis consistent with the Accounts, and (b) having regard to the purpose for which they were prepared and the fact that they are not audited statutory accounts, are not misleading in any material respect and give a reasonable view of the assets, liabilities, cash flows and profits and losses of the Target Group Companies as at the last date of the accounting period in which such Management Accounts were prepared and for the periods for which such Management Accounts were prepared.

3. **CHANGES SINCE THE LOCKED BOX DATE**

Since the Locked Box Date, other than pursuant to the Carved-Out Entities Settlement:

3.1 the Target Group's business has been operated in the usual way so as to maintain it as a going concern in a manner consistent with its past practices and policies;

3.2 so far as the Sellers are aware, there has been no material change to the Target Group's business, financial position or operations;

3.3 no Target Group Company has issued or agreed to issue any share or loan capital (except for intercompany balances between the Target Group Companies, including but not limited to those contemplated under this Agreement);

3.4 no dividend or other distribution of profits or assets has been, or has agreed to be, declared, made or paid by any Target Group Company (other than any dividend or other distribution of profits or assets declared, made or paid to or for the benefit of any other Target Group Company);

3.5 no Target Group Company has borrowed or raised any money (except hedging transactions and working capital borrowed or raised in the ordinary course of business consistent with past practice);

3.6 no capital expenditure has been incurred on any individual item by any Target Group Company in excess of $1,000,000 or $1,000,000 in aggregate across the Target Group outside of the Annual Budget, and no Target Group Company has acquired, invest or disposed of (or agreed to acquire, invest or dispose of) any individual item in excess of $1,000,000;

3.7 there have been no changes (other than those required by Law) to the terms of employment of any of the Senior Employees;

3.8 no Employee pension or benefit scheme has been created, and there have not been any amendments to any existing Pension Scheme or Pension Benefits;

3.9 no shareholder resolutions of any Target Group Company, have been passed other than as routine business at the annual general meeting; and

3.10 save for matters affecting similar businesses generally, there has been no occurrence of any matter or event (or series of matters or events) which has had or is reasonably likely to have a material adverse effect on the financial or trading position of the Target Group.

4. **TAX**

4.1 Each Target Group Company has paid all Tax which it has become liable to pay.

4.2 Each Target Group Company (a) has within applicable time limits in all material respects made all returns, provided all information, given all notices, submitted all accounts and computations, obtained all registrations and maintained in all material respects all records in relation to Tax as it is required to make, provide or maintain and all such Tax returns, accounts, computations, information and notices were, and remain, correct and accurate in all material respects, (b) has complied on a timely basis in all material respects with all notices served on it and any other requirements lawfully made of it by any Tax Authority, and (c) has not entered into any waivers or agreement with any Tax Authority to extend any statutory limitation period with respect to any Tax to which any Target Group Company may be subject.

4.3 No Target Group Company is involved in any dispute in relation to Tax with any Tax Authority nor are any of the assets of any Target Group Company subject to a tax lien, and no Target Group Company is the subject of an investigation, enquiry, assessment, audit, non-routine visit or review by any Tax Authority or been liable to pay a penalty, surcharge, fine or interest in connection with Tax and, so far as the Sellers are aware, there are no facts or circumstances which are likely to give rise to any such dispute, disagreement, investigation, enquiry, assessment, audit, non-routine visit or review or circumstances by reason of which any Target Group Company may become liable to pay any penalty, surcharge, fine or interest in connection with Tax.

4.4 Each Target Group Company has deducted or withheld all amounts which it has been obliged by Law to deduct or withhold from any payment made by it or in connection with the provision by it of any benefit, payment or asset and has duly accounted to the relevant Tax Authority for all such amounts.

4.5 No Target Group Company has entered into any special agreement or arrangement with a Tax Authority (being an agreement or arrangement not based on an application of Law).

4.6 No Target Group Company has been involved in any scheme, arrangement, transaction or series of transactions in which the intention of the Target Group was the avoidance, reduction, deferral or refund of Tax.

4.7 No act, transaction, event or omission has occurred (including without limitation the execution or implementation of this Agreement or the Transaction Documents) in consequence of which any Target Group Company is or may be held liable for Tax or may otherwise be held liable for or to indemnify any person in respect of any Tax which is primarily or directly chargeable against or attributable to any person other than a Target Group Company.

4.8 Each Target Group Company has duly filed in all material respects all land transaction returns required to be filed with any Tax Authority and has paid all stamp duty land tax or other similar real estate taxes to which it is liable.

4.9 Each Target Group Company is, and always has been, resident only in its jurisdiction of incorporation for Tax purposes and no Target Group Company is or has been subject to Tax in any jurisdiction other than its jurisdiction of incorporation, except for ROHQ which is subject to Tax in Singapore and Philippines. No Target Group Company has, or has ever had, a branch or permanent establishment in a jurisdiction other than its jurisdiction of incorporation, except for ROHQ which has a branch in the Philippines.

5. **LICENCES**

5.1 All licences, permissions, registrations, consents and authorisations (public and private), including all EHS Consents, registration approvals (collectively, the "Permits") from the Philippine Economic Zone Authority, and approvals from the Office of the Development Commissioner of the MEPZ Special Economic Zone of India and the office of Software Technology Parks of India, which in each case is material for the operations of the relevant member(s) of the Target Group in the jurisdictions and in the manner in which such operations are carried out as at the date of this Agreement, have been obtained, and are valid and subsisting and any conditions attached or related thereto have been complied with in all material respects, and no notice of revocation, suspension or non-compliance has been received from the relevant Authority which issues or approves such Permits.

6. **LITIGATION AND COMPLIANCE WITH LAW**

6.1 No Target Group Company is a party to a civil, criminal, arbitration, administrative or other proceeding involving a monetary amount exceeding US$250,000 (if applicable) ("**Proceeding**"), which is continuing (other than in relation to the collection of debts arising in the ordinary course of business of the relevant Target Group Company which does not exceed US$1,000,000), nor is any such Proceeding pending or threatened in writing by or against a Target Group Company (other than in relation to collection of debts arising in the ordinary course of business) and, so far as the Sellers are aware, there are no circumstances likely to give rise to any such Proceedings.

6.2 Each Target Group Company has in the last three years complied in all material respects with all Laws and regulations applicable to it, including all notification, filing or registration requirements under applicable Law.

6.3 None of the Sellers or, so far as the Sellers are aware, the Target Group Companies or any of their respective current Representatives is or has been the subject of any investigations, inquiry or enforcement proceedings by any Authority (including pursuant to any Anticorruption Law), and, so far as the Sellers are aware, no such investigations, inquiries or enforcement proceedings are pending or threatened in writing and, there are no circumstances likely to give rise to any such investigations, inquiries or enforcement proceedings.

6.4 None of the Sellers or, so far as the Sellers are aware, the Target Group Companies or any of their respective current Representatives has in the four years prior to the date of this Agreement:

6.4.1 authorised, offered, promised or given any financial or other advantage (including any payment, loan, gift or transfer of anything of value), directly or indirectly, to or for the use or benefit of any Government Official (or to another person at the request or with the assent or acquiescence of such Government Official), or any other natural or legal person, in order to assist the Target Group in improperly obtaining or retaining business for or with any person, in improperly directing business to any person, or in securing any improper advantage; or

6.4.2 taken any other action which would violate any Anticorruption Laws.

6.5 The Target Group Companies:

6.5.1 have in place in place policies, systems, controls and procedures designed to prevent them and their Representatives from violating any Anticorruption Laws; and

6.5.2 have in all material respects kept up-to-date records of their activities, including financial records in a form and manner appropriate for a business of its size and resources.

6.6 None of the Sellers or the Target Group Companies are, or are owned or controlled by, a Sanctioned Person, and, as far as the Sellers are aware, none of their respective officers, directors, or holders of their equity interests is a Sanctioned Person.

6.7 None of the Sellers or the Target Group Companies have during the last four years knowingly facilitated or engaged in, are now knowingly facilitating or engaging in, or will facilitate or engage in, any dealings or transactions (i) with or for the benefit of, or otherwise made available any funds or economic resources to any Sanctioned Person, (ii) involving any property of a Sanctioned Person or (iii) relating to any Sanctioned Territory.

7. **INSURANCE**

7.1 The Disclosure Letter contains a list of each Target Group Company's material insurance policies. Each such material insurance policy is in full force and effect, and all premiums which are due under each such insurance policy have been paid. No claim which has been made in accordance with any such policy exceeding US$250,000 is outstanding under any such insurance policies.

8. **AGREEMENTS**

8.1 None of the Target Group Companies is:

8.1.1 a member of a joint venture, consortium, partnership or association (other than a bona fide trade association); or

8.1.2 a party to a distributorship, agency, franchise or management agreement or arrangement.

8.2 None of the Target Group Companies is a party to, or is liable under any agreement outside of the ordinary course of business, which involves a monetary amount exceeding US$250,000 per annum, including:

8.2.1 an agreement entered into other than in the usual course of its business; or

8.2.2 an agreement, arrangement or obligation entered into other than by way of a bargain at arm's length.

8.3 True and complete copies of all Material Contracts have been Disclosed to the Buyer.

8.4 Each of the Material Contracts is in full force and effect and binding on the parties to it. No notice of termination of any Material Contract has been received or served by a Target Group Company and, so far as the Sellers are aware, there are no legal grounds for determination, rescission, avoidance, repudiation or a material change in the terms of any such Material Contract.

8.5 No Target Group Company is in material default under any Material Contract, agreement or arrangement to which it is a party and, so far as the Sellers are aware, no other party to such an agreement or arrangement is in default thereunder.

8.6 No counterparty to a Material Contract has given written notice of any intention to, and so far as the Sellers are aware no such counterparty has any intention to, adversely change or reduce in any material respect their business dealings with the Target Group Companies, whether by reason of the entry into this Agreement, the transactions contemplated by it or otherwise.

9. **INTELLECTUAL PROPERTY**

9.1 The Disclosure Letter contains the complete and accurate details of all the registered Intellectual Property Rights in respect of which a Target Group Company is the registered or beneficial owner or applicant for registration, other than applications made solely on behalf of clients of a Target Group Company in respect of Intellectual Property Rights beneficially owned by such clients.

9.2 The Target Group Companies either own, or have valid licences to use, all the Intellectual Property Rights in materially the same manner as it is currently carried on and the Intellectual Property Rights will not be liable to termination pursuant to any contractual change of control clause as a result of the acquisition of the Sale Shares by the Buyers or the execution or performance of any of the Transaction Documents. None of the Intellectual Property Rights are owned by any member of the Sellers' Group Companies.

9.3 All renewal fees payable before the date of this Agreement in respect of the registered Intellectual Property Rights have been paid.

9.4 In respect of the licences of third party Intellectual Property Rights to the Target Group Companies (the "**Licensed Intellectual Property**"):

9.4.1 each licence is in full force and effect and binding on the parties to it; and

9.4.2 the terms of the licences have been complied with in all material respects by the relevant Target Group Company and (so far as the Sellers are aware) the relevant counterparties in all material respects, no written notice of termination of any Licensed Intellectual Property has been received or served by a Target Group Company and, so far as the Sellers are aware, there are no legal grounds on which they might be terminated.

9.5 So far as the Sellers are aware, the business carried on by the Target Group Companies at the date of this Agreement does not infringe or misappropriate any third party rights in Intellectual Property.

9.6 Each officer, Employee, contractor or consultant that has undertaken work for the Target Group Companies has entered into a contract or any similar arrangement under which they are obliged to disclose and assign any Intellectual Property to a Target Group Company.

9.7 No Target Group Company has granted or is obliged to grant a licence, assignment or other right in respect of any of the Intellectual Property Rights to any person outside the Target Group.

10. **INFORMATION TECHNOLOGY**

10.1 Save as set out in the agreements listed at paragraph 13 of the Disclosure Letter and other than off-the-shelf software, the Target Group Companies own the IT Systems free from Encumbrances.

10.2 Having regard to the nature and size of the Target Group, the Target Group Companies have the benefit of appropriate arrangements for the maintenance, support and disaster recovery of their IT Systems (if applicable).

10.3 Having regard to the nature and size of the Target Group, the Target Group Companies in all material respects follow reasonably appropriate procedures for protecting their IT Systems from infection by software viruses and from access by unauthorised persons.

11. **DATA PROTECTION**

11.1 The Target Group Companies operate reasonably appropriate measures and systems in order to prevent unauthorised access to or use of Personal Data held by the Target Group Companies.

12. **PENSIONS**

12.1 True and complete copies of the trust deeds, rules and other documents governing and constituting the Pension Scheme and any amendments thereto have been Disclosed to the Buyer.

12.2 The Pension Scheme is the only scheme under which Employees, directors or former employees or directors of the Target Group are entitled to Pension Benefits.

12.3 There are not in respect of the Pension Scheme any existing disputes, actions or claims by any person (other than routine claims for benefits) outstanding, pending or threatened against the administrators of the Pension Scheme or any Target Group Company or any disputes about the benefits payable under the Pension Scheme, and so far as the Sellers are aware, there are no circumstances which might give rise to any such dispute, action or claim.

12.4 In relation to the Pension Scheme and the provision of any Pension Benefits, each Target Group Company complies in all material respects with and has always complied in all material respects with and the Pension Scheme has been administered in all material respects in accordance with all applicable Laws (including sex and other discrimination laws and equal pay laws) and regulations applicable to such schemes.

12.5 All employers' and employees' contributions or other payments and expenses which have fallen due for payment to, or in respect of, the Pension Scheme have been paid.

13. **EMPLOYEES**

13.1 No Target Group Company has given notice of termination to, or received notice of resignation from, any Senior Employee in respect of such Senior Employee's employment contract in respect of which the notice period is still outstanding.

13.2 No Target Group Company is involved in any Proceedings, which is continuing, involving a monetary amount exceeding US$100,000 in respect of any of its current employees in relation to their employment relationship.

13.3 There is no employee share option or other equity or share incentive scheme adopted by the Target Group, and no Employee participates in an equity or share incentive scheme adopted by any CVC Party, other than as Disclosed to the Buyer.

13.4 No Target Group Company has any agreements or arrangements with any trade union, works council, staff association or other body representing any of such Target Group Company's employees.

13.5 No Target Group Company has, in the three years prior to the date of this Agreement, experienced any material labour strikes.

13.6 Particulars of all material written employment policies and staff handbooks pertaining to the Employees have been Disclosed to the Buyer.

13.7 No contractual or gratuitous payment (including in the form of a "golden parachute") or benefit has been made or may become due to be made to any Employee in connection with the transactions contemplated by this Agreement and/or the other Transaction Documents or any part thereof.

13.8 The acquisition of the Sale Shares by the Buyer or compliance with the terms of this Agreement will not enable any director or Employee to terminate their employment or engagement.

13.9 Other than routine increases to salary and the level of benefits, during the twelve month period before the date of this Agreement, there have been no material changes to the terms and conditions or benefits of any Employee.

14. **REAL ESTATE**

14.1 The Target Group has the right to occupy all land and buildings occupied by it at the date of this Agreement.

14.2 The Properties are the only land and buildings owned, controlled, used or occupied by the Target Group Companies in connection with their business or in relation to which any Target Group Company has any right, interest or liability and the particulars of the Properties set out in the Disclosure Letter are true and accurate in all material respects.

14.3 The Target Group Companies are the legal and beneficial owner in possession of the Owned Properties, are in exclusive occupation of it and has a good and marketable title to it.

14.4 The Target Group Companies have paid the rent and observed and performed in all material respects the covenants on the part of the lessee and the conditions contained in any leases (which expression includes underleases) under which the Leased Properties are held and the last demands for rent (or receipts if issued) were unqualified and all such leases are valid and in full force.

14.5 There is no covenant, restriction, burden, stipulation or outgoing affecting any Properties which materially conflicts with its current use or materially and adversely affects its value.

14.6 No Target Group Company has received any notice or order materially and adversely affecting any of the Properties from any Authority or any third party and, so far as the Sellers are aware, there are no proposals on the part of any Authority which would materially adversely affect any of the Properties, including those relating to compulsory purchase or highways works.

14.7 So far as the Sellers are aware, none of the Target Group Companies have any continuing liability in respect of any properties formerly owned or occupied by a Target Group Company.

15. **INDEBTEDNESS**

Each Target Group Company does not have any outstanding indebtedness (except for any outstanding operating debt as at the date of this Agreement which has been Disclosed to the Buyer and incurred in the ordinary course of business of such Target Group Company). Full particulars of agreements or facilities in relation to, or evidencing, any indebtedness or obligations securing any indebtedness have been Disclosed to the Buyer.

16. **GUARANTEES AND INDEMNITIES**

16.1 No Target Group Company is a party to nor is liable under a guarantee, indemnity, security agreement or other agreement to secure or incur a financial or other obligation with respect to another person's (which is not a Target Group Company's) obligation or indebtedness.

16.2 No part of the loan capital, borrowings or indebtedness in the nature of borrowings of any Target Group Company is dependent on the guarantee or indemnity of, or security provided by, another person which is not a Target Group Company.

17. **RELATED PARTY TRANSACTIONS**

17.1 No Seller Related Party (other than a Target Group Company), is a party to any outstanding contract (other than an employment contract) or transaction with any Target Group Company or has any direct legal or beneficial interest in any property, tangible or intangible, used by any Target Group Company.

17.2 Saved as Disclosed, there is no outstanding indebtedness or liability (actual or contingent) and no outstanding, commitment or arrangement between a Target Group Company and any Seller Related Party, other than pursuant to agreements with members of the PLDT group in the ordinary course of business, employment contracts or pursuant to the Carved-Out Entities Settlement.

18. **POWERS OF ATTORNEY AND AUTHORITIES**

None of the Target Group Companies has given a power of attorney or other authority by which a person may enter into an agreement, arrangement or obligation on that Target Company's behalf (other than an authority for a director, other officer or employee to enter into an agreement in the usual course of that person's duties).

19. **BROKERAGE OR COMMISSIONS**

No person is entitled to receive a finder's fee, brokerage or commission from any of the Target Company in connection with this Agreement.

20. **DISPOSALS AND TRANSITIONAL ARRANGEMENTS**

20.1 So far as the Sellers are aware, none of the Target Group Companies have any existing or continuing liability or obligation to any person (including the Sellers or its Related Parties) and none of the Target Group Companies are subject to any claims or have received any notice of such claim from any person (including the Seller or its Related Parties), in each case, in respect of the CRM Disposal, the SPi Healthcare Disposal, the Conifer Transaction or the Bachieve Asset Purchase Transaction.

20.2 All material particulars of arrangements and agreements in relation to any material business dealings between any Target Group Company on the one part, and any of (a) SPi CRM Inc and/or its subsidiaries, (b) Infocom Technologies Inc. and/or its subsidiaries, (c) SPi Healthcare Inc. and/or its subsidiaries and (d) Asia Outsourcing US Inc. and/or its subsidiaries, on the other part, have been Disclosed to the Buyer.

21. **TAX MATTERS FOR TRANSFER OF SPI INDIA MINORITY SHARES**

21.1 SIHL is a company incorporated under the laws of Mauritius.

21.2 SIHL plans to apply for a Global Business License Category I and a tax residency certificate in Mauritius.

21.3 From Conversion Date, all decision making powers of SIHL will, in substance, be exercised by the board of directors of SIHL and all meetings of the board of directors of SIHL will be held and chaired in Mauritius. From Conversion Date, all directors of SIHL are non-residents of India and a majority of the directors on the board of directors of SIHL are residents of Mauritius.

21.4 So far as the Sellers are aware, SIHL does not have a permanent establishment in India.

21.5 So far as the Sellers are aware, SIHL is a non-resident of India as defined under section 6 read with section 2(30) of the Income Tax Act of India.

21.6 Other than the holding its investment in SPi India, SIHL does not carry out other activities in India.

21.7 SIHL treats the SPi India Minority Shares as 'investments' and not as 'stock in trade' for accounting purposes.

21.8 As at Completion, SIHL has its principal bank account(s) in Mauritius.

22. **TAX MATTERS FOR TRANSFER OF SPI INDIA MAJORITY SHARES**

22.1 SPi Technologies a tax resident of the Philippines under Article 4 of the India- Philippines Tax Treaty.

22.2 As at Completion, SPi Technologies holds a valid tax residence certificate issued by the Philippines Revenue Authority.

22.3 All decision making powers of SPi Technologies are, in substance, exercised by the board of directors of SPi Technologies and all meetings of the board of directors of SPi Technologies have been held and chaired in Philippines. All directors of SPi Technologies are non-residents of India and a majority of the directors on the board of directors of SPi Technologies are residents of Philippines.

22.4 So far as the Sellers are aware, SPi Technologies does not have a permanent establishment in India.

22.5 So far as the Sellers are aware, SPi Technologies is a non-resident of India as defined under section 6 read with section 2(30) of the Income Tax Act of India.

22.6 Other than the holding its investment in SPi India, SPi Technologies does not carry out other activities in India·.

22.7 SPi Technologies treats the SPi India Majority Shares as 'investments' and not as 'stock in trade' for accounting purposes.

22.8 SPi Technologies has its principal bank account(s) in Philippines.

SCHEDULE 4 BUYER’S WARRANTIES

1. **INCORPORATION AND EXISTENCE**

The Buyer is duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation.

2. **CAPACITY AND AUTHORITY**

2.1 The Buyer has the right, power and authority, and has taken all action necessary, to execute, deliver and exercise its rights, and perform its obligations, under this Agreement and each Transaction Document to be executed at or before Completion.

2.2 The execution and delivery of, and the performance by the Buyer of its obligations under, the Transaction Documents to which it is a party will not:

2.2.1 result in a breach of any provision of the memorandum or articles of association or by laws or equivalent constitutional documents of the Buyer;

2.2.2 result in a breach of, or constitute a default under, any agreement or instrument to which the Buyer is a party or by which the Buyer is bound;

2.2.3 result in a breach of any Law, order, judgment or decree of any court or governmental agency to which the Buyer is a party or by which the Buyer is bound or submits,

in each case, where such breach or default (as the case may be) would or would be reasonably likely to have an adverse effect on the ability of the Buyer to perform its obligations under the Transaction Documents to which it is a party;

2.2.4 require any consent, approval or authorisation from, or registration, declaration, notification or filing with or to any Authority.

2.3 The Buyer’s obligations under this Agreement and each Transaction Document to be executed by the Buyer at or before Completion are, or when the relevant Transaction Document is executed will be, valid and legally binding upon the Buyer.

3. **INSOLVENCY**

3.1 No administrator, receiver or statutory manager has been appointed, nor have any documents been filed with the court for such appointment or any notice of an intention to make such appointment been given by the relevant company, its directors or any creditor for such appointment, in respect of the whole or part of the assets and undertaking of the Buyer.

3.2 The Buyer is not insolvent or unable to pay its debts (within the meaning of any insolvency legislation applicable to the company concerned), has stopped paying its debts as they fall due, or is in liquidation, and no order has been made or effective resolution passed for the liquidation or winding up of the Buyer.

4. **CAPITAL RESOURCES**

The Buyer and/or the Buyer Designees will have available to it at Completion, sufficient, readily and unconditionally available funds to pay the Aggregate Purchase Price and all other amounts payable by the Buyer and/or the Buyer Designees pursuant to the terms of this Agreement.

SCHEDULE 5
LIMITATIONS ON THE SELLERS' LIABILITY

1. **LIMITATION ON QUANTUM**

1.1 Subject to paragraph 11 of this Schedule 5, the Sellers are not liable in respect of a Warranty Claim or an Uninsured Tax Claims (as defined in Schedule 9) unless the amount that would otherwise be recoverable from the Sellers (but for this paragraph

1.1 of this Schedule 5) in respect of that Claim, when aggregated with any other amount or amounts in respect of other Claims arising from substantially the same facts or circumstances as that Claim, exceeds US$330,000, in which case the Sellers shall be liable for the entire amount of such Claim and not merely the excess.

1.2 Subject to paragraph 11 of this Schedule 5, the Sellers' total liability in respect of:

1.2.1 Core Warranty Claims is limited to 100% of the Aggregate Purchase Price;

1.2.2 Uninsured Tax Claims is limited to US$12,500,000;

1.2.3 Claims under the Sellers' Warranties (other than the Core Warranties) is limited to an amount equal to US$3,300,000 (subject to paragraph 1.2.5 below);

1.2.4 subject to paragraphs 1.2.1 to 1.2.3 and 1.2.5 of this Schedule 5, all Claims is limited to the Deferred Purchase Price, and following the deposit of the relevant portion of the Deferred Purchase Price in the Escrow Account, to the balance standing to the credit of the Escrow Account from time to time; and

1.2.5 Insured Tax Claims and Warranty Claims under paragraph 21 or 22 of Schedule 3 are limited to the amounts which the Buyer may recover under the Insurance Policy (and for the avoidance of doubt, the Buyer shall have no recourse against any Seller in relation to such Claim).

1.3 The Buyer shall not be entitled to claim for any punitive, indirect or consequential loss (including loss of profit) in respect of any Warranty Claim unless and to the extent such loss is a reasonably foreseeable consequence of the fact, matter or circumstance giving rise to that Warranty Claim.

1.4 In the event that any of the steps in Schedule 7 are not completed, the Buyer agrees that its sole remedy, if any, shall be pursuant to Clause 10.1.2 (as applicable) and further acknowledges that it shall have no recourse against the Sellers in respect of the same for a breach of a Sellers' Warranty.

2. **TIME LIMITS FOR BRINGING CLAIMS**

The Seller is not liable for a Claim in respect of:

2.1 a Core Warranty unless the Buyer has notified the Seller of the Claim stating in reasonable detail the nature of the Claim and the amount claimed on or before the date which is seven (7) years from the Completion Date;

2.2 Clause 3 unless the Buyer has notified the Seller of the Claim stating in reasonable detail the nature of the Claim and the amount claimed (detailing the Buyer's calculation of the loss thereby alleged to have been suffered) on or before the date which is six (6) months from the Completion Date;

2.3 Clause 10 unless the Buyer has notified the Seller of the Claim stating in reasonable detail the nature of the Claim and the amount claimed (detailing the Buyer's calculation of the loss thereby alleged to have been suffered) on or before the date which is nine (9) months from the Completion Date; and

2.4 any Sellers' Warranty (other than Core Warranty) or any other provision of this Agreement unless the Buyer has notified the Seller of the Claim stating in reasonable detail the nature of the Claim and the amount claimed (detailing the Buyer's calculation of the loss thereby alleged to have been suffered) on or before the date which is three (3) years from the Completion Date.

3. **NOTICE OF CLAIMS**

A Claim notified in accordance with paragraph 2 of this Schedule 5 is unenforceable against the Seller on the expiry of the period of twelve (12) months starting on the day of notification of the Claim (unless previously settled, satisfied or withdrawn), unless proceedings in respect of the Claim have been properly issued and validly served on the Seller.

4. **SPECIFIC LIMITATIONS**

4.1 The Sellers are not liable in respect of a Claim:

4.1.1 to the extent that the matter giving rise to the Claim would not have arisen but for:

(a) acts after Completion by the Buyer's Group, other than any acts in connection with a pre-existing contractual obligation, required by applicable Laws or in the ordinary course of business; or

(b) the passing of, or a change in, any Law, or the interpretation of any Law by a government, governmental department, agency or regulatory body after the date of this Agreement, or an increase in the tax rates or an imposition of any tax, in each case not actually or prospectively in force at the date of this Agreement;

4.1.2 to the extent that the matter giving rise to the Claim arises wholly or partially from an event before or after Completion at the specific, written request or direction of, or with the specific written consent of, the Buyer;

4.1.3 to the extent that the matter giving rise to the Claim is an amount for which a Target Group Company has recovered from, a person other than a Seller's Group Company, whether under a provision of applicable law, insurance policy or otherwise howsoever;

4.1.4 if the Buyer fails to act in accordance with paragraph 7 of this Schedule 5, to the extent it increases the loss in connection with the matter giving rise to the Claim;

4.1.5 to the extent that the matter giving rise to the Claim is a liability for Tax which has been paid or discharged on or before Completion;

4.2 The Seller is not liable in respect of a Warranty Claim if the Buyer was aware at the date of this Agreement (i) of such fact, matter or circumstance which is the subject matter of the Warranty Claim, and (ii) that the fact, matter or circumstance would give rise to a Warranty Claim. For the purposes of this paragraph 4.2, the Buyer shall be deemed to have the actual knowledge of Cyrus Driver, Florian Marquis, Carl Rodrigues, Joseph Khoo and Murali Nair (each having read each of the Due Diligence Reports) as at the date of this Agreement. In this paragraph 4.2, "**Due Diligence Reports**" means: (a) the Legal Due Diligence Report in respect of Project Arc prepared by Latham & Watkins dated 16 May 2017; (b) the Financial, Tax and Environmental, Social and Governance Due Diligence Report in respect of Project Arc prepared by PwC dated 12 May 2017; (c) the commercial due diligence report in respect of Project Byte prepared by McKinsey & Company dated April 2017; and (d) the competition law analysis in respect of Project Arc prepared by Clifford Chance dated 11 April 2017.

5. **RECOVERY ONLY ONCE**

The Buyer is not entitled to recover more than once in respect of the same loss.

6. **CONTINGENT LIABILITIES**

To the extent that a Claim is based upon a liability of a Target Group Company which is a contingent liability, the Seller shall not be liable to make a payment to the Buyer in respect thereof unless and until such time as the contingent liability becomes an actual liability of a Target Group Company to make a payment, provided that the Buyer shall still be entitled to notify such Claim within the time periods for notification required under paragraph 2 of this Schedule 5 and the twelve month period referred to under paragraph 3 of this Schedule 5 do not commence until such time as the contingent liability becomes an actual liability.

7. **CONDUCT OF CLAIMS**

7.1 If a Buyer's Group Company becomes aware of a claim from a third party which constitutes or which would give rise to a Claim, so long as any of the following actions by the Buyer does not prejudice the business of the Target Group in any material respect:

7.1.1 the Buyer shall give notice to the Seller of the matter and shall consult with the Seller with respect to the matter;

7.1.2 the Buyer shall, and shall ensure that each Target Group Company will:

(a) take any action and institute any proceedings, and give any information and assistance, as the Seller may reasonably request to:

(i) avoid, dispute, resist, appeal, compromise, defend, remedy or mitigate the matter; or

(ii) enforce against a person (other than a Seller's Group Company) the rights of a Target Group Company in relation to the matter; and

(b) in connection with proceedings related to the matter (other than against a Seller's Group Company) use advisers nominated by the Seller and, if the Seller requests, allow the Seller the exclusive conduct of the proceedings, and in each case on the basis that the Seller shall indemnify the Buyer, and keep the Buyer indemnified, on demand against all costs incurred as a result of a request or nomination by the Seller; and

7.1.3 the Buyer shall not, and shall ensure that no Target Group Company will, admit liability in respect of, or compromise or settle, the matter without the prior written consent of the Seller, not to be unreasonably withheld or delayed.

8. **RECOVERY FROM ANOTHER PERSON**

8.1 If the Seller pays to the Buyer an amount in respect of a Claim and the Buyer subsequently recovers from another person an amount which is directly referable to the matter giving rise to the Claim:

8.1.1 if the amount paid by the Seller in respect of the Claim is more than the Sum Recovered, the Buyer shall immediately pay to the Seller the Sum Recovered; and

8.1.2 if the amount paid by the Seller in respect of the Claim is less than or equal to the Sum Recovered, the Buyer shall immediately pay to the Seller an amount equal to the amount paid by the Seller.

8.2 For the purposes of paragraph 8.1 of this Schedule 5, "**Sum Recovered**" means an amount equal to the total of:

8.2.1 the amount recovered from the other person;

8.2.2 less all taxation and any costs incurred by a Buyer's Group Company in recovering the amount from the person.

8.3 For the avoidance of doubt, any sum recovered by any Buyer Group Company under or pursuant to the Insurance Policy shall not constitute a Sum Recovered for the purpose of this paragraph 8 of this Schedule 5.

9. **MITIGATION**

Nothing in this Schedule 5 restricts or limits the Buyer’s general obligation at law to mitigate any loss or damage which it may incur in consequence of a matter giving rise to a Claim.

10. **INSURANCE POLICY**

Notwithstanding any other provision of this Agreement:

10.1.1 the Seller and the Buyer agree that, except in the case of fraud, wilful misconduct or wilful concealment, subject to paragraph 10.1.2 of this Schedule 5, the Insurance Policy shall serve as the sole source of recovery for the Sellers’ obligations under any Warranty Claim, and the Buyer shall solely seek recovery from the Insurance Policy for such Warranty Claims;

10.1.2 without prejudice to the other limitations contained in this Schedule 5 and subject to paragraph 1.2.3 of this Schedule 5, the Seller shall be liable for Warranty Claims that would otherwise be recoverable under Insurance Policy but for the application of the Retentions (as defined in the Insurance Policy); and

10.1.3 nothing in this Agreement, including any limitations contained in this Schedule 5, shall impact the Buyer’s right to recover under the Insurance Policy (except to the extent such limitations are, expressly or by reference, set out in the Insurance Policy). For the avoidance of doubt, nothing in this paragraph 10 shall impact the Buyer’s right to recover in respect of any other Claim.

11. **GENERAL**

11.1 Nothing in this Schedule 5 shall have the effect of limiting or restricting any liability of the Seller in respect of a Claim arising as a result of any fraud, wilful misconduct or wilful concealment.

11.2 Paragraphs 4 and 7 of this Schedule 5 shall not apply to a Claim under Clause 9 or Schedule 9 or a Tax Warranty.

SCHEDULE 6 PERMITTED LEAKAGE

1. All payments in respect of the reimbursement of remuneration made to, or for the benefit of, any Employee (including the Wrong Pocket Employee) of the Target Group Company (including bonus payments) in the ordinary course of trading in accordance with employment terms consistent with past practice.

2. Amounts paid by any Target Group Company to the Sellers' Group relating to out of pocket expenses of the directors of the Target Group Companies in the ordinary course not exceeding US$100,000 in aggregate.

3. All payments to any Seller Group Company in relation to insurance premiums paid by any Seller Group Company for the benefit of any Target Group Company after the Locked Box Date (in the ordinary course of business consistent with past practice).

4. All payments to any Seller Group Company in relation to fees, costs and expenses incurred and paid by any member of the Seller Group to PricewaterhouseCoopers or its member firm(s) after the Locked Box Date in relation to the preparation of the audited balance sheet, the audited profit and loss statement and the audited cash flows (where applicable) of each of the Target Group Companies in respect of its routine annual audit and filing obligations.

5. All payments made and loans entered into by a Seller Entity or a Target Group Company in furtherance of any of the steps and actions as specifically set out in Schedule 2.

6. All payments due to any member of the PLDT group pursuant to the Key Supplier Contracts in the ordinary course of business.

7. Fees payable to a Government Authority and reasonable out of pocket fees, costs and expenses properly incurred in India and Mauritius in taking the steps set out in Schedule 7.

8. Up to US$10,000 of costs incurred by the Target Group to effect the Carved-Out Entities Settlement pursuant to Schedule 11.

9. All payments made in the ordinary course of business or in connection with arrangements or agreements on arm's length terms between a Target Group Company on the one hand and any director of a Target Group Company or Employee or their respective Related Persons, on the other hand.

10. The net amount of CRM Receivables 2016 and CRM Payables 2016 if such amounts have actually been received and paid (as the case may be) by any Target Group Company.

SCHEDULE 7
SIHL CONVERSION AND SPI TECHNOLOGIES CERTIFICATE

The AOPH Seller shall procure and/or undertake to:

1. a board meeting of board of directors of SIHL be held or written board resolutions be passed to:

   1.1 approve the change of SIHL from GBC 2 to GBC 1 subject to approval of the shareholders;

   1.2 appoint resident directors of SIHL (if not already done); and

   1.3 ratify the appointment of local auditors and tax advisers.

2. a shareholder resolution of SHIL be passed to:

   2.1 change the change of SIHL from GBC 2 to GBC 1;

   2.2 appoint resident directors of SIHL;

   2.3 appoint auditors;

   2.4 revoke or alter SIHL’s constitution (if any);

3. apply for a certificate of current standing with RoC for SIHL;

4. file the relevant notices for appointment of new directors (if any) with the Registrar of Company (“**RoC**”) and Financial Services Commission (FSC) in Mauritius;

5. update the register of directors of SIHL with new directors (where applicable);

6. apply for a tax residence certificate of SIHL in Mauritius;

7. apply for the tax residence certificate of SPi Technologies in Philippines to remain valid as at Completion; and

8. apply to open a bank account in Mauritius.

SCHEDULE 8 SELLER ENTITIES

Seller Entity	**Sale Shares**
Asia Outsourcing Netherlands B.V.	AOPH Shares
Asia Outsourcing Gamma Limited	ROHQ Shares
SPi Technologies, Inc.	SPi India Majority Shares
SPi India Holdings (Mauritius), Inc.	SPi India Minority Shares
SPi Asia Ventures Pte. Ltd.	SPi China Shares

SCHEDULE 9 TAX COVENANT

1. **DEFINITIONS**

1.1 In this Schedule:

"**Accounts Relief**" means a Relief, which:

(a) has been shown, or treated, as an asset in the Locked Box Financial Statements;

(b) has been taken into account in computing (and reducing or eliminating) a provision for deferred Tax which appears in the Locked Box Financial Statements; or

(c) has resulted in no provision for deferred Tax being made in the Locked Box Financial Statements;

"**Actual Tax Liability**" means a liability of any Target Group Company to make a payment (or increased payment) of Tax or a payment in respect of, or on account of, Tax;

"**BIR**" means the Philippines Bureau of Internal Revenue; "**Buyer's Relief**" means:

(a) any Accounts Relief;

(b) any Post-Locked Box Date Relief; and

(c) any Relief arising to any member of the Buyer's Tax Group (other than any Target Group Company) at any time;

"**Buyer's Tax Group**" means the Buyer and each other company which is, or is for a Tax purpose, treated as being members of the same group as, or otherwise controlled by, connected with, or associated in any way with, the Buyer from time to time;

"**CENVAT**" means Indian central value added tax; "**Deemed Tax Liability**" means:

(a) the loss of, unavailability of, or reduction in the amount of, an Accounts Relief; or

(b) the use or set off of a Buyer's Relief in circumstances where, but for the use or set off, any Target Group Company would have had an Actual Tax Liability in respect of which the Sellers would have had a liability under this Schedule;

"**Demand**" means any notice, demand, assessment, letter or other document issued, or action taken by, or on behalf of any Tax Authority from which it appears that a Tax Liability is, or is likely to be, incurred by or imposed on any Target Group Company

in respect of which the Sellers may be liable under paragraph 2 of this Schedule or under the Tax Warranties;

"**Event**" includes (without limitation) any event, transaction (including, without limitation, the execution of this Agreement and Completion), act, payment, action, circumstance, state of affairs, default, omission or occurrence of any nature whatsoever and whether or not the Buyer or any Target Group Company is a party to it (including, for the avoidance of doubt, any change in the residence of a person for the purposes of any Tax, the death, bankruptcy or winding up of a person, a failure to take action which would avoid an apportionment or deemed distribution of income (regardless of whether the taking of action after Completion could have avoided the apportionment or deemed distribution), or a Target Group Company becoming, being or ceasing to be a member of a group of companies (however defined) or becoming, being or ceasing to be connected or associated with any person, company or group for the purposes of any Tax) and reference to an Event occurring on or before a particular date shall include Events which for Tax purposes are deemed to have, or are treated as having, occurred on or before that date;

“**Income, Profits or Gains**” means income, profits, gains or any other consideration, value, receipt, standard or measure for the purposes of any Tax and:

(a) references to Income, Profits or Gains earned, accrued or received on or before a particular date (including the Completion Date) shall include Income, Profits or Gains deemed or treated for Tax purposes as earned, accrued or received on or before that date; and

(b) references to Income, Profits or Gains earned, accrued or received by any person shall include Income, Profits or Gains deemed or treated for Tax purposes as earned, accrued or received by such person;

“**Insured Tax Claim**” means:

(a) an Actual Tax Liability arising under paragraph 2.1(a), and any associated costs and expenses arising under paragraph 2.1(j), of this Schedule;

(b) any Deemed Tax Liability;

“**Post-Locked Box Date Relief**” means a Relief which arises:

(a) as a consequence of, or in connection with, any Event occurring (or being treated for Tax purposes as occurring) after the Locked Box Date;

(b) in respect of any period (or part of any period) after the Locked Box Date; or

(c) from Income, Profits or Gains earned, accrued or received, after the Locked Box Date;

“**Sellers’ Tax Group**” means the Sellers and each other company which is, or is for a Tax purpose, treated as being members of the same group as, or otherwise controlled by, connected with, or associated in any way with, the Sellers from time to time;

“**SPIT**” means SPi Technologies, Inc.;

“**SPLP**” means Laserwords, Inc.;

“**STIP**” mean SPi Technologies India Pvt. Ltd.; “**Relief**” means:

(a) any relief, loss, allowance, credit, deduction, exemption or set off in respect of any Tax or relevant to the computation of any Income, Profits or Gains for the purposes of any Tax; or

(b) any right to repayment of, or saving of, Tax (including interest in respect of Tax),

and any reference to the use or set off (including in part) of a Relief is construed accordingly;

“Tax Liability” means an Actual Tax Liability or a Deemed Tax Liability;

“**Tax Return**” means any tax return including any schedule, supplement or attachment thereto, including any amendment thereof;

“**Uninsured Tax Claim**” means any liability arising under this Schedule other than an Insured Tax Claim.

1.2 The obligations and liabilities of the Sellers under this Schedule are joint and several;

1.3 Any word or expression defined elsewhere in this Agreement shall, save as otherwise defined or as the context may require in this Schedule, have the same meaning in this Schedule.

1.4 References in this Schedule 9 to paragraphs are to paragraphs in this Schedule unless otherwise stated.

1.5 In this Schedule 9 the rule known as the ejusdem generis rule shall not apply and accordingly general words introduced by the word “other” shall not be given a restrictive meaning by reason of the fact that they are preceded by words indicating a particular class of acts, matters or things.

1.6 All payments made by the Sellers to the Buyer or by the Buyer to the Sellers under this Schedule 9, shall, so far as possible, be made by way of adjustment to the relevant portion of the Aggregate Purchase Price for the relevant Sale Shares.

2. **COVENANT TO PAY**

2.1 The Sellers covenant with the Buyer to pay to the Buyer an amount equal to:

(a) any Actual Tax Liability arising:

(i) as a consequence of or by reference to any Event which occurs (or is treated for Tax purposes as occurring) on or before Completion (including Completion itself); or

(ii) in respect of or by reference to any Income, Profits or Gains earned, accrued or received on or before Completion;

(b) any Actual Tax Liability of any Target Group Company arising as a result of any Tax Authority making an adjustment for Tax purposes to the terms of any related party transaction or arrangement entered into by any Target Group Company prior to Completion;

(c) any Actual Tax Liability of any Target Group Company arising in connection with (i) restructuring or organisation or disposal of the CRM business in the United States pursuant to the CRM Disposal; (ii) donor's tax for the share buyback in STIP by SPIT in 2014; (iii) the transfer of SPi America LLC from SPIT to Asia Outsourcing Gamma Limited in 2017; and (iv) STIP failing to make or making insufficient deduction, retention or withholding for or on account of Tax required by Law in respect of any payment of consideration on the buy-back of any shares held by SIHL or SPIT in STIP in 2014;

(d) any Actual Tax Liability of any Target Group Company arising as a consequence of the BIR disallowing any deduction of SPIT against its gross income for the purposes of calculating Taxes payable under the Philippines 5% special gross income tax regime in respect of any period, or any part of any period, falling on or before Completion;

(e) any Actual Tax Liability of any Target Group Company arising as a result of the BIR disallowing any foreign tax credit claimed by SPi Global Shared Services Pte. Ltd Philippines Branch;

(f) any Actual Tax Liability of STIP arising as a result of the Indian tax authorities disallowing the deduction of management fees against the income taxable under the head 'Profits and Gains from business or profession' of STIP (or SPLP) for the purposes of calculating Taxes payable in respect of any period, or any part of any period, falling on or before Completion;

(g) any Actual Tax Liability of STIP arising (i) as a result of STIP's and/or SPLP's failure to discharge any Indian service tax under the reverse charge mechanism, and/or (ii) as a result of STIP and/or SPLP failing to discharge any Indian service tax in respect of any output services rendered, and/or (iii) in connection with any wrongful utilisation of any CENVAT credit by STIP or SPLP, and/or (iv) in connection with any contingent liability disclosed in the financial statements of STIP for FY16 in respect of indirect tax;

(h) any Actual Tax Liability of STIP arising as a result of STIP being deemed to have a permanent establishment in the United States;

(i) any Deemed Tax Liability;

(j) all costs and expenses reasonably and properly incurred by the Buyer, any Target Group Company or another member of the Buyer's Tax Group in connection with

(i) a liability of the kind referred to in paragraphs 2.1(a) - (i) above; or

(ii) a Demand from which it appears to the Buyer, any Target Group Company or another member of the Buyer's Tax Group that a liability of the kind referred to in paragraphs 2.1(a) - (i) may arise or has arisen;

(iii) taking or defending any action under this Schedule.

2.2 For the purposes of this Schedule, the amount of a Deemed Tax Liability of any Target Group Company is:

(a) in the case of a loss of, or unavailability of, or reduction in the amount of, an Accounts Relief:

(i) where the Accounts Relief is a right to repayment of Tax, the amount of the repayment lost, not available or reduced; and

(ii) in any other case, the amount of Tax which is payable (or would be payable ignoring the existence of other Buyer's Reliefs) by the relevant Target Group Company which would not have been payable but for the loss, unavailability or reduction of the Accounts Relief; and

(b) in the case of a use, or set off of, a Buyer's Relief, the amount of Tax which would have been payable by any Target Group Company but for the use or set off of such Buyer's Relief.

3. **LIMITATIONS AND EXCLUSIONS**

3.1 The Sellers shall not be liable under paragraph 2.1 of this Schedule or for breach of the Tax Warranties in respect of a Tax Liability of a Target Group Company:

(a) to the extent that specific provision or reserve was made in the Locked Box Financial Statements in respect of the liability in question or the liability in question has been paid or discharged and such payment or discharge is reflected in the Locked Box Financial Statements;

(b) to the extent that the liability in question arises or is increased as a result of a change in legislation or a change in the administrative or published practice of any Tax Authority or an increase in the rates of Tax, in each case taking effect after the Completion Date and retrospectively and not prospectively in force or announced at the date of this Agreement;

(c) to the extent that the liability in question would not have arisen but for a voluntary act (including the making or failure to make any claim, election, surrender or disclaimer or the giving or failure to give any notice in relation to Tax, the making or giving of which was taken into account in the Locked Box Financial Statements) of the relevant Target Group Company or at the specific written request of the Buyer after the date of this Agreement, but only in circumstances where the Buyer knew or ought to have known that the liability in question would have arisen as a result of the voluntary act and where an alternative course of action was available that would have reduced or eliminated the liability, and other than a change in accounting policy or an act which:

(i) is in the ordinary course of business as carried on by the relevant Target Group Company at or before Completion;

(ii) is carried out pursuant to any obligation imposed by any law, regulation or requirement having the force of law;

(iii) is carried out at the request of, or with the consent of, any of the Sellers, or in accordance with the terms of this Agreement or any document executed pursuant to this Agreement;

(iv) involves any disclosure required by law to a Taxation Authority by an member of the Buyer's Tax Group or any Target Group Company acting reasonably and in good faith; or

(v) is carried out pursuant to any legally binding obligation of any Target Group Company created or incurred prior to Completion;

(d) to the extent that the liability arises solely in the ordinary course of business of the relevant Target Group Company:

(i) as a consequence of any Event which occurs or is treated for Tax purposes as occurring; or

(ii) in respect of, or by reference to any Income, Profits or Gains, earned, accrued or received, after the Locked Box Date, but on or before Completion and, for this purpose, but without limitation, the following will not be regarded as being in the ordinary course of business:

(A) the declaration or payment of a dividend or the making of another distribution or deemed distribution;

(B) a transaction entered into by a Target Group Company in circumstances where the consideration (if any) received by or, as the case may be, paid by that Target Group Company in respect thereof is less than (in the case of consideration received or receivable by it) or more than (in the case of consideration paid or payable by it) the consideration deemed to have been received (or receivable) by it or paid (or payable) by it for Tax purposes but to the extent only of the liability for Tax arising in respect of the amount by which the deemed consideration exceeds or is less than the actual consideration;

(C) the relevant Target Group Company ceasing or being deemed to cease, for Tax purposes, to be the member of any group or associated with any other company or person whether in consequence of the entering into of this Agreement or anything done under it or otherwise;

(D) a failure by the relevant Target Group Company to comply with provisions of any Tax legislation (including regulations),
including any failure by the relevant Target Group Company to satisfy any Tax liability or duly to deduct or account for Taxation;

(E) the entry into a scheme, arrangement or transaction for which the main purpose, or one of the main purposes, was the avoidance or reduction or deferral of a liability to Tax;

(F) any Event which results in a liability for Tax arising in the relevant Target Group Company where such liability is chargeable against or attributable primarily to a person other than that Target Group Company;

(G) any Event which involves or leads directly or indirectly to a change of residence of the relevant Target Group Company for Tax purposes;

(H) the disposal of any capital asset;

(I) the creation, cancellation, acquisition, disposal or reorganisation of any share or loan capital of any Target Group Company unless such creation, cancellation, acquisition, disposal or reorganisation is contemplated under this Agreement;

(J) any Event which gives rise to an Actual Tax Liability as described in paragraphs 2.1 (b) - (h);

(e) to the extent that the liability in question would not have arisen but for the failure or omission on the part of a Target Group Company to comply with a written request of the Sellers or their duly authorised agents pursuant to paragraph 6 to make a valid claim, election, surrender or disclaimer or to give a valid notice or consent to do any other thing, under the provisions of an enactment or regulation relating to Tax after Completion, the making, giving or doing of which was taken into account in the Locked Box Financial Statements; or

(f) to the extent that a Relief (other than a Buyer's Relief) is available to the relevant Target Group Company at no cost to the Target Group Company to set against or otherwise mitigate the Tax Liability; or

(g) to the extent that the amount of the liability in question has been recovered from a person (including under the Insurance Policy) without cost to the Buyer or any Target Group Company (excluding any Target Group Company, the Buyer or any other member of the Buyer's Tax Group).

3.2 The amount of liability of the Sellers for (a) any Uninsured Tax Claim shall be determined in accordance with paragraph 1.2.2 of Schedule 5, and (b) any Insured Tax Claim shall be determined in accordance with paragraph 1.2.5 of Schedule 5.

3.3 Notwithstanding anything to the contrary in this Schedule 9, the Seller shall not be liable in respect of any liability for any Uninsured Tax Claim under this Schedule 9 unless the Buyer has provided written notice of a claim in accordance with paragraph 2.4 of Schedule 5.

4. **MANNER OF MAKING AND CONDUCT OF CLAIMS**

4.1 If the Buyer or any Target Group Company becomes aware of a Demand which could give rise to a liability for the Sellers under paragraph 2.1 or under the Tax Warranties:

(a) the Buyer shall give notice to the Sellers of the Demand (including reasonably sufficient details of the Demand) within five (5) Business Days after the Buyer or the relevant Target Group Company becomes aware of the Demand (but for the avoidance of doubt, the giving of such notice shall not be a condition precedent to the liability of the Sellers under his Schedule 9 or under the Tax Warranties);

(b) the Buyer shall not make any admission of liability, consent to the entry of any judgment or enter into any settlement or compromise in relation to the Demand, or make any payments, or deposit any monies or issue any bank guarantee or otherwise communicate in writing with any Tax Authority or any person acting for or on behalf of any Tax Authority in relation to the Demand, without the Sellers' prior written consent not to be unreasonably be withheld or delayed;

(c) the Buyer shall take (or shall procure that the relevant Target Group Company shall take) such action as the Sellers may reasonably request to avoid, dispute, resist, appeal, compromise or defend the Demand or any matter relating to the Demand, and at the Sellers' election, permit the Sellers to assume the conduct of and/or direct all actions to be taken by Buyer in connection with, any correspondence (including responses to queries) or proceedings with any relevant Tax Authority;

(d) the Buyer shall keep the Sellers informed of any new facts, circumstances, material developments (including any queries, correspondence and meetings with or from any relevant Tax Authority) as they arise with respect to the Demand, and shall provide the Sellers with copies of all material correspondence and documentation and such other information, assistance and access to records as they reasonably require, in each case, relating to the Demand or action referred to in paragraph 4.1(a); and

(e) if the Sellers elect to defend the Demand in accordance with terms of this paragraph 4.1, the Sellers shall, if they so elect and at their own expense, be entitled to take any of the following actions:

(i) leading discussions and negotiations with any Tax Authority and other regulatory and Governmental Authority in relation to the Demand;

(ii) in the case of correspondence or documents which are not required by Law to be executed and/or submitted by the relevant Target Group Company, preparing and submitting to the Tax Authorities, to the extent lawful, any such correspondence and documents as the Sellers may deem fit, in the name of and on behalf of the relevant Target Group Company if prior consent is obtained from the Buyer, in connection with such Demand and in the case of documents which are required by Law to be executed and/or submitted by the relevant Target Group Company, prepare such documents for the review, approval and execution and/or submission by the relevant Target Group Company, as the case may be;

(iii) appointing and providing instructions to any legal and/or tax advisers, including any and all counsel, barristers and advocates in relation to such Demand;

(iv) agreeing the terms of any monetary settlement of such Demand with the Tax Authorities, subject to giving the Buyer a prior written notification detailing the monetary settlement of such Demand and the terms relating thereto; and

(v) having conduct and control of any and all court proceedings and court filings in relation to such Demand.

In such event, the Buyer shall also procure that the relevant Target Group Company shall at the expense of the Sellers take any actions as the Buyer may reasonably require to dispute, resist, defend, appeal, compromise or mitigate the underlying matter, circumstance or Demand.

4.2 The rights of the Sellers under paragraph 4.1 (other than the right to receive notice) are subject to the Sellers having indemnified the Buyer and/or the relevant Target Group Company (as applicable) against all costs reasonably and properly incurred and any further liability to Tax which may be incurred in connection with any such action as is referred to in paragraph 4.1(c).

4.3 Subject to paragraph 4.4, the Buyer must procure that no matter relating to the Demand referred to in paragraph 4.1 is settled or otherwise compromised without the Sellers' prior written consent, such consent not to be unreasonably withheld or delayed.

4.4 If the Sellers do not request the Buyer to take, or procure the taking of, any such action as mentioned in paragraph 4.1(c) within 20 Business Days of receipt of notice by the Sellers under paragraph 4.1(a), or does not indemnify the Buyer and/or the relevant Target Group Company as required by paragraph 4.2 within a reasonable period of time following written request from the Buyer to the Sellers for the same, the Buyer shall be free to satisfy or settle the relevant liability on such terms as it may reasonably think fit.

5. **TAX RETURNS AND COMPUTATIONS**

5.1 The Buyer or its duly authorised agents will be responsible for, and have the conduct of preparing, submitting to and agreeing with the relevant Tax Authorities all Tax Returns and computations of each Target Group Company for all accounting periods of each Target Group Company (i) ending on or before Completion, and (ii) in which Completion falls.

5.2 For the purposes of paragraph 5.1:

(a) all Tax Returns which are to be submitted to a Tax Authority, must be submitted in draft form by the Buyer to the Sellers or their duly authorised agents for comment;

(b) the Sellers or their duly authorised agent must comment within 10 Business Days (or, if a shorter time limit applies in relation to the submission of the relevant Tax Return, within such time as will reasonably enable the Buyer to consider such comments, make any amendments that may be required in respect of the same and file the Tax Return within the applicable time period) of their receipt of any such Tax Returns from the Buyer and if the Buyer has not received any comments within 10 Business Days, the Sellers and their duly authorised agents will be deemed to have approved such draft documents;

(c) the Buyer must take into account all reasonable comments and reasonable suggestions made by the Sellers or their duly authorised agents;

(d) the Sellers and the Buyer must each respectively afford (or procure the affordance) to the other or their duly authorised agents information and assistance which may reasonably be required to prepare, submit and agree all outstanding Tax Returns and computations which relate to Tarot Group Companies; and

(e) the Sellers and the Buyer must as soon as practicable deliver to each other copies of all correspondence sent to or received from any Tax Authority.

5.3 For the avoidance of doubt:

(a) where any matter relating to Tax gives rise to a Demand to which the provisions of paragraph 4 apply, the provisions of paragraph 4 shall in the event of a conflict take precedence over the provisions of this paragraph 5; and

(b) the provisions of this paragraph 5 shall not prejudice the rights of the Buyer to make a claim under this Schedule 9 or under the Tax Warranties.

5.4 For the avoidance of doubt, the provisions of paragraph 5.2 shall only apply to any Tax Returns or other matters relating to Tax to the extent they are reasonably expected to be relevant to a liability of a Sellers under this Schedule 9 or under the Tax Warranties.

5.5 Notwithstanding any rights of the Sellers under this paragraph 5, the Sellers or their duly authorised agents may not, without the prior written consent of the Buyer (not to be unreasonably withheld or delayed), require a Target Group Company to make or give any claim, election, surrender, disclaimer, notice or consent that will or may increase the liability to Taxation of a Target Group Company for any period ended before or after Completion unless the making or giving of such claim, election, surrender, disclaimer, notice or consent was taken into account in the preparation of the Locked Box Financial Statements.

6. **SECONDARY LIABILITIES**

6.1 The Sellers covenant with the Buyer to pay to the Buyer an amount equivalent to any Tax, or any amount on account of Tax, which any Target Group Company or any other member of the Buyer's Tax Group is required to pay to a Tax Authority (or would be required to pay but for the use of a Relief) as a result of a failure by any Sellers or any member of a Sellers' Tax Group (before or after Completion) to discharge that Tax for which it is liable save to the extent such Tax is a Tax liability in respect of Indian capital gains tax of SIHL or its shareholder(s) in respect of the transfer of the SPi India Minority Shares from SIHL to SPi India Buyer Designee, for which the Buyer shall indemnity the AOPH Seller under Clause 11.1.

6.2 The Buyer covenants with each Seller to pay to that Seller an amount equivalent to any Tax, or any amount on account of Tax, which any member of that Sellers' Tax Group is required to pay to a Tax Authority as a result of a failure by a Target Group Company (after Completion) or any member of the Buyer's Tax Group, to discharge that Tax for which it is liable, save to the extent such Tax is (i) an Actual Tax Liability that the Sellers have covenanted to pay as described in paragraph 2.1, or (ii) a Tax liability in respect of Indian capital gains tax of SIHL or any of its shareholder(s) on the proceeds received from its sale of the SPi India Minority Shares.

6.3 The covenants contained in paragraphs 6.1 and 6.2 shall:

(a) extend to any costs reasonably and properly incurred in connection with such Tax or a successful claim under paragraph 6.1 or 6.2, as the case may be; and

(b) (in the case of paragraph 6.2) not apply to Tax to the extent that the Buyer could claim payment in respect of it under paragraph 2.1 or the Tax Warranties, except to the extent a payment has been made pursuant to paragraph 2.1 or for breach of the Tax Warranties and the Tax to which it relates was not paid by the relevant Target Group Company or any person on its behalf; and

(c) not apply to Tax to the extent it has been recovered under any relevant statutory provision (and the Buyer or the Sellers, as the case may be, shall procure that no such recovery is sought to the extent that payment is made hereunder); and

(d) not limit Sellers' ability to recover any Tax from the Buyer under the indemnity from Buyer to the AOPH Seller in respect of Indian capital gains tax of SIHL under Clause 11.1.

6.4 Paragraph 4 will apply to the covenant contained in paragraphs 6.1 and 6.2 as they apply to the covenants contained in paragraph 2.1, replacing references to the "Sellers" by the "Buyer" (and the other way round) where appropriate and making any other necessary modifications.

7. **NO WITHHOLDINGS**

7.1 All amounts due under this Agreement shall be paid in full without any set-off, counterclaim, deduction or withholding other than any deduction or withholding for, or on account of, tax as required by law.

7.2 If the Sellers are required by law to make a deduction or withholding for, or on account of Tax, from any payment under this Agreement, the Sellers shall provide such evidence of the relevant withholding as the Buyer may reasonably require and shall pay to the Buyer such sum as will, after the deduction or withholding has been made, leave the Buyer with the same amount as the Buyer would have received had no deduction or withholding been made.

7.3 If any sum payable by the Sellers to the Buyer under this Agreement is subject to Tax in the hands of the Buyer (or would be subject to Tax but for the availability of a Buyer's Relief), the Sellers shall pay such additional amount as shall ensure that the net amount received by the Buyer shall be the amount that the Buyer would have received if the payment had not been subject to Tax (ignoring for this purpose the availability of any Buyer's Relief).

SCHEDULE 10 CRM CLAIMS

No.	Description	Amount (in USD)	Status
Part A - Claims by the Target Group against Relia, Inc. and the SPi CRM Group (for events and expenses incurred on or before the Locked Box Date)			
1.	Transitional services arrangement ("**TSA**") charges for Madison, United States services provided by the Target Group to the SPi CRM Group	1,244,608	Agreed but unpaid.
2.	Deposit refund for SPi Nicaragua facility	11,727	Agreed but unpaid
	Sub-total	**1,256,335**	
3.	Underpayment for year-end payroll reimbursement by the SPi CRM Group to SPi Global Shared Services Pte. Ltd.	144,929	In dispute
Part B - Claims by Relia, Inc. and the SPi CRM Group against the Target Group (for events and expenses incurred on or before the Locked Box Date)			
4.	TSA charges for Nicaragua services provided by the CRM Group to the Target Group	364,313	Agreed but unpaid
5.	IT assets transfer in Nicaragua	2,915	Agreed but unpaid
6.	SPi Global Shared Services Pte. Ltd. vehicles transfer true-up	23,520	Agreed but unpaid
7.	Dumaguete separation capital expenditure	19,527	Agreed but unpaid
8.	Deposit refund for SPiGlobal Shared Services Pte. Ltd. payroll services	104,340	Agreed by unpaid
9.	Underpayment of the closing adjustment amount under the sale and purchase agreement dated 22 July 2016 between Asia Outsourcing Gamma Limited, as seller, and Relia, Inc., as buyer, in connection with the CRM Disposal	144,929	Agreed but unpaid
10.	Transfer of certain Dumaguete fixed assets from CRM book to SPi Technologies Inc. book	154,885	Agreed but unpaid
	Sub-total	**814,429**	
11.	Year-end bonus payment for the SPi CRM Group (Relia Inc. claims that this should be borne by the Target Group given the historical management fees charged by SPi Global Shared Services Pte. Ltd.)	1,201,069	In dispute
Part C - Claims by the Target Group against Relia, Inc. and the SPi CRM Group (for events and expenses incurred after the Locked Box Date)			
12.	TSA and Madison lease related charges for Madison, United States services provided by the Target Group to the SPi CRM Group	165,846	Agreed but unpaid. The amount is expected to increase approximately 30,000 to 40,000 per month.

SCHEDULE 11
CARVED-OUT ENTITIES SETTLEMENT

1. **General Principles:**

(a) The separation of Non-Target Group Companies from the Target Group Companies shall have no impact upon the Aggregate Purchase Price.

(b) At Completion, the Non-Target Group Companies shall have no intercompany balances with the Target Group Companies.

(c) Any cash received by any Non-Target Group Companies on behalf of any Target Group Companies since the Locked Box Date shall be remitted to Target Group Companies before Completion (subject to and upon such remittance and subject to Clause 3.5, these amounts shall have no impact upon Leakage Credit or Agreed Leakage). These amounts form part of the definition of Wrong Pocket Cash.

(d) Other net cash outflow from the Target Group Companies to the Non-Target Group Companies shall constitute Leakage.

(e) Cash paid to Target Group Companies to purchase the Non-Target Group Companies shall constitute Leakage Credit to the extent such cash remains in the Target Group at Completion.

(f) As soon as reasonably practicable after the date of this Agreement, the Sellers shall inform the Buyer of any changes to the intercompany balances outlined below and submit a proposal to amend this Schedule 11 with a revised settlement plan accordingly. The Buyer shall not unreasonably withhold its agreement to such amendment of this Schedule 11.

2. **Kolam Inc. ("Kolam")**

(a) ROHQ Seller pays US$154,120 cash to purchase Kolam Inc. from SPi India.

As a result, a Leakage Credit of US$154,120 is created ("**Leakage Credit**").

(b) Kolam Inc. assigns the US$3,555 receivable owed to it from SPIT to SIHL, in exchange for a receivable from SIHL to Kolam Inc. for the same amount. (This eliminates the receivable between Kolam and SPIT, but creates a new receivable owing from SPIT and SIHL.)

3. **Syntegra Philippines Inc. ("SYPI")**

(a) SYPI repays a payable of US$181,186 to SPIT by way of set off against a receivable of US$363,819 from SPIT, resulting in a net receivable amount of US$182,633 owed by SPIT to SYPI.

(b) ROHQ Seller purchases SYPI from SPIT for the consideration of US$182,633 (the "**Gamma Receivable**").

(c) SPIT repays its outstanding payable of US$182,633 by way of set off in assigning to SYPI the Gamma Receivable. (This eliminates the net receivable of US$182,633 owing to SYPI from SPIT.)

4. **SPi Asia Ventures Pte. Ltd. (“SPAV”)**

(a) Immediately prior to the Locked Box Date, SPAV had a payable of US$3,404,850 to SPIT and SPAV had a receivable of US$844,981 from SPi China.

(b) Since the Locked Box Date, SPAV records an accounts payable from SPIT of a value of US$430,000. This resulted in an aggregate payable of $3,834,850 to SPIT.

(c) SPAV proposes to inject US$400,000 into SPi China before Completion. As a result, the difference of US$30,000 shall constitute an **Agreed Leakage Amount**.

(d) The US$400,000 of injection by SPAV into SPi China will increase the receivable owed to SPAV by SPi China.

(e) SPAV agrees with SPIT and SIHL that SPAV novates the aggregate payable of US$3,834,850 to SPIT, to SIHL. In consideration of SIHL taking up the liabilities, SPAV records an accounts payable in favour of SIHL for the same amount.

(f) SPAV sells SPi China (including all shares plus all outstanding shareholder loan) for the SPi China Purchase Price in accordance with the terms of this Agreement. The the SPi China Purchase Price received by SPAV is for the elimination all payables by SPi China to SPAV.

(g) SPIT sells SPAV to the ROHQ Seller (or any other party nominated by the AOPH Seller) at US$1 in accordance with the terms of this Agreement.

5. **SPi America LLC (“SPAL”)**

(a) SPAL nets off a payable of US$7,972,175 to SPIT against a receivable of US$7,120,309 from SPIT, resulting in a net payable amount of US$851,866 to SPIT.

(b) The net intercompany balance changes since Locked Box Date, shall be cash settled by SPAL to SPIT (with no implications to Leakage or Leakage Credit). This forms part of the Definition of Wrong Pocket Cash.

(c) SPAL nets off a receivable of US$203,004 from Laserwords U.S., Inc. (“**LWUS**”) against a payable of US$138,349 to LWUS, resulting in a net receivable amount of US$64,655 from LWUS.

(d) SPAL agrees with SPIT and SIHL to novate its payable to SPIT of US$851,866 to SIHL. SPAL assigns its receivable of US$77,260 from SPi India and US$64,655 receivable from LWUS to SIHL. SPAL records an accounts payable to SIHL in relation to the net US$709,951 payable to SIHL.

(e) This eliminates the net balances at the Locked Box Date between the SPIT and SPAL.

6. **SPi Litigation Direct LLC (“SLDL”)**

(a) SLDL novates two payables to SPIT of an aggregate amount of US$745,852 SPIT, to SIHL. In consideration of SIHL taking up the liabilities, SLDL records an accounts payable to SIHL in relation to the payable of US$745,852.

(b) This eliminates the net balances between the SPIT and SLDL.

7. **SPi India Holdings Limited (SIHL)**

(a) As of 30 April 2017, SIHL had a receivable from SPIT of US$3,447,593 and a payable of US$23,231 to SPIT. As such, SIHL had a net receivable from SPIT of US$3,424,363.

(b) SIHL, as a result of the novations referred to in this Schedule each of Kolam, SPAV, SPAL and SLDL, will have in aggregate a net payable US$5,287,098 to SPIT.

(c) SIHL and SPIT sets off their liabilities to each other, resulting a net payable of US$1,862,735 from SIHL to SPIT.

(d) SIHL sells SPi India Minority Shares to the Buyer or the Buyer Designee for the SPi India Minority Purchase Price.

(e) SIHL, upon receipt of the SPi India Minority Purchase Price, repays US$1,862,735 due to SPIT in cash. This eliminates the payable between SIHL and SPi Technologies.

(f) SIHL distributes the remaining proceeds from the SPi India Minority Purchase Price to SPIT, to the extent it has sufficient amount of distributable reserves as a dividend.

(g) The cash distribution by SIHL to SPIT and the cash distribution by SPIT to AOPH shall occur before the redemption of preference shares by AOPH from the AOPH Seller referred to in the terms of this Agreement.

(h) The cash distribution by AOPH to AOPH Seller shall occur at the same time as the redemption of preference shares by AOPH from the AOPH Seller referred to in the terms of this Agreement.

Executed by the parties:

For and on behalf of
ASIA OUTSOURCING NETHERLANDS B.V.
/s/ Stefan Boermans

STEFAN BOERMANS
Managing Director

For and on behalf of
ASIA OUTSOURCING GAMMA LIMITED
/s/ Xuan Wang

XUAN WANG
Authorized Signatory

For and on behalf of
SPI GLOBAL CONTENT HOLDING PTE. LTD.
/s/ Cyrus Driver

CYRUS DRIVER
Authorized Signatory

For and on behalf of
SPI GLOBAL CONTENT HOLDING PTE. LTD.
/s/ Florian Marquis

FLORIAN MARQUIS
Director

For and on behalf of
ASIA OUTSOURCING NETHERLANDS B.V.
/s/ Stefan Boermans

STEFAN BOERMANS
Managing Director

For and on behalf of
ASIA OUTSOURCING GAMMA LIMITED
/s/ Xuan Wang

XUAN WANG
Authorized Signatory

For and on behalf of
SPI GLOBAL CONTENT HOLDING PTE. LTD.
/s/ Cyrus Driver

CYRUS DRIVER
Authorized Signatory

For and on behalf of
SPI GLOBAL CONTENT HOLDING PTE. LTD.
/s/ Florian Marquis

FLORIAN MARQUIS
Director

Executed by the parties:

For and on behalf of
ASIA OUTSOURCING NETHERLANDS B.V.
/s/ Stefan Boermans
STEFAN BOERMANS
Managing Director

For and on behalf of
ASIA OUTSOURCING GAMMA LIMITED
/s/ Xuan Wang
XUAN WANG
Authorized Signatory

For and on behalf of
SPI GLOBAL CONTENT HOLDING PTE. LTD.
/s/ Cyrus Driver
CYRUS DRIVER
Authorized Signatory

For and on behalf of
SPI GLOBAL CONTENT HOLDING PTE. LTD.
/s/ Florian Marquis
FLORIAN MARQUIS
Director

For and on behalf of
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/s/ Stefan Boermans
STEFAN BOERMANS
Managing Director

For and on behalf of
ASIA OUTSOURCING GAMMA LIMITED
/s/ Xuan Wang
XUAN WANG
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/s/ Cyrus Driver
CYRUS DRIVER
Authorized Signatory

For and on behalf of
SPI GLOBAL CONTENT HOLDING PTE. LTD.
/s/ Florian Marquis
FLORIAN MARQUIS
Director

Exhibit 4(o)

SHARE PURCHASE AGREEMENT

This **SHARE PURCHASE AGREEMENT** (the "**Agreement**") is made and entered into as of this 13th day of June 2017 by and between:

(1) PLDT COMMUNICATIONS AND ENERGY VENTURES, INC.,

a corporation organized and existing under Philippine laws, with principal office address at the 25th Floor, Smart Tower, 6799 Ayala Avenue, Makati City ("**PCEV**" or the "**Seller**"); and

(2) METRO PACIFIC INVESTMENTS CORPORATION,

a corporation organized and existing under Philippine laws, with principal office address at the 10th Floor, MGO Building, de la Rosa corner Legazpi Streets, Legazpi Village, Makati City ("**MPIC**" or the "**Buyer**");

(Each of PCEV and MPIC, a "**Party**" and collectively, the "**Parties**").

RECITALS:

(A) MPIC and PCEV are both shareholders of Beacon Electric Asset Holdings, Inc. (the "**Company**").

(B) PCEV is the legal and beneficial owner of Six Hundred Forty Five Million Seven Hundred Fifty Six Thousand Two Hundred Fifty (645,756,250) common shares (inclusive of two (2) shares held by its nominees), and Four Hundred Fifty Eight Million Three Hundred Seventy Thousand Eighty Six (458,370,086) Class "A" preferred shares of the Company (the "**Shares**").

(C) The Seller desires to sell to the Buyer, and the Buyer is willing to purchase from the Seller, all of its remaining share ownership in the Company consisting of the Shares, representing approximately twenty five percent (25%) of the issued and outstanding common shares, and twenty five percent (25%) of the economic interest in the Class "A" preferred shares of the Company, which are covered by stock certificates more particularly described in Schedule 1.

NOW, THEREFORE, for and in consideration of the foregoing premises and the covenants hereinafter contained, the Parties agree as follows:

1. DEFINITIONS AND INTERPRETATIONS

1.1 Definitions

Unless the context otherwise requires, capitalized terms used in this Agreement shall have the meanings given to them in this Section 1.1.

"**Agreement**" means this Share Purchase Agreement, including the Schedules hereto. "**BIR**" means the Bureau of Internal Revenue.

"**Board**" means the Board of Directors of a relevant entity.

"**Buyer**" has the meaning given to that term in the preamble to this Agreement. "**CAR**" has the meaning given to that term in Section 5.2(b).

"**Claim Period**" has the meaning given to that term in Section 6.2(c).

"**Company**" has the meaning given to that term in the preamble to this Agreement. "**Defaulting Party**" has the meaning given to that term in Section 6.1(b). "**Deferred Payment**" has the meaning given to that term in Section 2.2.

"**Encumbrance**" means a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, assignment, deed of trust, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect, any proxy, power of attorney, voting trust arrangement, interest, or any adverse claim as to title, possession or use.

"**Non-Defaulting Party**" has the meaning given to that term in Section 6.1(b). "**₱**" means the lawful currency of the Philippines.

"**PDRCI**" has the meaning given to that term in Section 8.

"**Proxy Shares"** has the meaning given to that term in Section 5.3(a)(ii). "**Rules**" has the meaning given to that term in Section 8.

"**Seller**" has the meaning given to that term in the preamble to this Agreement.

"**Seller Warranties**" means the Seller's representations and warranties under Sections 4.1 and 4.2.

"**Seller's Director"** has the meaning given to that term in Section 5.3(a)(i). "**Share Purchase Price**" has the meaning given to that term in Section 2.2. "**Shares**" has the meaning given to that term in the preamble to this Agreement.

"**Transfer Date**" means the date designated by the Buyer pursuant to Section 3(a) when the transfer of the Shares contemplated by this Agreement will be closed and completed.

2. SALE AND PURCHASE

2.1 Sale and Purchase of Shares

(a) On the Transfer Date, in consideration of the Share Purchase Price and upon the terms and subject to the conditions of this Agreement, the Seller shall sell to the Buyer, and the Buyer shall purchase from the Seller, all of the Seller's rights, title and interests in and to the Shares, free and clear of any and all Encumbrances.

(b) The rights, title and interest of the Seller in and to the Shares to be sold to and purchased by the Buyer hereunder include: (i) all shares hereafter issued by the Company by way of stock dividends on the Shares; (ii) all cash dividends hereafter declared or paid on the Shares, other than cash dividends declared on 13 June 2017 on the outstanding preferred shares of the Seller which have not yet been paid as of the date of this Agreement (which shall continue to pertain to the Seller); (iii) all other rights hereafter accruing on the Shares; and (iv) the proceeds of all of the foregoing.

2.2 Payments

Subject to the terms and conditions of this Agreement, the aggregate price to be paid to the Seller by the Buyer for the Shares (including, without limitation, all rights referred to in Section 2.1(b)) shall be Philippines Pesos: Twenty One Billion Eight Hundred Million Pesos (₱21,800,000,000.00) (the "**Share Purchase Price**") comprised of: (i) Philippines Pesos: Sixteen Billion Thirteen Million Three Hundred Eighty Eight Thousand Nine Hundred Sixty Two and 50/100 (₱16,013,388,962.50) or approximately Philippine Pesos: Twenty Four and 798/1000 (₱24.798) per Common Share; and (ii) Philippine Pesos: Five Billion Seven Hundred Eighty Six Million Six Hundred Eleven Thousand Thirty Seven and 50/100 (₱5,786,611,037.50) or approximately Philippine Pesos: Twelve and 62/100 (₱12.62) per Class "A" Preferred Share.

The Share Purchase Price shall be paid in installments as follows:

(a) On the Transfer Date, Philippine Pesos: Twelve Billion (₱12,000,000,00.00), representing 55.05% of the Share Purchase Price, in cash, to be remitted by the Buyer to a bank account designated by the Seller;

(b) Within the month of June 2018, the exact date to be mutually agreed upon by the Buyer and the Seller (failing which, such date shall be deemed to be the last business day of June), Philippine Pesos: Two Billion Four Hundred Fifty Million (₱2,450,000,000.00), representing 11.2% of the Share Purchase Price, in cash, to be remitted by the Buyer to a bank account designated by the Seller;

(c) Within the month of June 2019, the exact date to be mutually agreed upon by the Buyer and the Seller (failing which, such date shall be deemed to be the last business day of June), Philippine Pesos: Two Billion Four Hundred Fifty Million (₱2,450,000,000.00), representing 11.2% of the Share Purchase Price, in cash, to be remitted by the Buyer to a bank account designated by the Seller;

(d) Within the month of June 2020, the exact date to be mutually agreed upon by the Buyer and the Seller (failing which, such date shall be deemed to be the last business day of June), Philippine Pesos: Two Billion Four Hundred Fifty Million (₱2,450,000,000.00), representing 11.2% of the Share Purchase Price, in cash, to be remitted by the Buyer to a bank account designated by the Seller; and

(e) Within the month of June 2021, the exact date to be mutually agreed upon by the Buyer and the Seller (failing which, such date shall be deemed to be the last business day of June), Philippine Pesos: Two Billion Four Hundred Fifty Million (₱2,450,000,000.00), representing 11.2% of the Share Purchase Price, in cash, to be remitted by the Buyer to a bank account designated by the Seller.

(The instalments on the Purchase Price referred to in Section 2.2 (b) up to (e) above shall be collectively referred to as the "**Deferred Payment**".)

3. TRANSFER

(a) The Buyer shall send a written notice to the Seller advising the Seller of the Transfer Date, which shall be a date no earlier than two (2) business days from the date of such written notice and seven (7) business days from the date of this Agreement and in no case shall be later than 30 June 2017.

(b) On the Transfer Date, the Seller and the Buyer shall execute a deed of absolute sale of shares substantially in form attached hereto as Annex "A".

(c) On the Transfer Date, the Buyer shall partially pay the Share Purchase Price to the Seller as provided in Section 2.2(a) above.

4. REPRESENTATIONS AND WARRANTIES

4.1 <u>Common Representations</u>

The Seller hereby represents and warrants to the Buyer, and the Buyer hereby represents and warrants to the Seller, as follows:

(a) It is a corporation duly organized, validly existing, and in good standing under the laws of the Philippines and has the corporate power and authority to carry on its business as it is now being conducted or presently proposed to be conducted.

(b) It has full power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. Its execution and delivery of this Agreement and consummation of the transactions contemplated hereby have been duly authorized by its Board, and no other corporate action or corporate proceeding is necessary to authorize this Agreement or the transactions contemplated hereby.

(c) All third party consents and approvals for the execution and delivery by it of this Agreement and its consummation of the transactions contemplated hereby have been obtained and remain valid and subsisting.

(d) This Agreement has been duly and validly executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

(e) The execution and delivery of this Agreement, and the performance of its obligations hereunder, do not and will not violate any applicable laws and will not conflict with or result in a breach of its articles of incorporation, by-laws or equivalent charter documents or any contract, agreement or other obligation to which it is a party or for which it may be bound, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, any of the terms, conditions or provisions of any such contract, agreement or obligation.

4.2 <u>Additional Representations and Warranties of Seller</u>

In addition to the representations and warranties under Section 4.1 above, the Seller hereby makes the following representations and warranties in favor of the Buyer:

(a) As of the date of this Agreement and prior to the transfer of the Shares from the Seller to the Buyer on Transfer Date, the Seller is the legal and beneficial owner of the Shares. Upon the transfer of the Shares from the Seller to the Buyer on the Transfer Date, full legal and beneficial title to the Shares will pass to the Buyer or its designees or assignees, free and clear of any and all Encumbrances.

(b) As of the date of this Agreement, the Shares comprise approximately twenty five percent (25%) of the issued and outstanding common shares, and twenty five percent (25%) of the economic interest in the Class "A" preferred shares, of the Company. All of the Shares are duly authorized, validly issued, fully paid for and non-assessable, and are, or on the Transfer Date will be, free and clear of any and all Encumbrances.

4.3 <u>Survival of Representations and Warranties</u>

The representations and warranties of the Parties under Section 4.1 and Section 4.2 hereof shall be true and correct as of the date of this Agreement and on all dates throughout the period ending on the Transfer Date with the same effect as though such representations and warranties had been made on and as of such dates.

5. OTHER COVENANTS

5.1 <u>Negative Covenants</u>

The Seller shall not sell, alienate, or in any manner dispose of or create an Encumbrance on the Shares from the date of this Agreement up to the Transfer Date, except such transfer to the Buyer contemplated in this Agreement.

5.2 <u>Affirmative Covenants</u>

(a) The Seller shall, without need of any further payment, act, notice or demand from the Buyer:

(i) hold in trust for the Buyer (1) all shares hereafter issued by the Company by way of stock dividends on the Shares; (2) all cash dividends hereafter declared or paid on the Shares, other than cash dividends declared on 13 June 2017 on the outstanding preferred shares of the Seller which have not yet been paid as of the date of this Agreement (which shall continue to pertain to the Seller); (3) all property dividends including shares of stock in the investee companies of the Company hereafter declared or distributed as property dividends on the Shares, (4) all other rights hereafter accruing on the Shares; and (5) the proceeds of all of the foregoing;

(ii) within three (3) business days from receipt of (1) any property or cash dividends declared or paid on the Shares from and after the date of this Agreement; (2) any and all other rights hereafter accruing on the Shares; and (3) the proceeds of any of the foregoing, turn over and deliver to the Buyer, at no additional cost to the Buyer, such property or cash dividends or other rights accruing on the Shares or any proceeds of any of the foregoing; and

(iii) on the Transfer Date, transfer to the Buyer, in accordance with Section 3 hereof, at no additional cost to the Buyer, all shares hereafter issued by the Company by way of stock dividends on the Shares.

(b) The Seller shall secure within a reasonable period after the Transfer Date, the required Certificate Authorizing Registration ("**CAR**") from the BIR in respect of the sale of the Shares and deliver copies thereof to the Buyer.

(c) Following its receipt of the CAR from the BIR and in any case no later than seven (7) business days thereafter, the Seller shall cause the registration of the Shares in the books of the Company, and the issuance of stock certificates, in the name of the Buyer;

5.3 Undertakings and Agreements Relating to the Distribution of Dividends and Voting

(a) Notwithstanding the execution of the deed of absolute sale of shares by the Seller in favor of the Buyer on Transfer Date in accordance with Section 3(b) above, in consideration of the agreement of the Seller to receiving the Share Purchase Price on installments, the Buyer agrees that from the Transfer Date and for so long as:

(1) the Seller remains an affiliate or member of the First Pacific Group of Companies and,
(2) the Deferred Payment has not been paid in full by the Buyer to the Seller:

(i) the Seller shall be entitled to nominate one (1) director to the Board of Directors of the Company ("**Seller's Director**") and MPIC agrees to vote its shares in the Company favor of such Seller's Director nominated by the Seller to the Board of Directors of the Company. MPIC shall procure that at least (1) common Share is allocated to and registered in the name of the Seller's Director to qualify him or her as such; and

(ii) without prejudice to any other applicable agreement between the Parties to this Agreement, the Buyer shall cede to the Seller the right to vote all of the Shares ("**Proxy Shares**"). As such, Buyer hereby grants to Seller a stockholder's proxy to vote or act by written consent with respect to the Proxy Shares. This proxy is coupled with an interest and shall be irrevocable and Buyer will take such further action and execute such other instruments as may be necessary to effectuate the intent of this proxy and the entitlement of the Seller hereunder; *provided,* that notwithstanding any other applicable agreement between the Parties to this Agreement, upon either (i) the full payment by the Buyer to the Seller of the Deferred Payments, or (ii) the Seller no longer being an affiliate or member of First Pacific Group of Companies, any and all rights to vote which the Buyer has or may have ceded to the Seller shall cease in all respects and all voting rights shall revert in full to the Buyer.

(b) The provisions of Section 5.3(a) above aside, the parties agree that with respect to decisions or policies affecting dividend payouts to be made by the Company, the Seller shall exercise its voting rights, and shall procure that the Seller's Director shall vote, in accordance with the recommendation of the Buyer on such matter, subject only to the fiduciary obligations of directors under applicable law.

5.4 <u>Reliance</u>

The Parties acknowledge that each of them has placed complete reliance on the covenants and undertakings contained in this Section 5 in agreeing to the transaction contemplated herein and in entering into this Agreement.

6. TERMINATION

6.1 Events of Termination

This Agreement may be terminated without need of judicial intervention:

(a) by mutual agreement of the Parties in writing;

(b) at any time, by a Party ("**Non-Defaulting Party**"), by written notice to the other Party (the "**Defaulting Party**") upon the occurrence of any of the following events:

(i) if any of the representations and warranties of the Defaulting Party is found to be untrue and incorrect in any material respect by the Non- Defaulting Party and such defect is not cured within five (5) days (or such longer period as may be indicated in the relevant notice of the defect) from receipt of notice of the defect; or

(ii) if the Defaulting Party fails to fulfill any material obligations required on its part to be fulfilled under this Agreement, and such default is not cured within five (5) days (or such longer period as may be indicated in the relevant notice of the default) from receipt of notice of the default; or

(c) in case the sale transaction contemplated herein shall have not occurred within sixty (60) days from execution of this Agreement, provided however, that the Party who failed to fulfill the obligations which are applicable to it, and, thus, caused the completion of the sale transaction not to occur may not terminate this Agreement.

6.2 Effects of Termination

(a) If this Agreement is terminated by mutual agreement of the Parties pursuant to Section 6.1(a) hereof, the Parties shall agree in writing on their respective liabilities or obligations to each other following such termination.

(b) If this Agreement is terminated pursuant to Section 6.1(b) and (c) hereof, all further obligations of the Parties under this Agreement shall terminate without further liability or obligation of any Party to the other Party; provided, however, that the Defaulting Party shall be liable to the Non-Defaulting Party for any and all actual damages and losses suffered by the latter arising from or in connection with the cause(s) for termination provided in Section 6.1(b); and provided, further, that such termination shall be without prejudice to any right of action which the Non- Defaulting Party may have against the Defaulting Party under applicable law as a consequence or by reason of the breach or default of the Defaulting Party.

(c) The termination of this Agreement shall not affect the right of the Seller to receive payment of any amounts relating to the Share Purchase Price that remain outstanding; provided, that if the Agreement was terminated by the Buyer on the basis of a claim of ownership by a third party over the Shares, payment of any amounts due on the Share Purchase Price shall be suspended without interest until such time as the third party claim is resolved (the period during which the third party claim remains unresolved shall hereinafter be referred to as the "**Claim Period**"). For this purpose, during the Claim Period, (i) all shares issued by the Company by way of stock dividends on the Shares; (ii) all cash dividends declared or paid on the Shares; (iii) all other rights accruing on the Shares; and (iv) the proceeds of all of the foregoing, rights or proceeds, which are delivered to the Buyer, shall be held in trust by it for the Seller and the Buyer shall turn over and deliver to the Seller, at no additional cost to the Seller, such portion of the property or cash dividends or other rights accruing on the Shares or any proceeds thereof as provided herein as soon as reasonably possible.

7. TAXES, EXPENSES AND LATE PAYMENT PENALTY

(a) The documentary stamp tax due on the sale and purchase of the Shares shall be for the account of the Buyer. All other taxes that may be imposed on or in connection with the sale and purchase of the Shares contemplated by this Agreement shall be for the account solely of the Seller.

(b) All expenses incurred by or on behalf of either Party, including all fees and expenses of agents, representatives, counsel and accountants employed by such Party in connection with the authorization, preparation, execution and performance of this Agreement, shall be borne solely by the Party that incurred the same and the other Party shall have no liability in respect thereof.

(c) In the event that any portion of the Share Purchase Price due under this Agreement shall not be paid or settled in full when due, the Buyer shall pay the Seller a late payment penalty of five and 50/100 percent (5.5%) per annum on any such past due and unpaid amount from and including the due date up to the date of payment or settlement in full.

8. DISPUTE RESOLUTION

The Parties shall attempt in good faith to resolve and to strive to amicably settle through mutual consultation all disputes, controversies or claims arising out of or in connection with the interpretation or application of the provisions of this Agreement. If the Parties fail or are unable to reach an amicable settlement within thirty (30) days from the date a Party notified the other Party in writing of the existence of a dispute, the dispute will be settled and resolved through final and binding arbitration by an arbitration tribunal composed of three (3) members. The arbitration will be governed by the rules of the Philippine Dispute Resolution Center, Inc. ("**PDRCI**") (the "**Rules**").

Within thirty (30) days from the date of the request for arbitration submitted to the PDRCI in accordance with the Rules, each of MPIC and PCEV shall respectively choose one (1) individual to sit as a member of the arbitration tribunal, and the two (2) individuals thus chosen shall, within fifteen (15) days from receiving notice of their designation as arbitrators, choose the third member who will act as chairman of the arbitration tribunal. If any one of MPIC and PCEV fails to choose a member, or if the two members fail to name a third member of the tribunal within such 15-day period, the PDRCI shall appoint the relevant member in accordance with the Rules. The arbitration shall be held in Makati City and shall be conducted in English. Each of the Parties hereby irrevocably submits to the jurisdiction of said arbitral tribunal and acknowledges its competence, and each of the Parties hereby agrees that any judgment that may be rendered against it in any such

arbitral proceeding will be conclusive and may be enforced in any jurisdiction by suit on the judgment or by such other means provided by law.

The Parties shall keep the arbitration confidential and shall not disclose to any person, other than those necessary to the proceedings, the existence of the arbitration, any information submitted during the arbitration, any document submitted or exchanged in connection with it, any oral submissions or testimony, transcripts, or any award unless disclosure is required by law or is necessary to challenge, recognize, or enforce an award. The relevant Parties shall cause their respective chosen arbitrators and the third arbitrator chosen by the latter to comply with this confidentiality provision before accepting their appointment.

This agreement to arbitrate shall be binding upon the heirs or successors and the assigns and any trustee, receiver or executor of each Party hereto. All direct costs of the arbitration proceeding, including fees and expenses of the arbitrators and any costs of translation, shall be borne equally by the Parties; other costs, including counsel and witness fees, shall be borne by the Party incurring them. The arbitrators shall have no power to waive, alter, amend, revoke or suspend any of the provisions of this Agreement. An award by the arbitrators shall be final and binding upon the Parties and not be subject to further appeal, and an order confirming the award or judgment upon the award may be entered or enforced by any court having jurisdiction.

9. MISCELLANEOUS

9.1 Confidentiality

(a) Subject to Section 9.1(b) hereof, the Parties shall treat as strictly confidential and not disclose this Agreement or any term hereof or the transaction contemplated in this Agreement.

(b) Section 9.1(a) shall not prohibit disclosure or use of any information if and to the extent:

(i) the disclosure or use is required by any stock exchange on which any shares or securities issued by the Parties or their direct or indirect shareholders are listed;

(ii) the disclosure or use is required for the purpose of any judicial or quasi- judicial proceedings arising out of this Agreement or any other agreement entered into under or pursuant to this Agreement;

(iii) the information is disclosed to any person who needs to know such information for the purposes of considering, evaluating, advising on or furthering the transactions contemplated by this Agreement; or

(iv) the other Party has given prior written approval to the disclosure or use.

9.2 Notices

All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally, by facsimile transmission, or mailed (first class postage prepaid) to the Parties at the following addresses, facsimile numbers or email addresses:

If to the Seller: Address: 25th Floor, Smart Tower, 6799 Ayala Avenue, Makati City
Fax No.: +(632) 893 6554
Attention: The President

If to the Buyer: Address: 10**th** Floor, MGO Building, Dela Rosa Street corner Legazpi Street, Legazpi Village, Makati City, Philippines
Fax No.: +(632) 888 0813
Attention: The President

All such notices, requests and other communications will: (i) if delivered personally to the address as provided in this Section 9.2, be deemed given upon delivery; (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section, be deemed given upon receipt; and (iii) if delivered by mail in the manner described above to the address as provided in this Section, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any Party from time to time may change its address, facsimile number or other information for the purpose of notices to that Party by giving notice specifying such change to the other Parties.

9.3 <u>Entire Agreement</u>

This Agreement supersedes all prior discussions and agreements between the Parties with respect to the subject matter hereof.

9.4 <u>Amendment</u>

This Agreement may be amended, supplemented or modified in any and all respects, but only by a written instrument duly executed by or on behalf of the Seller and the Buyer.

9.5 <u>Waiver; Cumulative Rights</u>

(a) No waiver by any Party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion.

(b) All remedies, either under this Agreement or by law or otherwise afforded the Party shall be cumulative and not alternative.

9.6 <u>Binding Effect</u>

This Agreement is binding upon, inures to the benefit of and is enforceable by the Parties and their respective successors and the assignee of the Parties. Notwithstanding the foregoing, this Agreement and the rights and obligations of a Party hereto may not be assigned without the prior written consent of the other Parties.

9.7 <u>Governing Law</u>

This Agreement shall be governed by and construed in accordance with the laws of the Republic of the Philippines.

9.8 <u>Counterparts; Effectiveness</u>

This Agreement may be executed in any number of counterparts each of which shall be an original with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other party.

Schedule 1

THE STOCK CERTIFICATES COVERING THE SHARES

Stock Certificate Number	No. of Shares	Registered Owner
13	1,156,500,000*	Pilipino Telephone Corporation
15	12,498	Pilipino Telephone Corporation
17	1	Anabelle L. Chua
19	135,000,000	PLDT Communications and Energy Ventures, Inc.
21	1	Orlando B. Vea
P-04	916,740,172** (Preferred Shares)	PLDT Communications and Energy Ventures, Inc.

*****645,756,250 of the total covered shares have been transferred by the Seller to the Buyer pursuant to a Deed of Absolute Sale of Shares dated 30 May 2016 and is subject of a pending application with the BIR for a certificate authorizing registration.

******458,370,086 of the total covered shares have transferred by the Seller to the Buyer pursuant to a Deed of Absolute Sale of Shares dated 30 May 2016 and is subject of a pending application with the BIR for a certificate authorizing registration.

Annex "A"
Form of the Deed of Absolute Sale of Shares

DEED OF ABSOLUTE SALE OF SHARES

This Deed of Absolute Sale of Shares (the "Deed") is entered into this_, 2017 in Makati City, by and between:

PLDT COMMUNICATIONS AND ENERGY VENTURES, INC.,

a corporation organized and existing under Philippine laws, with principal office address at the 25th Floor, Smart Tower, 6799 Ayala Avenue, Makati City ("PCEV" or the "SELLER");

- and -

METRO PACIFIC INVESTMENTS CORPORATION,

a corporation organized and existing under Philippine laws, with principal office address at the 10th Floor, MGO Building, de la Rosa corner Legazpi Streets, Legazpi Village, Makati City ("MPIC" or the "BUYER");

(Hereinafter, SELLER and BUYER shall be individually referred to as a "Party" and collectively as the "Parties")

WITNESSETH: That –

WHEREAS, the SELLER is the legal, beneficial and registered owner of Six Hundred Forty Five Million Seven Hundred Fifty Six Thousand Two Hundred Fifty (645,756,250) common shares (inclusive of two (2) shares held by its nominees) and Four Hundred Fifty Eight Million Three Hundred Seventy Thousand Eighty Six (458,370,086) Class "A" preferred shares of Beacon Electric Asset Holdings, Inc. (the "**Corporation**"), comprising approximately twenty five percent (25%) of the outstanding capital stock of the Corporation represented by original stock certificate numbers 13, 15, 17, 19 and 21 and P-04 duly endorsed by the SELLER or the SELLER's nominees, copy/ies of which is/are attached hereto as Annex "A", (the "Subject Shares");

WHEREAS, the SELLER has agreed to sell, transfer and convey unto the BUYER, and the BUYER has agreed to purchase and acquire from the SELLER, the Subject Shares, under the terms and conditions herein provided;

NOW, THEREFORE, for and in consideration of the foregoing premises and of the terms and conditions hereinafter set forth, the Parties hereby agree as follows:

1. For and in consideration of the aggregate amount of Philippine Pesos: Twenty One Billion Eight Hundred Million (₱21,800,000,000.00) comprised of: (a) Philippines Pesos: Sixteen Billion Thirteen Million Three Hundred Eighty Eight Thousand Nine Hundred Sixty Two and 50/100 (₱16,013,388,962.50) or approximately Philippine Pesos: Twenty Four and 798/1000 (₱24.798) per Common Share; and (b) Philippine Pesos: Five Billion Seven Hundred Eighty Six Million Six Hundred Eleven Thousand Thirty Seven and 50/100 (₱5,786,611,037.50) or approximately Philippine Pesos: Twelve and 62/100 (₱12.62) per Class "A" Preferred Share, the SELLER hereby sells, transfers and conveys unto the BUYER, and the BUYER hereby purchases and acquires from the SELLER, any and all of the rights, title and interest of the SELLER in and to the Subject Shares.

2. The capital gains tax on or income tax relating to the sale of the Subject Shares shall be for the account of the SELLER. The documentary stamp tax on this Deed and all other expenses relative to the transfer and registration of the Subject Shares in the name of the BUYER shall be for the account of the BUYER.

3. The SELLER hereby represents and warrants to the BUYER as follows:

(a) The SELLER is the legal, beneficial and registered owner of, and with good title to, the Subject Shares;

(b) The Subject Shares have been fully paid and validly issued and are non-assessable;

(c) The stock certificate(s) covering the Subject Shares are genuine, valid and subsisting stock certificates of the capital stock of the Corporation;

(d) The Subject Shares are free and clear of any subsisting option, warrant, security interest, lien, encumbrance, obligation, liability, charge, burden or similar arrangement or restriction, except for the limitations, restrictions and qualifications provided in the Articles of Incorporation and By-laws of the Corporation;

(e) There are no actions, suits, proceedings or investigations pending against or affecting any of the Subject Shares;

(f) Upon the delivery of the Subject Shares to the BUYER in accordance herewith, the BUYER will acquire good and valid title to and possession of the same;

(g) This Deed constitutes the valid and legally binding obligation of the SELLER, enforceable against the SELLER in accordance with its terms; and

(h) The execution, delivery and performance of this Deed by the SELLER does not violate, with or without the giving of notice or the passage of time, any provision of law now applicable to the SELLER and does not conflict with or result in a breach of any provision of any license, franchise, indenture, deed of trust or any other agreement, undertaking or other obligations to which the SELLER is a party, or for which it may be bound, or result in the creation of any lien, charge or encumbrance upon any of the properties or assets of the SELLER as would or will result in preventing the SELLER from fulfilling its obligations under this Deed.

4. In addition to the foregoing, both Parties likewise represent and warrant that each possesses full power and authority to execute and deliver this Deed and to perform their respective obligations hereunder, and the execution, delivery and performance of this Deed by both Parties have been duly and validly authorized by proper action, corporate or otherwise, whichever is applicable.

IN WITNESS WHEREOF, the Parties have hereunto set their hands on the date and in the place first above written.

PLDT COMMUNICATIONS AND ENERGY VENTURES, INC. (SELLER) TIN: 489-462-000	METRO PACIFIC INVESTMENTS CORPORATION (BUYER) TIN: 244-520-457
By: ____________________________	By: ____________________________

SIGNED IN THE PRESENCE OF:

____________________________ ____________________________

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES) MAKATI CITY) S.S.

BEFORE ME, a Notary Public for and in the above jurisdiction, this__________________________, personally came and appeared the following:

Name	Passport No.	Date / Place Issued

known to me and by me known to be the same persons who executed the foregoing Deed of Absolute Sale of Shares and who acknowledged to me that the same is their free and voluntary act and deed.

This instrument is a Deed of Absolute Sale of Shares consists of__( ) pages including the page where this acknowledgment is written, and is signed by the parties and their respective witnesses.

WITNESS MY HAND AND NOTARIAL SEAL on the date and in the place above written.

Doc. No. ____________________________________;
Page No. ____________________________________;
Book No. ____________________________________;
Series of 2017.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

The Seller:		PLDT COMMUNICATIONS AND ENERGY VENTUR, INC.
	By:	/s/ Orlando B. Vea ORLANDO B. VEA President
The Buyer:		METRO PACIFIC INVESTMENTS CORPORATION
	By:	/s/ Jose Ma. K. Lim JOSE MA. K. LIM President

SIGNED IN THE PRESENCE OF:

______________________________ ______________________________

EXHIBIT 7

PLDT Inc.

Calculation of Ratio of Earnings to Fixed Charges
For the years 2013 through 2017

	2017[1]	2017	2016	2015	2014	2013
	(in millions, except ratio of earnings to fixed charges)					
Earnings: Income before income tax						
Pre-tax income from continuing operations before adjustment for non-controlling interest in consolidated subsidiaries or income or loss from equity investees subsidiaries	US$292	Php14,569	Php22,071	Php26,638	Php44,148	Php41,632
Add (Deduct):						
Fixed Charges (see description below)	224	11,204	10,622	9,015	8,266	9,060
Amortization of capitalized interest	14	714	829	941	1,198	1,221
Capitalized interest	(16)	(816)	(566)	(370)	(442)	(421)
Total Earnings(2)	US$514	Php25,671	Php32,956	Php36,224	Php53,170	Php51,492
Fixed Charges						
Interest on loans and related items	US$157	Php7,830	Php7,522	Php6,289	Php5,429	Php5,086
Capitalized interest	16	816	566	370	442	421
Amortization of debt issuance costs and debt discount	4	219	230	231	164	1,539
Estimated financing component of rent expense(3)	47	2,339	2,304	2,125	2,231	2,014
Total Fixed Charges	US$224	Php11,204	Php10,622	Php9,015	Php8,266	Php9,060
Ratio (a/b)(2)	2.3	2.3	3.1	4.0	6.4	5.7

(1) We maintain our accounts in Philippine pesos, the functional and presentation currency under IFRS. For convenience, the Philippine peso financial information as at and for the year ended December 31, 2017 has been converted into U.S. dollars at the exchange rate of Php49.96 to US$1.00, the Philippine peso-dollar rate as quoted through the Philippine Dealing System as at December 31, 2017.

(2) For purposes of this ratio, "Earnings" consist of: (a) pre-tax income from continuing operations before adjustment for non-controlling interest in consolidated subsidiaries or income or loss from equity investees, (b) fixed charges, (c) amortization of capitalized interest, (d) distributed income of equity investees, and (e) share of pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges; less the sum of the following: (1) capitalized interest, (2) preference security dividend requirements of consolidated subsidiaries, and (3) the non-controlling interests in pre-tax income of subsidiaries that have not incurred fixed charges.

"Fixed charges" consist of interest expense and capitalized interest, amortized premiums, discounts and capitalized expenses related to indebtedness, an estimate of interest within rental expense, and preference security dividend requirements of consolidated subsidiaries.

(3) Rent expense substantially represents payments for the leased circuits by PLDT. Historically, PLDT has been using one-third of rent expense as a reasonable estimate of the financing component of rent expense, since it is impracticable to determine the actual financing component of rent expense.

EXHIBIT 8

PLDT Inc.
Subsidiaries as at December 31, 2017

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group") as at December 31, 2017 and 2016:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2017 Percentage of Ownership Direct	2017 Percentage of Ownership Indirect	2016 Percentage of Ownership Direct	2016 Percentage of Ownership Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	**100.0**	**–**	100.0	–
Smart Broadband, Inc., or SBI, and Subsidiary	Philippines	Internet broadband distribution services	**–**	**100.0**	–	100.0
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services	**–**	**100.0**	–	100.0
I-Contacts Corporation	Philippines	Operations support servicing business	**–**	**100.0**	–	100.0
Smart Money Holdings Corporation, or SMHC	Cayman Islands	Investment company	**–**	**100.0**	–	100.0
Far East Capital Limited, or FECL, and Subsidiary, or FECL Group	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	**–**	**100.0**	–	100.0
PH Communications Holdings Corporation	Philippines	Investment company	**–**	**100.0**	–	100.0
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services	**–**	**100.0**	–	100.0
Francom Holdings, Inc.:	Philippines	Investment company	**–**	**100.0**	–	100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Content provider, mobile applications development and services	**–**	**100.0**	–	100.0
Voyager Innovations, Inc., or Voyager	Philippines	Mobile applications and digital platforms developer	**–**	**100.0**	–	100.0
Voyager Innovations Holdings, Pte. Ltd. or VIH, (formerly eInnovations Holdings Pte. Ltd., or eInnovations)[(a)]:	Singapore	Investment company	**–**	**100.0**	–	100.0
Voyager Innovations Investments Pte. Ltd., or VII, (formerly Takatack Holdings Pte. Ltd., or Takatack Holdings)[(b)]	Singapore	Investment company	**–**	**100.0**	–	100.0
Voyager Innovations Singapore Pte. Ltd., or VIS, (formerly Takatack Technologies Pte. Ltd.)[(c)]	Singapore	Development and maintenance of IT-based solutions for communications and e-Commerce platforms	**–**	**100.0**	–	100.0
Takatack Malaysia Sdn. Bhd., or Takatack Malaysia[(d)]	Malaysia	Development, maintenance and support services to enable the digital commerce ecosystem	**–**	**100.0**	–	100.0
iCommerce Investments Pte. Ltd., or iCommerce[(e)]	Singapore	Investment company	**–**	**–**	–	100.0
Voyager Fintech Ventures Pte. Ltd., or Fintech Ventures (formerly eInnovations Ventures Pte. Ltd. or eVentures)[(f)]	Singapore	Investment company	**–**	**100.0**	–	100.0
Fintqnologies Corporation, or FINTQ[(g)]	Philippines	Development of financial technology innovations	**–**	**100.0**	–	100.0
Fintq Inventures Insurance Agency Corporation[(h)]	Philippines	Insurance company	**–**	**100.0**	–	100.0
ePay Investments Pte. Ltd., or ePay	Singapore	Investment company	**–**	**100.0**	–	100.0
PayMaya Philippines, Inc. or PayMaya	Philippines	Provide and market certain mobile payment services	**–**	**100.0**	–	100.0
PayMaya Operations Philippines, Inc., or PayMaya Ops	Philippines	Market, sell and distribute payment solutions and other related services	**–**	**100.0**	–	100.0
ePay Investments Myanmar, Ltd., or ePay Myanmar[(i)]	Myanmar	Investment company	**–**	**100.0**	–	–
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services	**–**	**85.0**	–	85.0
Wifun, Inc., or Wifun[(j)]	Philippines	Software developer and selling of WiFi access equipment	**–**	**100.0**	–	100.0
Telesat, Inc.[(k)]	Philippines	Satellite communications services	**100.0**	**–**	100.0	–
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	**88.5**	**11.5**	88.5	11.5
Digitel Mobile Philippines, Inc., or DMPI, (a wholly-owned subsidiary of Digitel)	Philippines	Cellular mobile services	**–**	**99.6**	–	99.6
Fixed Line						
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	**100.0**	**–**	100.0	–
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	**100.0**	**–**	100.0	–
PLDT Global Corporation, or PLDT Global, and Subsidiaries	British Virgin Islands	Telecommunications services	**100.0**	**–**	100.0	–
Smart-NTT Multimedia, Inc.[(k)]	Philippines	Data and network services	**100.0**	**–**	100.0	–
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	**100.0**	**–**	100.0	–
Talas Data Intelligence, Inc., or Talas	Philippines	Business infrastructure and solutions; intelligent data processing and implementation services	**100.0**	**–**	100.0	–

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2017 Percentage of Ownership Direct	2017 Percentage of Ownership Indirect	2016 Percentage of Ownership Direct	2016 Percentage of Ownership Indirect
		and data analytics insight generation				
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	**100.0**	**–**	100.0	–
IP Converge Data Services, Inc., or IPCDSI, and Subsidiary, or IPCDSI Group	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	**–**	**100.0**	–	100.0
Curo Teknika, Inc., or Curo	Philippines	Managed IT outsourcing	**–**	**100.0**	–	100.0
ABM Global Solutions, Inc., or AGS, and Subsidiaries, or AGS Group	Philippines	Internet-based purchasing, IT consulting and professional services	**–**	**100.0**	–	100.0
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	**–**	**67.0**	–	67.0
netGames, Inc.[l]	Philippines	Gaming support services	**–**	**57.5**	–	57.5
Digitel:	Philippines	Telecommunications services	**99.6**	**–**	99.6	–
Digitel Information Technology Services, Inc.[k]	Philippines	Internet services	**–**	**99.6**	–	99.6
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	**98.0**	**–**	98.0	–
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related VAS	**75.0**	**–**	75.0	–
Pacific Global One Aviation Company, Inc., or PG1	Philippines	Air transportation business	**65.0**	**–**	65.0	–
Pilipinas Global Network Limited, or PGNL, and Subsidiaries	British Virgin Islands	Internal distributor of Filipino channels and content	**64.6**	**–**	64.6	–
Others						
PLDT Global Investments Holdings, Inc., or PGIH	Philippines	Investment company	**100.0**	**–**	100.0	–
PLDT Digital Investments Pte. Ltd., or PLDT Digital, and Subsidiaries	Singapore	Investment company	**100.0**	**–**	100.0	–
Mabuhay Investments Corporation, or MIC[k]	Philippines	Investment company	**67.0**	**–**	67.0	–
PLDT Global Investments Corporation, or PGIC	British Virgin Islands	Investment company	**–**	**100.0**	–	100.0
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment company	**–**	**99.9**	–	99.9

[a] *On July 11, 2017, the Accounting and Corporate Regulatory Authority, or ACRA, of Singapore approved the change in business name of eInnovations Holdings Pte. Ltd. to Voyager Innovations Holdings Pte. Ltd.*

[b] *On December 29, 2017, the ACRA of Singapore approved the change in business name of Takatack Holdings Pte. Ltd. to Voyager Innovations Investments Pte. Ltd.*

[c] *On March 6, 2018, the ACRA of Singapore approved the change in business name of Takatack Technologies Pte. Ltd. to Voyager Innovations Singapore Pte. Ltd.*

[d] *On April 12, 2016, Takatack Malaysia was incorporated in Malaysia to provide development, maintenance and support services and sales and marketing.*

[e] *On December 14, 2017, VIH sold its 10 thousand ordinary shares in iCommerce to PLDT Online for a total purchase price of SGD1.00.*

[f] *On January 12, 2016, the ACRA of Singapore approved the change in business name of eVentures to Voyager Fintech Ventures Pte. Ltd.*

[g] *On April 27, 2016, Voyager incorporated its financial technology unit FINTQ to focus on mobile-first financial technology platforms.*

[h] *On December 19, 2016, Fintq Inventures Insurance Agency Corporation was incorporated in the Philippines to engage in business as an insurance agent for the distribution, marketing and sale of insurance products such as life, non-life, accident and health insurance and pre-need projects and services.*

[i] *On July 25, 2017, ePay Investments Myanmar, Ltd. was incorporated in Myanmar to engage in the business of providing support services on the development and provision of digital technology.*

[j] *On November 25, 2015, Smart acquired the remaining 13% noncontrolling shares of Wifun for a total purchase price of Php10 million, of which Php7 million and Php3 million were paid on November 25, 2015 and February 29, 2016, respectively.*

[k] *Ceased commercial operations.*

[l] *Ceased commercial operations and under liquidation due to shortened corporate life to August 31, 2015.*

Exhibit 12.1

CERTIFICATION

I, Manuel V. Pangilinan, certify that:

1. I have reviewed this annual report on Form 20-F of PLDT Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

March 27, 2018

/s/ Manuel V. Pangilinan
MANUEL V. PANGILINAN
Chairman of the Board
President and CEO
(Principal Executive Officer)

Exhibit 12.2

CERTIFICATION

I, Anabelle L. Chua, certify that:

1. I have reviewed this annual report on Form 20-F of PLDT Inc. (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

March 27, 2018

/s/ Anabelle L. Chua
Anabelle L. Chua
Senior Vice President and CFO
(Principal Financial Officer)

Exhibit 13.1

CERTIFICATION

Pursuant to 18 U.S.C. § 1350, I, Manuel V. Pangilinan, Chairman of the Board, President and CEO of PLDT Inc., hereby certify, to my knowledge, that our annual report on Form 20-F for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, our financial condition and results of operations.

March 27, 2018

/s/ Manuel V. Pangilinan
MANUEL V. PANGILINAN
Chairman of the Board
President and CEO
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 13.2

CERTIFICATION

Pursuant to 18 U.S.C. § 1350, I, Anabelle L. Chua, Senior Vice President and CFO of PLDT Inc., hereby certify, to my knowledge, that our annual report on Form 20-F for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, our financial condition and results of operations.

March 27, 2018

/s/ Anabelle L. Chua
ANABELLE L. CHUA
Senior Vice President and CFO
(Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.