

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, 2016
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.

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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.

8.350% Notes due March 2017

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, 2016:

216,055,775 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share
300,001,240 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 (or 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 standards¹ 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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CERTIFICATION

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 Php49.77 to US\$1.00 on December 31, 2016. On April 25, 2017, the volume weighted average exchange rate quoted was Php49.71 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;
- BTS means base transceiver station;
- CMTS means cellular mobile telephone system;
- CPCN means Certificate of Public Convenience and Necessity;
- DFON means domestic fiber optic network;
- Digital 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;
- 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.;
- 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, 2016 and 2015 and for the three years in the period ended December 31, 2016, included in Item 18. “Financial Statements” of this annual report on Form 20-F have been prepared in conformity with International Financial Reporting Standards, or IFRS.

As at December 31, 2016, 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, 2016, 2015 and 2014 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, 2016, 2015 and 2014 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, 2016, 2015, 2014, 2013 and 2012 and for the financial years ended December 31, 2016, 2015, 2014, 2013 and 2012, 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, 2016, 2015, 2014, 2013 and 2012 have been prepared and presented in conformity with IFRS.

	2016 ⁽¹⁾	2016	2015	2014	2013	2012
	(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\$3,321	Php165,262	Php171,103	Php170,835	Php168,211	Php162,914
Service revenues	3,159	157,210	162,930	164,943	163,932	159,619
Non-service revenues	162	8,052	8,173	5,892	4,279	3,295
Expenses	2,824	140,559	139,268	130,457	125,514	122,529
Net income for the year	405	20,162	22,075	34,090	35,453	36,099
Continuing operations	405	20,162	22,075	34,090	33,384	35,556
Discontinued operations	-	-	-	-	2,069	543
Earnings per common share for the year attributable to equity holders of PLDT						
Basic	1.86	92.33	101.85	157.51	163.67	167.07
Diluted	1.86	92.33	101.85	157.51	163.67	167.07
Earnings per common share from continuing operations for the year attributable to equity holders of PLDT						
Basic	1.86	92.33	101.85	157.51	154.09	164.55
Diluted	1.86	92.33	101.85	157.51	154.09	164.55
Balance Sheets Data						
Cash and cash equivalents	778	38,722	46,455	26,659	31,905	37,161
Total assets	9,546	475,119	455,095	436,295	399,638	405,815
Net assets	2,181	108,537	113,898	134,668	137,326	145,734
Total long-term debt - net of current portion	3,049	151,759	143,982	115,399	88,924	102,811
Total debt ⁽²⁾	3,718	185,032	160,892	130,123	104,090	115,792
Total liabilities	7,366	366,582	341,197	301,627	262,312	260,081
Total equity attributable to equity holders of PLDT	2,173	108,175	113,608	134,364	137,147	145,550
Weighted average number of common shares for the year (in thousands)	4,341	216,056	216,056	216,056	216,056	216,055
Other Data:						
Depreciation and amortization	692	34,455	31,519	31,379	30,304	32,354
Ratio of earnings to fixed charges ⁽³⁾	3.1x	3.1x	4.0x	6.4x	5.7x	5.4x
Net cash provided by operating activities	984	48,976	69,744	66,015	73,763	80,370
Net cash used in investing activities	(844)	(41,982)	(39,238)	(51,686)	(21,045)	(39,058)
Net cash used in financing activities	(308)	(15,341)	(11,385)	(19,897)	(59,813)	(48,628)
Dividends declared to common shareholders	460	22,902	32,841	39,970	37,809	36,946
Dividends declared per common share	2.13	106.00	152.00	185.00	175.00	171.00

⁽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, 2016, has been converted into U.S. dollars at the exchange rate of Php49.77 to US\$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2016. 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; and (iii) notes payable.

⁽³⁾ For purposes of this ratio, "Earnings" consist of: (a) pre-tax income from continuing operations before adjustment for noncontrolling interests 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 noncontrolling 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.

Capital Stock

The following table summarizes PLDT's capital stock issued and outstanding as at December 31, 2016 and 2015:

	No. of shares		December 31,	
	2016	2015	2016	2015
	(in millions)			
Non-Voting Preferred Stock				
10% Cumulative Convertible Preferred Stock II and JJ*	-	-	Php-	Php-
Series IV Cumulative Non-convertible Redeemable Preferred Stock**	300	300	360	360
Voting Preferred Stock	150	150	150	150
Common Stock	450	450	510	510
	216	216	1,093	1,093
Total	666	666	Php1,603	Php1,603

* 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, 2014, 2015 and 2016:

Earnings	Date			Amount	
	Approved	Record	Payable	Per share	Total Declared (in millions)
2014	August 5, 2014	August 28, 2014	September 26, 2014	Php69	Php14,908
2014	March 3, 2015	March 17, 2015	April 16, 2015	61	13,179
2014	March 3, 2015	March 17, 2015	April 16, 2015	26	5,618
				156	33,705
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
				Php77	Php16,637

⁽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
2012	171.00	4.04
Regular Dividend – April 20, 2012	63.00	1.48
Regular Dividend – September 28, 2012	60.00	1.44
Special Dividend – April 20, 2012	48.00	1.12
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

⁽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⁾
2012	Php41.08	Php42.14	Php40.86	Php44.25
2013	44.40	42.66	40.57	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	49.61	49.98
2017 (through April 25, 2017)	49.71	49.99	49.47	50.38

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⁾
2016				
September	Php48.48	Php47.52	Php46.55	Php48.48
October	48.49	48.35	48.04	48.58
November	49.75	49.22	48.34	49.97
December	49.77	49.82	49.61	49.98
2017				
January	49.76	49.74	49.47	49.95
February	50.26	49.99	49.67	50.31
March	50.22	50.27	50.15	50.38
April (through April 25, 2017)	49.71	49.85	49.53	50.12

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, 2016 of Php49.77 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 April 25, 2017, the exchange rate quoted through the Philippine Dealing System was Php49.71 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 have the potential to disrupt our business. Our major sources of revenue have always been short messaging service, or SMS, voice and international calling services. However, due to the adoption of new technologies and the growing popularity of these new OTT services, our traditional revenue sources have continued to decline, and we cannot assure you that this trend will not continue with respect to some of our traditional revenue sources.

The continued high mobile penetration rate in the Philippines and the prevalence of SMS have negatively impacted our domestic calling service in recent years. 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. The emergence of OTT services, such as social networking, instant messaging and internet telephone, also known as VoIP services, are competing with us in voice or 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.

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.

Competition from other telecommunications services providers may further increase, which 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. Vital capacity expansion may continue to adversely 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 Telecom, Inc., or Globe, has introduced aggressive marketing campaigns and promotions, such as unlimited voice, SMS, and data offers. Furthermore, the possible entry of a new player, due to the liberalization of the Philippine telecommunications industry, may threaten our market share.

Taking into consideration these risks, 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, potential loss of 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.

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 and broadband 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 an estimated 126% as at December 31, 2016, and thus the industry may well be considered mature, although the existence of subscribers owning multiple SIM cards results in this penetration rate being inflated to a certain extent. 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. We believe that as of the date of this report, PLDT is in compliance with the requirement of Section 11 Article XII of the 1987 Constitution. Exceeding the foreign ownership restrictions imposed under the Philippine Constitution may subject the Company to financial sanctions or 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 4. “Information on the Company – Recent Developments – In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition” and 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. 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 DMPI to revoke, the franchise of DMPI for its 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.

Failure to properly divest CURE

If we fail to effect the divestment of Connectivity Unlimited Resource Enterprise, or CURE, in accordance with the terms of, or in a manner contemplated under the NTC’s approval of our acquisition of the Digitel Group, the NTC may revoke its approval of our acquisition which could significantly disrupt our operations and have a material adverse effect on our business and results of operations. 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.

We cannot assure you that any of our franchises, 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 governmental 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. Finally, the Philippine Competition Act established the Philippines Competition Commission with responsibility for implementing and enforcing competition policy in the Philippines. 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 Philippines 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 is currently engaged in litigation with the Philippine Competition Commission, or the PCC, relating to the SMC Transactions, described in Item 4. “Information on the Company – Recent Developments – Investments of PLDT in VTI, Bow Arken and Brightshare”, and whether the parties thereto completed the SMC Transactions in accordance with the The Philippine Competition Act and circulars issued thereunder.

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 Item 4. “Information on the Company – Recent Developments – Notice of Transaction filed

with the Philippine Competition Commission, “– Material Effects of Regulation on our Business” and *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 (Data Privacy Act of 2012) and its Implementing Rules and Regulations recognizes as a policy of the State to protect the fundamental human right of privacy, of communication while ensuring free flow of information to promote innovation and growth. The rules apply to the processing of personal data by any natural and juridical person in the government or private sector. They also apply to an act done or practice engaged in and outside of the Philippines under certain conditions. Likewise, NTC issuances under Memorandum Circular, or MC, No. 05-07-2016 deals with the rights of the subscriber on record as to the data supplied by him and NTC MC No. 05-06-2007 deals with Call Data Records and under what circumstances could they be obtained. The regulatory environment regarding privacy and data protection laws is unsettled.

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

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning privacy, data-retention and data-protection issues, including laws or regulations mandating disclosure to domestic or international law enforcement bodies, which could adversely impact our business, our brand or our reputation with users. The interpretation and application of privacy, data protection and data retention laws and regulations are often uncertain and in flux. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices, complicating long-range business planning decisions. If privacy, data protection or data retention laws are interpreted and applied in a manner that is inconsistent with our current policies and practices we may be fined or ordered to change our business practices in a manner that adversely impacts our operating results. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices or operating platforms in a manner adverse to our business.

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

We possess a substantial amount of personal information of our customers. In the event an information leak occurs, 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, 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 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 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, and our financial condition and results of operations may be adversely affected.

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. 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 as at December 31, 2015, we recognized an impairment of the investment in Rocket amounting to Php5,124 million. In 2016, we recognized additional impairment loss of Php5,381 million as the fair value of Rocket further declined to Php9,206 million for the six months ended June 30, 2016. On December 31, 2016, we recognized an unrealized gain of Php852 million in our consolidated other comprehensive income in the “Net gains (losses) on available-for-sale financial investments” account due to slight recovery of Rocket’s fair value to Php10,058 million as at December 31, 2016. See Item 5. “Operating and Financial Review and Prospects – Critical Accounting Policies” and Note 11 – Available-for-Sale Financial Investments – PLDT Online’s Investment in Rocket 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;
- work stoppages and labor disputes;
- interruptions resulting from inclement weather and other natural disasters;
- 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.

Cyber attacks, theft, equipment failures, natural disasters, terrorist acts and territorial disputes may materially adversely affect our operations.

Cyber attacks, theft of telecommunication cables, major equipment failures or natural disasters, including severe weather, terrorist acts or other breaches of network or IT security that 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 could have a material adverse effect on our operations.

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.

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.

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 Php42,825 million, Php43,175 million and Php34,759 million for the years ended December 31, 2016, 2015 and 2014, respectively. We currently estimate that our consolidated capital expenditures in 2017 will be approximately Php46 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 portion of our indebtedness and related interest expense, a substantial portion of our capital expenditures 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 15% from a high of Php41.08 for year end 2012 to Php47.12 as at December 31, 2015 and further depreciated by 6% to Php49.77 as at December 31, 2016. 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
- 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 31% and 42% were denominated in U.S. dollars as at December 31, 2016 and 2015, 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% and 17% as at December 31, 2016 and 2015, respectively, 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 could be forced 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 majority 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, 2017, 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 these 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 labour costs.

As at December 31, 2016, PLDT has three employee unions, representing in the aggregate 5,631, or 31%, 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, MRP, in 2015, mainly incurred in the fixed-line business, with some of the charge incurred in the wireless 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.

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 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.

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. Although during 2016, the Philippines' long-term foreign currency-denominated debt was affirmed by Fitch as investment-grade with a rating of BBB+ but with a revised outlook to negative, and Standard and Poor's and 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, the continued relatively low sovereign ratings 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, Standard & Poor's 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 65% of the total reported fixed line subscribers nationwide as at December 31, 2016. Smart and DMPI, the PLDT Group's mobile service providers, collectively account for approximately 50% of the total reported mobile subscribers nationwide as at December 31, 2016.

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 Php294,916 million, or US\$5,926 million, as at December 31, 2016, representing one of the largest market capitalizations among Philippine-listed companies. We had total revenues of Php165,262 million, or US\$3,321 million, and net income attributable to equity holders of PLDT of Php20,006 million, or US\$402 million for the year ended December 31, 2016.

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

Extension of Smart's Congressional Franchise

On March 27, 1992, Philippine Congress granted the legislative franchise to Smart under Republic Act (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. 7294 became law on April, 15, 1992, which was 15 days from date of publication in at least 2 newspapers of general circulation in the Philippines.

On January 16, 2017, the House of Representatives approved House Bill No. 4637, seeking to extend for another 25 years the franchise granted to Smart. The same House Bill was approved on Third Reading by the Senate on March 13, 2017. The bill was signed by the Senate President, and submitted to the Presidential Legislative Liaison Office of the House of Representatives on March 23, 2017. Thereafter, the President could have approved, vetoed, or taken no action on the bill for a period of 30 days, the expiration of which fell on April 22, 2017.

As provided under Article VI, Section 27 of the 1987 Philippine Constitution, "The President shall communicate his veto of any bill to the House where it originated within 30 days after the date of receipt thereof; otherwise, it shall become a law as if he had signed it." As of the date of this filing, the President has not communicated any approval nor veto of the bill.

Php2,610 Million and Php1,590 Million Perpetual Notes

Smart issued Php2,610 million and Php1,590 million perpetual notes under two Notes Facility Agreements dated March 3, 2017 and March 6, 2017, respectively. Proceeds from the issuance of these notes are intended to finance capital expenditures. The notes have no fixed redemption date 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 of Smart. The notes are subordinated to and rank junior to all senior loans of Smart.

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 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 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 Company containing the aforementioned amendments was approved by the Philippine SEC.

In the Matter of the Wilson Gamboa Case and Jose M. Roy III Petition

The Supreme Court, in a Decision dated November 22, 2016, dismissed the petitions filed by Jose M. Roy III and other petitioners-in-intervention against Philippine SEC Chairperson, Teresita Herbosa (the "Decision"). The Decision upheld the validity of the Philippine SEC Guidelines MC No. 8, which requires public utility corporations to maintain at least 60% Filipino ownership in both its "total number of outstanding shares of stock entitled to vote in the election of directors" and its "total number of outstanding shares of stock, whether or not entitled to vote in the election of directors" and declared the same to be compliant with the Court's ruling in the Gamboa Case. Consequently, the Court ruled that MC No. 8 cannot be said to have been issued with grave abuse of discretion.

In the course of discussing the petitions, 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 the petitioners' suggestion would "effectively and unwarrantedly amend or change" the Court's ruling in the Gamboa Case. 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/prepayment, 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 “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.”

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.

Transfer of DMPI’s Sun Postpaid Mobile 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 mobile and broadband operations. The transfer is in accordance with the integration of the wireless business to simplify business operations, as well as to provide flexibility in offering bundled/converged products and enhanced customer experience. The transfer was completed on November 1, 2016, after which only the prepaid mobile business remains with DMPI.

Sale of Customer Relationship Management business by Asia Outsourcing Gamma Limited, or AOGL

On July 22, 2016, AOGL entered into a Sale and Purchase Agreement, or SPA, with Relia Inc., one of the largest business process outsourcing, or BPO, companies in Japan, to sell SPi CRM, Inc. and Infocom Technologies, Inc., wholly-owned subsidiaries of SPi Technologies, Inc., which own AOGL’s Customer Relationship Management business, to Relia for an enterprise value of US\$181 million. AOGL is the holding company of SPi Technologies, Inc. and its subsidiaries, and a wholly-owned subsidiary of Asia Outsourcing Beta Limited, or Beta, which is, in turn, owned 73.29% 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, PLDT Global Investments Corporation, or PGIC. 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. The economic interest of PGIC in Beta remained at 18.32% as at December 31, 2016.

See *Note 10 – Investment in Associates and Joint Ventures – Investments in Associates – Investment of PGIC in Beta* to the accompanying audited consolidated financial statements in Item 18. “Financial Statements” for further discussion.

Sale of PCEV’s Beacon Electric Asset Holdings, Inc., or Beacon, Shares to Metro Pacific Investment Corporation, or MPIC

On May 30, 2016, PCEV entered into a Share Purchase Agreement with MPIC to sell its 646 million shares of common stock and 458 million shares of preferred stock of Beacon, representing approximately 25% equity interest in Beacon, to MPIC for a total consideration of Php26,200 million. 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. Consequently, PCEV realized a portion of the deferred gain amounting to Php4,962 million. After the sale, PCEV’s equity ownership in Beacon was reduced from 50% to 25% while MPIC’s interest increased to 75%. MPIC agreed that for as long as: (i) PCEV owns at least 20% of the outstanding capital stock of Beacon; or (ii) the purchase price has not been fully paid by MPIC, PCEV shall retain the right to vote 50% of the outstanding capital stock of Beacon.

PCEV’s effective interest in Manila Electric Company, or Meralco, through Beacon, was reduced to 8.74% as at December 31, 2016 from 17.48% as at December 31, 2015, while MPIC’s effective interest in Meralco, through its direct ownership in Meralco shares and through Beacon, increased to 41.22% as at December 31, 2016 from 32.48% as at December 31, 2015. There is no change in the aggregate joint interest of MPIC and Beacon in Meralco which remains at 49.96% as at December 31, 2016 and 2015.

Beacon owns 394 million Meralco common shares, representing approximately 34.96% effective ownership in Meralco with a carrying value of Php84,815 million and market value of Php104,426 million based on quoted price of Php265 per share as at December 31, 2016.

PCEV's Additional Investment in Beacon Class "B" Preferred Shares

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 shares 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.

On the same date, PCEV subscribed to 277 million Beacon Class "B" preferred shares for a total cash consideration of Php3,500 million. MPIC likewise subscribed to 277 million Beacon Class "B" preferred shares for a total cash consideration of Php3,500 million.

The amount raised from the subscription was used to fund the subscription to shares of common stock of Global Business Power Corporation, or Global Power, through Beacon Powergen Holdings, Inc., or Beacon Powergen, a wholly-owned subsidiary of Beacon.

On August 10, 2016, the Philippine SEC approved the increase in Beacon's authorized capital and issuance of a new class of preferred shares.

Class "B" 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 Class "B" preferred shares are entitled to liquidation preference over the common shares of Beacon and, upon the declaration of Beacon's board of directors, yearly cumulative dividends at the rate of 6% of the issue value before any dividends can be paid to holders of common shares of Beacon subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment will not violate any dividend restrictions imposed by Beacon's bank creditors.

On September 9, 2016, the Board of Directors of Beacon approved the redemption of 198 million Class "B" preferred shares held by PCEV at an aggregate redemption price equal to the aggregate issue price of Php2,500 million. On the same date, Beacon also declared cash dividends on the said preferred shares amounting to Php21 million. The redemption price and cash dividend were paid on September 30, 2016.

Beacon's Acquisition of 56% of Global Business Power Corporation

On May 27, 2016, Beacon, through a wholly owned subsidiary Beacon Powergen, entered into a Share Purchase Agreement with GT Capital Holdings, Inc., to acquire an aggregate 56% of the issued share capital of Global Power for a total consideration of Php22,058 million. Beacon Powergen settled Php11,029 million upon closing and the balance via a vendor financing facility, which was replaced with a long-term bank debt in August 2016.

Global Power is the leading power supplier in Visayas region and Mindoro island. In 2016, Global Power increased its combined gross maximum capacity to 854 megawatts, or MW, through a 150 MW expansion project that is currently undergoing final acceptance. In Luzon, Global Power has 670 MW expansion project that is still in the process of Engineering, Procurement and Construction selection.

Beacon Powergen's investment in Global Power has a carrying value of Php21,902 million as at December 31, 2016.

See *Note 10 – Investment in Associates and Joint Ventures – Investment in Beacon* to the accompanying audited consolidated financial statements in Item 18. "Financial Statements" for further discussion.

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) a SPA with SMC to acquire the entire outstanding capital, including outstanding advances and assumed liabilities, in Vega Telecom, Inc., or 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 Holdings Company (parent company of New Century Telecoms, Inc.), or Bow Arken, and Brightshare Holdings, Inc. (parent company of eTelco, Inc.), or Brightshare, 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.

Consideration for the acquisitions is Php52.8 billion representing the purchase price for the equity interests in the three companies and assigned advances of previous owners to VTI, Bow Arken and Brightshare. This consideration will be paid in three tranches: 50% was paid upon signing of the SPAs on May 30, 2016, 25% was paid on December 1, 2016 and the final 25% is payable on May 30, 2017, subject to the fulfillment of certain conditions. The second and final payments are secured by irrevocable standby letters of credit. The SPA also provided that PLDT and Globe, through VTI, Bow Arken and Brightshare, assumed 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 the previous owners based on the results of the confirmatory due diligence procedures jointly performed by PLDT and Globe after May 30, 2016. Pending the completion of the due diligence procedures, as at December 31, 2016, PLDT and Globe have advanced about Php2.6 billion to cover the working capital requirements of the acquired companies. Discussion on the result of the due diligence procedures is ongoing.

See *Note 10 – Investment in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare* and *Note 28 – Financial Assets and Liabilities – Commercial Commitments* to the accompanying audited consolidated financial statements in Item 18. “Financial Statements” for further information.

Notice of Transaction filed with the Philippine Competition Commission

On May 30, 2016, prior to closing the transaction, each of PLDT, Globe and SMC submitted notices of the VTI, Bow Arken and Brightshare Transactions (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. The Circulars provide that, upon receipt by the PCC of the notices required thereby, the applicable transaction shall be deemed approved.

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 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 and should be deemed approved and not subject to retroactive review by the PCC. Moreover, the parties believe they 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 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 SMC Transactions and performing any act which challenges or assails the “deemed approved” status of the transaction. On July 19, 2016, the 12th Division of the CA issued a Resolution directing 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 12th Division 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 subject acquisition based on its Letters dated June 7, 2016 and June 17, 2016 during the effectivity hereof and until further orders are issued by the Court. On September 14, 2016, the PCC filed a Motion for Reconsideration of the CA’s Resolution dated August 26, 2016. In a Resolution promulgated on October 19, 2016, the CA’s 12th Division: (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 notice) PLDT’s Urgent Motion for the Issuance of a Gag Order dated September 30, 2016; and (iv) ordered all parties to submit simultaneous memoranda within a non-extendible period of 15 days from notice. Thereafter, with or without their respective memorandum, the instant cases are submitted for decision. On November 11, 2016, PLDT filed its Memorandum in compliance with the CA 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 Court denied PLDT’s Motion to Cite the PCC in 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 the PCC to remove immediately from its website its PSOC 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 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 a Petition before the Supreme Court 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.

The petition remains pending resolution with the CA.

See *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" for further information.

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 has been granted by the PSE effective November 21, 2016.

Agreement between PLDT Capital and 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. As a vehicle to execute the agreement, PLDT Capital incorporated Gohopscotch Southeast Asia Pte. Ltd., a Singapore company, on March 1, 2016.

See *Note 2 – Summary of Significant Accounting Policies – Joint Venture with Gohopscotch, Inc.* to the accompanying audited consolidated financial statements in Item 18 "Financial Statements" for further discussion.

eInnovations' Investment in ECommerce Pay Holding S.à r.l., or ECommerce Pay

On January 6, 2015, PLDT, through eInnovations Holdings Pte. Ltd, or eInnovations, entered into a JVA with Rocket, pursuant to which the two parties agreed to form 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 Investments Pte. Ltd., or ePay, including the intellectual property, platforms and business operations of its mobile-first platform, PayMaya Philippines, Inc., or PayMaya, as had been agreed in the JVA. Rocket 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 Ecommerce's effective interest in ePay went down to 50%. Pending completion of the other expected contributions from Rocket, ePay Group continued to be a subsidiary of PLDT.

Rocket 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 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.

See *Note 10 – Investment in Associates and Joint Ventures – eInnovations’ Investment in ECommerce Pay Holding S.à.r.l* to the accompanying audited consolidated financial statements in Item 18. “Financial Statements” for further discussion.

PLDT Online’s Investment in iflix Limited, or iflix

On April 23, 2015, PLDT Online Investments Pte. Ltd., or 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 to roll out 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 after it completed a new round of funding led by Sky Plc, Europe’s leading entertainment company and the Indonesian company, Emtel Group, through its subsidiary, PT Surya Citra Media Tbk, or SCMA. PLDT Online’s shares account for the 7.6% of the total equity stock of iflix.

For a detailed discussion, see *Note 2 – Summary of Significant Accounting Policies, Note 10 – Investment in Associates, Joint Ventures and Deposits* and *Note 11 – Available-for-Sale Financial Investments – Investment of PLDT Online in iflix Limited* to the accompanying audited consolidated financial statements in Item 18. “Financial Statements”.

Business Overview

As at December 31, 2016, 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 fastest-growing and therefore, the focus areas 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 96%, 3% and (collectively for digital platforms and mobile financial services, and MVNO and other services) 1%, respectively, of our wireless service revenues in 2016. 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 2016 as compared to 63% and 64% for the years ended December 31, 2015 and 2014, respectively. Our mobile service revenues, were 92%, 91% and 92% of our total wireless revenues in 2016, 2015 and 2014, respectively.

Our mobile services, which accounted for approximately 96% of our wireless service revenues for the year ended December 31, 2016, are provided through Smart and DMPI with 62,763,209 total subscribers as at December 31, 2016 as compared to 68,612,118 total subscribers as at December 31, 2015, and 72,511,425 total subscribers as at December 31, 2014, representing a combined market share of approximately 50%, 55% and 62% as at December 31, 2016, 2015 and 2014, respectively. Mobile penetration in the Philippines remained stable at approximately 124% in each of 2016 and 2015, and account for approximately 34 and 36 times the country’s fixed line penetration in 2016 and 2015, 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, 2016, 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. We have also retained our leading position in the postpaid service with our combined Smart and *Sun* postpaid subscribers, representing a market share of approximately 53%.

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 Php5,112 million, or 42%, to Php17,167 million in 2016 from Php12,055 million in 2015. Our mobile internet revenues contributed 67% and 60% of our mobile data service revenues in 2016 and 2015, respectively. SMS contributed 34% and 36% of our mobile service revenues in 2016 and 2015, respectively. In addition, mobile broadband revenues, which are derived from the use of dongles and other similar mobile broadband devices, grew by Php196 million, or 2%, to Php8,147 million.

Smart’s and DMPI’s wireless network is the most extensive in the Philippines, covering substantially all of Metropolitan Manila and most of the other major population centers in the Philippines. Its dual-band GSM network allows it to efficiently deploy high capacity 1800 Megahertz, or MHz, BTS in dense urban areas and deploy its 900 MHz BTS on a relatively more

economical basis in potentially high growth, but less densely populated provincial areas. We utilize 3G high-speed packet access (HSPA), 4G HSPA+ or LTE technology and are currently upgrading our wireless broadband facilities.

Fixed Line

We are the leading provider of fixed line telecommunications services throughout the Philippines, servicing retail, corporate and small and medium sized enterprises, or SME, clients. Our fixed line business group offers voice, data and miscellaneous services. We had 2,438,473 fixed line subscribers as at December 31, 2016, an increase of 135,019, or 6%, from 2,303,454 fixed line subscribers as at December 31, 2015, mainly due to higher net additions in 2016 compared with 2015. Revenues from our fixed line business were 41%, 37% and 36% of our total revenues for the years ended December 31, 2016, 2015 and 2014, respectively. Domestic voice revenues have been declining largely due to a drop in call volumes as a result of continued popularity of alternative means of communications such as texting, e-mailing and internet telephony. An increase in our data service revenues in recent years have 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 11,893-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 consists primarily of PCEV, an investment holding company, which owns an 8.74% effective interest in Meralco as at December 31, 2015 (a decrease from 17.48% as at December 31, 2015), through its 25% equity interest in Beacon; PLDT Global Investments Corporation, or PGIC, which owns an 18.32% economic interest in Beta, an investment holding company of SPi Technologies, Inc., or SPi, 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 2017 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, 2014, 2015 and 2016.

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.

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 over 88 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.* With approximately 67 million fixed line, mobile and broadband subscribers as at December 31, 2016, we have maintained our position as a market leader in each of the fixed line, mobile 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 59% and 41%, respectively, to our total revenues in 2016, 63% and 37%, respectively, in 2015, and 64% and 36%, respectively, in 2014. 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 (such as *Facebook*, *Skype*, *Viber*, *WhatsApp*, and similar services), 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, Fintqologies 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 – broadband and data services, including mobile internet and mobile broadband. 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 agreement with BellTel.
- *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.* Following significant improvements in our financial position, we restored the payment of cash dividends to our common shareholders beginning in 2005 and declared dividend payouts of approximately 100% of our core earnings for the seven consecutive years from 2007 to 2013, approximately 90% of our core earnings for 2014 and approximately 75% of our core earnings in 2015. In 2016, we are paying out dividends of 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, 2016, 2015 and 2014:

	December 31,		
	2016	2015	2014
Systemwide mobile subscriber base	62,763,209	68,612,118	72,511,422
Prepaid	59,952,941	65,063,860	69,234,178
Postpaid	2,810,268	3,548,258	3,277,244
Home Broadband subscriber base	270,203	258,776	331,781
Growth rate of mobile subscribers			
Prepaid	(8%)	(6%)	–
Postpaid	(21%)	8%	20%
Growth rate of Home Broadband subscribers	4%	(22%)	(24%)
Wireless service revenues (in millions)	Php100,582	Php110,716	Php115,037
Mobile	96,497	105,655	108,780
Home Broadband	2,772	3,040	4,019
Digital platforms and mobile financial services	728	1,051	1,056
MVNO and others	585	970	1,182
Percentage to wireless service revenues			
Mobile	96%	95%	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%	63%	64%

Mobile Services

Our mobile business, which we provide through Smart and DMPI to approximately 63 million subscribers as at December 31, 2016, focuses on providing wireless voice and data communications, primarily through mobile, home broadband, digital platforms and mobile financial services, and inbound roaming and other services.

Smart and DMPI market nationwide mobile communications services under the brand names *Smart*, *TNT* and *Sun*. *Smart*, together with *TNT* and *Sun*, has focused on segmenting the market by offering sector-specific, value-driven packages for our subscribers. Our mobile services include a variety of data and multimedia services that cater to the growing use of smartphones by our subscribers, as well as voice and text services. We offer a variety of packages that include “buckets” of a fixed number of messages, calls of a preset duration and data allowance, with a prescribed validity period. *Smart*, *TNT* and *Sun* also provide buckets which offer voice, text and hybrid bundles available to all networks, as well as packages with unlimited on-net voice, text, volume-based data, and combinations thereof, denominations of which depend on the duration and nature of the packages.

In order to fulfill its goal of providing its subscribers with the best digital experience, Smart is committed to providing its customers with a superior data experience. Key to achieving this requires a superior network in terms of coverage, capacity and internet speeds. This involves the use of 3G and LTE technologies, and the integration of Smart and Sun networks to improve coverage and quality for subscribers of both brands, among others.

On April 13, 2016, Smart was the first to introduce LTE-Advanced in Boracay, which achieved breakthrough LTE speeds of up to 250 Mbps. The program also boosted 3G data service in Boracay behind an enhanced 3G/high speed packet access, or HSPA/HSPA+ coverage and capacity.

Since July 2016, PLDT and Smart have rolled-out carrier-grade Smart WiFi in key transport hubs, identified by the Department of Transportation, in line with the PLDT Group’s commitment to make internet available to the public at world-class speeds for a seamless digital experience. Apart from the Ninoy Aquino International Airport, the country’s biggest airport, Smart WiFi is now available in key airports all over the country, including those in Davao, Misamis Oriental, Bacolod, Iloilo, Roxas, Zamboanga, Clark, Dumaguete, Laoag, General Santos, Kalibo and Puerto Princesa. Smart WiFi was also installed in the sea ports of Batangas City and Calapan in Mindoro. It is scheduled for rollout in more regional airports, sea ports, and the rail-based MRT and LRT lines 1 and 2 in Metro Manila, and the rest of the country in the coming months.

In connection with the drive to boost our 3G/LTE data services, on July 1, 2016, we introduced *Giga Surf 50* with 1GB of open access data allowance plus 300 MB for access to *iflix*, *Spinmr*, *YouTube*, and other streaming services for Php50 valid for three days. This promo is open to *Smart Postpaid*, *Smart Prepaid*, *Smart Bro Postpaid* and *Smart Bro Prepaid* subscribers and can also be shared through Smart’s *PasaData*.

In October 2016, we also completed our spectrum refarming process in Davao which aimed to extend coverage and increase the speed and quality of our data services. As a result of capacity enhancements, the average download speeds of Smart’s 3G service in Metro Davao have increased nearly six times to approximately 6 Mbps while that of LTE has gone up more than

4.5 times to over 17 Mbps, based on internal field tests. Similar initiatives to improve network quality are currently ongoing in Cebu, Rizal and Metro Manila.

As we improve our network around the country, we continue to keep an eye on the future of mobile technology. In December 2016, Smart and Nokia successfully carried out the country's first 5G showcase over a live network at Nokia Technology Center in Quezon City, achieving 5G speeds of 2.5 Gigabits per second using 100 MHz with latency of just one millisecond. This milestone is part of Smart's roadmap to be 5G-ready by 2020 through strategic investments in infrastructure today.

Smart also teamed up with PayMaya Philippines to launch Smart Mastercard in October 2016. Under the partnership, mobile users who download the PayMaya app on their Android or iOS phones and register with their Smart, TNT or Sun number, may instantly get a virtual Smart Mastercard account number which they can load up at PayMaya load-up centers and can use at any of the more than 36 million merchants worldwide that accept Mastercard. Smart subscribers who download the PayMaya app can also get as much as 10 percent discount on *Smart Prepaid* load when they purchase in-app, as well as enjoy other exciting perks from partners.

SmartBro is a wireless broadband and data service offered to individual consumers as well as small and medium-scale enterprises in the Philippines. *Smart Bro* continues to grow mobile broadband revenues through various prepaid and postpaid offers, with various packages for both new and existing subscribers. It also recently began offering *Smart Bro Pocket WiFi*, a portable wireless router which can be shared by up to 10 users/devices at a time, and which provides connectivity at varying speeds and is supported by Smart's network utilizing HSPA, 4G HSPA+ and LTE-technology. *Smart Bro Pocket WiFi* is available in both postpaid and prepaid variants, and can even offer connectivity to areas far from major cities.

In November 2016, *SmartBro* unveiled new postpaid plans which include free *Smart Bro Pocket WiFi* devices, and provide more data and faster speeds. The plans range from Plan 299, which comes with 3.5GB of data, to Plan 999, which offers 15GB of data. All of these programs helped bring new subscribers into the Smart brand, driving growth in activations and creating excitement around Smart.

Sun postpaid plans offer a variety of services to cater to the needs of subscribers at affordable prices. The *Best Value Plans*, which start at Php350 per month, come with a free smartphone, unlimited *Sun Calls and Texts*, 250 free texts to users on other networks, and 100MB of mobile data. *Sun* also offers international direct dialing, or IDD, plans which allow subscribers to make international calls and send SMS to select countries for as low as Php1.50 per minute of voice call or per SMS. The IDD plans also come with a free Android handset and free calls and SMS to Sun and other networks, depending on the plan.

Sun Bro is an affordable wireless broadband service utilizing advanced 3.5G HSPA and LTE technology offering various plans and packages to internet users. *Sun Bro* continues to grow the value broadband segment with its Non-Stop Surf Plans and Loads.

Voice Services

Mobile voice services, which comprise all voice traffic and have remained a significant contributor to wireless revenues, generated a total of 37%, 42% and 45% of wireless service revenues in 2016, 2015 and 2014, respectively.

Data Services

Mobile revenues from our data services include mobile internet, mobile broadband and other data services.

The Philippine mobile market is one of the most SMS-intensive markets in the world, with close to a billion text messages sent per day. SMS is extremely popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications. However, the increased preference of communication through various mobile applications, social networking sites and other OTT services has provided a vast selection of communication tools and is causing a decrease in SMS revenues.

Mobile data revenues accounted for 25%, 18% and 13% of our wireless service revenues in 2016, 2015 and 2014, respectively.

Revenues from mobile internet includes web-based services such as mobile internet browsing and video streaming, net of discounts and content provider costs. Mobile internet browsing has shown significant growth as a result of the popularity of social networking and the affordability of smartphones. Mobile internet revenues accounted for 67%, 60% and 57% of our mobile data service revenues in 2016, 2015 and 2014, respectively.

Our current approach is to continue maximizing our 3G network services while upgrading our network to 4G LTE. We aim to encourage sustained growth in mobile internet browsing by offering free internet access to mobile subscribers.

Smart and DMPI offer the following VAS:

- *Smart Pasa Load, Sun Give-a-load, Dial*SOS* and *Surfloan*. *Pasa Load/Give-a-load* is a service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers. *Dial*SOS* allows Smart prepaid subscribers to borrow up to Php10 worth of load which can be used for text messages, calls and mobile browsing. *Surfloan* enables *SmartBro* prepaid subscribers to borrow up to Php10 worth of load for 20 minutes of internet browsing. Availing subscribers will be deducted upon their next top-up;

- *Infotainment*, which includes revenues from subscriptions and downloads of broadcast materials that are intended both to entertain and to inform, as well as info-on-demand;
- *Music*, which includes revenues from music streaming apps – *Spinnr* and *Deezer*, as well as revenues from music subscriptions mainly ring back tunes and music downloads;
- *Gaming*, which includes revenues from various game subscriptions, downloads, and purchases;
- *Videos*, which includes revenues from video subscriptions, downloads and video and movie streaming via *iflix* and *Fox*;
- *Financial services*, which include revenues from Smart Money Clicks via Smart Menu and mobile banking. Smart Money Clicks includes the following services: balance inquiry, re-load prepaid accounts, bills payment, card management and internet purchases;
- *Communicate*, which includes revenues from group chat, text and voice messaging; and
- *Other VAS*, which includes revenues from direct carrier billings that covers application program interface, or API, downloads, and other VAS services.

Rates

Our current policy is to recognize a prepaid subscriber as “active” only when the subscriber activates and uses the SIM card. A prepaid mobile subscriber is considered inactive if the subscriber does not reload within 120 days after the full usage or expiry of the last reload.

Smart Prepaid and *TNT* call and text prepaid cards are sold in denominations of Php100, Php300 and Php500. The Php300 and Php500 cards include 33 and 83 free text messages, respectively. 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 introduction of 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 Php5 to Php1,000 with corresponding expiration periods. The introduction of *Smart eLoad* was followed by *Pasa Load*, a derivative service, allowing prepaid and postpaid subscribers to transfer denominations to other prepaid subscribers.

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 voice, text and data packages under its various brands in order to be competitive. These plans include the *All In*, *Unli Voice and Text*, and high data allocation postpaid plans with monthly service fees ranging from Php250 to Php2,999 for *Smart Postpaid* and from Php3,500 to Php8,000 for *Smart Infinity* plans. A certain amount of free calls, texts and data are offered pursuant to these plans, with 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 the relaunch of *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. This service was expanded to 158 countries in 2016. 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 Php390 per day in Asia and Php490 per day elsewhere in the world.

In October 2016, Smart also launched *Smart Chat Abroad*, a data roaming service 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. The standard charge for 15 minutes of internet access is Php5 for *Smart Bro* prepaid and Php2.50 for *Smart Bro* postpaid. We also offer various additional load packages covering all-day access, volume-based charging and longer validity periods. For example, *SurfMax* is a package which offers all-day internet access for up to 30 days, and *GigaSurf* is a volume based data package, which includes a free entertainment bundle and supports the *Pasa-Data* feature, enabling users to share their open access volume to other subscribers.

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 109 exclusive provincial distributors, and 67 key account dealers, 17 of which are 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%.

Home Broadband Service

HOMEBro is a fixed wireless broadband service being offered under PLDT’s *HOME* brand. *PLDT HOMEBro* is powered by Smart’s wireless broadband base stations which allow subscribers to connect to the internet using indoor or outdoor customer premises equipment through various wireless technologies. *Home Ultera*, our fixed wireless broadband offering specifically designed for the home, offers customized packages and utilizes the TD-LTE technology.

In addition to providing the country’s most affordable home broadband service, PLDT has always been at the forefront of offering 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

HOMEBro Ultera offers *LTE FUN* packages with speeds ranging from 3Mbps up to 20 Mbps. These packages include *Plan 699*, which offers up to 3Mbps at 30GB monthly volume, *Plan 999*, which offers up to 5Mbps at 50GB monthly volume, *Plan 1599*, which offers up to 10Mbps at 70GB, *Plan 1999*, which offers up to 15Mbps at 80GB, and *Plan 2999*, which offers up to 20Mbps at 100GB monthly volume capacity.

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 and PayMaya Philippines focus on digital customer engagement, digital marketing solutions, digital financial services, and e-Commerce platforms, as well as incubation of other new technologies.

Digital Customer Engagement

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

Talk2 is an OTT app suitable for overseas Filipinos, enabling users to have a Philippine number abroad and also providing users with voice call and SMS functionalities at local rates.

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.

Digital Marketing Solutions

HATCH provides end-to-end content, advertising, and platform solutions that aims to connect brands to people and communities.

VYGR provides digital marketing services to customers using industry best practices that translate to lower cost and better reach.

Digital Financial Services

PayMaya provides an OTT digital payments mobile app, remittance and other related services, including *Smart Money*, the pioneering mobile money service linked to the Smart SIM and mobile phone. *PayMaya* also offers *Smart Padala*, the leading domestic remittance service brand in the market.

FINTQ provides consumer-centric and demand-driven innovative digital platforms, products and services for financial and non-financial institutions across underserved, unserved and banked customers. These platforms cover digital lending, disbursements, micro-savings, micro-insurance, NFC contactless and online payments, and anti-fraud and card control solutions, among others.

e-Commerce Platforms

Takatack is a digital commerce marketplace that brings together products and different merchants, catering to both consumers and enterprises.

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

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, 2016, 2015 and 2014:

	December 31,		
	2016	2015	2014
Systemwide fixed line subscriber base	2,438,473	2,303,454	2,207,889
Postpaid	2,406,881	2,269,883	2,149,846
Prepaid	31,592	33,571	58,043
Growth rate of fixed line subscribers			
Postpaid	6%	6%	7%
Prepaid	(6%)	(42%)	(3%)
Number of fixed line employees	7,205	7,039	7,405
Number of local exchange line subscribers per employee	338	327	298
Fixed line service revenues (in millions)	Php69,006	Php65,475	Php64,107
Voice	29,630	30,253	32,356
Data	37,711	33,748	30,332
Miscellaneous	1,665	1,474	1,419
Percentage to fixed line service revenues			
Voice	43%	46%	51%
Data	55%	52%	47%
Miscellaneous	2%	2%	2%
Percentage of fixed line revenues to total service revenues	44%	41%	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, or BCC, PLDT Clark Telecom, Inc., or ClarkTel, PLDT Subic Telecom, Inc., or SubicTel, Smart Broadband, Primeworld Digital Systems, Inc., or PDSI, PLDT-Maratel, Inc., or PLDT Maratel and Digitel. Together, these subsidiaries account for approximately 4% of our consolidated fixed line subscribers.

Revenues from our local exchange service amounted to Php17,792 million in 2016, Php17,076 million in 2015 and Php16,587 million in 2014. The increases in revenues in 2016, 2015 and 2014 were primarily due to higher weighted average postpaid billed lines.

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. PLDT also offers wireless broadband services bundled with voice, namely, *HOME Bundle 1299* and *Internet@HOME* plans are offered in two plans with monthly service fees of Php990 and Php1,299.

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, or CERA, 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. Revenues from our fixed line international service amounted to Php8,056 million in 2016, Php9,219 million in 2015 and Php11,404 million in 2014.

The continued popularity of OTT services that offer free on-net calling services (such as *Skype*, *Viber*, *Line*, *Facebook Messenger*, *GoogleTalk* and *WhatsApp*, and similar services), have negatively impacted the international call volumes of PLDT in 2016.

We have been pursuing a number of initiatives to sustain our international service business, including: (i) adjusting 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 cuts in international direct dialing rates, innovative pricing packages for large accounts and loyalty programs for customers. 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, 2016, 2015 and 2014:

	Net Settlement		
	2016	2015	2014
	(in millions)		
Saudi Arabia	US\$43	US\$58	US\$93
United Arab Emirates	28	25	19
United States	15	12	17
Hong Kong	7	8	7
Canada	6	7	9
UK	3	3	3
Malaysia	2	6	10
Japan	2	3	4
Taiwan	2	3	4
Others	7	12	13
Total	US\$115	US\$137	US\$179

Rates

The average termination rate for PLDT was approximately US\$0.085 in 2016 and 2015, and approximately US\$0.09 per minute in 2014.

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 Php1.50 per minute to Php15.00 per minute. PLDT *Budget Card* comes in two denominations: Php100, which can be consumed within 30 days from first use, and Php200, which can be consumed within 60 days from first use.

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. Revenues from our domestic service amounted to Php3,782 million in 2016, Php3,958 million in 2015 and Php4,365 million in 2014.

Mobile substitution, OTT voice call alternatives and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, particularly e-mailing, SMS, social networking sites and OTT services, 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 Php3.00 per minute to the terminating carrier. 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 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, 2016, 2015 and 2014:

	December 31,		
	2016	2015	2014
Systemwide home broadband subscriber base	1,450,550	1,255,864	1,149,328
Growth rate of home broadband subscribers	16%	9%	17%
Data service revenues (in millions)	Php37,711	Php33,748	Php30,332
Home broadband	14,896	12,338	10,935
Corporate data and leased lines	19,980	18,806	17,325
Data Center and IT	2,835	2,604	2,072
Percentage to fixed line service revenues			
Home broadband	22%	19%	17%
Corporate data and leased lines	29%	29%	27%
Data Center and IT	4%	4%	3%
Percentage of data service revenues to total service revenues	55%	52%	47%

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 2014 to 2016. Revenues from our data services amounted to Php37,711 million in 2016, Php33,748 million in 2015 and Php30,332 million in 2014.

The continuous upgrade and expansion of our network using next-generation technologies and our thrust into expansion of our digital infrastructure and capabilities, have enabled us to offer a growing range of IT and digital services that cater to the evolving needs of our customers.

Domestic data services consist of broadband data services and private networking solutions such as IP-VPN, Metro Ethernet and leased lines, among others. In 2016, we continued to broaden our service offerings through the expansion and enhancement of some of our existing offerings.

Broadband data services provided by our PLDT HOME include: (i) *DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches; and (ii) *Fibr*, our most advanced broadband service for high-speed service which is delivered over fiber optic cable connectivity.

In 2015, PLDT HOME introduced new bandwidth variants of DSL offerings for businesses with speeds going as high as 20 Mbps and hardware bundle options where large enterprise customers are able to get top-of-the-line, branded IT devices of their choice. *Fibr* also evolved, as we introduced several bandwidth variants, this time offering higher speeds that can go up to 100 Mbps.

PLDT HOME remains to be the nation's leading home broadband service provider, serving over 1.4 million subscribers nationwide. In addition to network expansion, PLDT HOME is also aggressively modernizing and upgrading its current copper network through the use of new technologies such as Very-high-bit-rate, or VDSL, which delivers speeds of up to 100 Mbps. Pilot testing of G.Fast and Gigawire technologies are also currently underway, which would allow subscribers to enjoy speeds of up to 500 Mbps on their copper lines.

PLDT HOME is strongly committed to fulfill our 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 *Connected Home* banner, reaching close to half a million digital services nationwide.

Consistent with its goal of always spearheading innovation for the home, PLDT launched the *Smart Home* digital services in 2016. The *Smart Home* digital ecosystem is built on the pillars of connectivity, peace of mind, entertainment, and convergence. The connectivity that binds the *Smart Home* is best experienced through devices such as the Telpad (the world's first landline, broadband and tablet service in one) and the TVolution (which turns an ordinary TV into a smart TV), supported by Home Fibr's fastest Internet speeds of up to 1 Gbps. This allows for high-speed browsing of multiple websites and the country's first symmetrical speed service which provides equal upload and download speeds.

PLDT HOME also pioneered the 'peace of mind' suite which features security-enhancing products such as 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 global telecommunications company Alcatel.

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. These partners include *iflix*, Southeast Asia's internet TV service provider; Netflix, the U.S.-based internet TV pioneer; Signal Digital TV, the Philippine's pay 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*, an OTT content platform in the Philippines.

PLDT HOME is also a leader in the convergence of wired and wireless connections through its data sharing feature which allows subscribers to seamlessly share data with their Smart mobile phones, thus revolutionizing the way families share and enjoy their high-speed connection. 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 strong connections even outside the home.

Leased lines and other data services include: (i) Diginet, a domestic private leased line service, specifically supporting Smart's fiber optic and 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) i-Gate, our premium, direct internet access service, which continues to be the choice among enterprise users for dedicated internet connectivity, where users can be provided with as much as 1,000 Mbps of direct i-Gate internet bandwidth, complemented by industry-leading Service Level Agreements; (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 data networking services to multinational companies.

In 2013, PLDT launched a fully meshed and managed international platform to the U.S. and Hong Kong designed for automatic switching and rerouting in milliseconds that enables various international submarine cables to act as multiple protections while promoting single connectivity. This platform provides subscribers a combination of low latency and high capacity services that allow uninterrupted service delivery and improved overall network service performance to customers who demand maximum uptime and availability on their business data, voice, video and other telecommunication needs.

In 2015, PLDT extended its global reach with new points of presence in the U.K. and the east coast of the United States, in addition to PLDT's growing managed international network, which includes the west coast of the United States, Hong Kong and Singapore. 2016 saw the addition of a new international Point of Presence (PoP) in Sydney, Australia, which complements existing PoPs in the United States, Hong Kong, Singapore, and the United Kingdom. PLDT's sixth PoP further strengthens PLDT's formidable global network, resulting in maximum international connectivity.

VITRO™ data centers and IPC data centers, 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, the country's biggest data center with 3,600 racks at full capacity and located in one of the country's premiere business districts. VITRO Makati is equipped with highly-resilient systems and facilities to guarantee continuous operations, ensuring that businesses can utilize robust and scalable digital infrastructure, as well as world-class 24/7 technical support capabilities. As at December 31, 2016, ePLDT Group had a total of 6,797 rack capacity in seven locations covering Metro Manila, Subic and Cebu. ePLDT, PLDT's IT subsidiary, manages and operates the four VITRO™ data center facilities located in Pasig, Cebu, Subic and Makati, with a total of 12,108 square meters of server farm space (or 5,602 rack capacity), and IPC, ePLDT's Cloud subsidiary, manages and operates the three IPC 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 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, Platform-as-a-Service, Software-as-a-Service, Unified Comms-as-a-Service, Contact-Center-as-a-Service, Desktop-as-a-Service, Disaster Recovery-as-a-Service, Coupa Spend Management and the Oracle Cloud Suite.

Complementing these capabilities are partnerships with AWS, Google, IBM-Softlayer, Salesforce.com, Netsuite, SAP, and Microsoft, among others where PLDT offers professional services beyond infrastructure and license-selling. Among the group's cloud credentials and achievements are Google for Work Gold Partner, Microsoft Cloud Deployment Partner, Microsoft Cloud Services Partner, Microsoft Productivity Competency Gold Partner, SAP Gold Partner and Salesforce Premiere Partner.

PLDT, through its IT subsidiary, ePLDT, also provides big data services to enable local enterprises advance their businesses through a range of digitally transformative solutions. These solutions allow enterprises to analyze openly available data and gain insights that drive predictive and data-driven decision-making in their businesses. PLDT is also a member of the Open Data Platform, a worldwide consortium of big data global technology leaders that aims to standardize the core platform and accelerate big data delivery across markets. PLDT is the only ASEAN company in the ODP which has a membership of multinational companies including GE, Hortonworks, IBM, Infosys, Pivotal, SAS, and VMWare among others.

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. Revenues from our miscellaneous services amounted to Php1,665 million in 2016, Php1,474 million in 2015 and Php1,419 million in 2014.

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. In addition, 25 of Smart's mobile switching centers were housed in PLDT's fixed line complexes as at December 31, 2016. 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. To date, Smart has established its LTE network coverage with 3,842 LTE base stations in strategic locations in the Philippines.

In 2016, PLDT and Smart have also rolled-out carrier-grade Smart WiFi in key transport hubs, identified by the Department of Transportation, in line with the PLDT Group's commitment to make internet available to the public at world-class speeds for a seamless digital experience. Smart WiFi is likewise scheduled for rollout in more regional airports, sea ports, and the rail-based MRT and LRT lines 1 and 2 in Metro Manila, and the rest of the country, in the coming months. Forthcoming are deployments in select high traffic areas in the nation's capital and strategic locations to benefit more members of the Philippine population.

Home Broadband and Other Services

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, 2016, we have managed to modernize NGN soft switches including international gateways, and are continually expanding the wireline infrastructure in areas we believe are unserved and underserved areas enabling our customers to access to the Philippines' largest network and to the rest of the world.

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 1 Gbps, download 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 VDSL technology in vertical deployments (buildings) to provide data rates up to 100Mbps simultaneously in both the upstream and downstream directions. PLDT has also recently adopted the new capabilities such as G.FAST and Gigawire 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 are 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 1 Gbps. These MSAP networks are deployed in strategic areas nationwide.

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 10 Gbps 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 7.4 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 46,316 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, 2016, PLDT's international long distance facilities allow direct voice correspondence with 85 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 four international internet gateways. In addition to the three international internet gateways in operation in 2015, in June 2016, the Company put into service a fourth international internet gateway in Lucena. This fortifies the PLDT Group's infrastructure for internet and IP network 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, and therefore achieve the best latency and at the same time save on international costs, PLDT employs local transparent caching in addition to partnering with various popular internet content providers, which together have much improved our customers' internet experience. To date, PLDT is able to cache/access locally high demand content including those from *Google*, *Facebook* and content hosted by CDN player, Akamai. The Company also signed in 2016 a local caching agreements with Microsoft and Netflix, whose dedicated local caching servers are expected to be operational by the first half of 2017. The servers employed in these caches are able to identify high demand content and store these locally.

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 FASTER cable system, which connects Japan and U.S. Mainland. 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 Southeast Asia-Middle East-Western Europe No. 3 Cable, or SEA-ME-WE-3	Philippines, Hong Kong, Japan, Korea, Malaysia, Singapore, China and Taiwan 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

To further build on its footprint towards Europe and the Middle East, PLDT invested in the Asia Africa Europe Cable No. 1 (AAE-1). AAE1 is expected to be operational by the second half of 2017. Additionally, the Company is investing in new cable systems in the Pacific (together with major Asian carriers and OTT players) as well as in Asian region, both investments are being made to support the expected new fixed and mobile services requirements that will require significant bandwidth in 3-4 years' time.

PLDT's automatic optical transport switching system using multiple 10G backbone links continues to provide redundancy, minimize service disruptions, and provide continuity of service to premium enterprise clients as well as to PLDT for other important services. The capacity of the domestic portion of this switching network was upgraded in February 2016 in order to further strengthen PLDT's international infrastructure and support the growing business requirements in Hong Kong, Japan, Singapore and the continental U.S.

With regard to service enabling platforms, the Company's *Telco-in-a-box* platform supports voice and data services that are being offered in various parts of the world to serve mainly overseas Filipinos. The platform provides real-time charging, self-care, dealer portal, 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, 2016, PLDT has direct interconnection agreements with 85 foreign carriers from 44 countries.

The average international termination rate for calls to PLDT was retained at approximately US\$0.085 per minute in 2016. 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.

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	April 15, 2017
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	1800	20 MHz x 2
	3G-WCDMA	2100	15 MHz x 2
DMPI	CDMA 2000	1900	2 channels of 1.25 MHz of bandwidth
	3G-WCDMA	2100	10 MHz x 2
	TD-LTE	2500	15 MHz
	TD-LTE	3400	30 MHz
	GSM 1800	1800	17.5 MHz x 2
SBI	TD-LTE	2500	20 MHz
	TD-LTE	3400	30 MHz
PDSI	TD-LTE	2300	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 has received a certificate of compliance from the NTC.

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 remain 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 has challenged this decision and the resolution before the Court of Appeals. On June 27, 2016, the Court of Appeals rendered a decision setting aside the Decision dated November 20, 2012 and Resolution dated May 07, 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 Court of Appeals further permanently enjoined the NTC and any and all of its agents from implementing the MC No. 02-10-2011. NTC and Intervenor Bayan Muna filed their respective Motions for Reconsideration 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 Court of Appeals, 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 Court of Appeals 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 Court of Appeals 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 exchanges 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. Although Smart and DMPI have not conducted a public offering of their shares, Smart's recently renewed franchise contains an exemption from the requirement to do so, provided it remains "wholly-owned by a publicly-listed company with at least 30% of whose authorized capital stock is publicly owned."

However, 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, 2016, PAPTELCO has 36 member companies, of which 31 are active, operating 73 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

The Company has continuously demonstrated its commitment to complying with environmental laws. The Property Facilities – Risk Management and Compliance Division with Facilities Management and Network Operation Teams intensified collaboration with the Department of Environment and Natural Resources, or DENR, Regional Offices on compliance matters. Among the major programs implemented in 2016 are the following:

- Continuing training, accreditation and reporting to DENR Regional Offices of Company-appointed Pollution Control Officers, or PCO. The program was intended to meet the required PCO in the regions and address timely compliance of sites.
- Periodic air sampling on standby generator sets showing acceptable results with all tested generator sets meeting the National Emission Standards for Source Specific Air Pollutants.
- Regular facilitation of site-specific permits primarily on Permit to Operate Air Pollution Source Installation for sites with standby generator set and Hazardous Waste Registration for sites that generate used oil, used batteries, busted mercury-containing lamps, among others.
- Completion of Sewage Treatment Plant in PLDT-Sampaloc Manila Office assuring acceptable quality to standards of wastewater discharge to public sewer.

The Company has not been subjected to any significant fines or regulatory action involving non-compliance with environmental regulations of the Philippines. Compliance to environmental regulations is always a top priority of the Company and above all to protect and preserve the environment where the Company operates.

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 four office buildings located in Makati City and owns and operates 291 fixed line exchanges nationwide, of which 48 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, 2016, our principal properties, excluding property under construction, consisted of the following, based on net book values:

- 73% consisted of cable, wire and mobile facilities, including our DFON, subscriber cable facilities, inter-office trunking and toll cable facilities and mobile facilities;

- 12% consisted of central office equipment, including IGFs, pure national toll exchanges and combined local and toll exchanges;
- 8% consisted of land and improvements and buildings, which we acquired to house our telecommunications equipment, personnel, inventory and/or fleet;
- 2% 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 2017, 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 2017 estimated consolidated capital expenditures is approximately Php46 billion, of which approximately Php29 billion is estimated to be spent by our wireless segment and approximately Php17 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, 2016 and 2015 and for the three years in the period ended December 31, 2016 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 has been converted to U.S. dollars at the exchange rate at December 31, 2016 of Php49.77 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, 2016, 2015 and 2014 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, 2016, 2015 and 2014:

	December 31,		
	2016	2015	2014
	(in million pesos)		
Adjusted EBITDA	Php61,161	Php70,218	Php76,750
Add (deduct) adjustments:			
Equity share in net earnings of associates and joint ventures	1,181	3,241	3,841
Interest income	1,046	799	752
Gains (losses) on derivative financial instruments – net	996	420	(101)
Amortization of intangible assets	(929)	(1,076)	(1,149)
Asset impairment	(1,074)	(5,788)	(3,844)
Provision for income tax	(1,909)	(4,563)	(10,058)
Foreign exchange losses – net	(2,785)	(3,036)	(382)
Impairment of investments	(5,515)	(5,166)	–
Financing costs – net	(7,354)	(6,259)	(5,320)
Depreciation and amortization	(34,455)	(31,519)	(31,379)
Other income – net	9,799	4,804	4,980
Total adjustments	(40,999)	(48,143)	(42,660)
Consolidated net income	Php20,162	Php22,075	Php34,090

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2016, 2015 and 2014:

	December 31,		
	2016	2015	2014 ⁽¹⁾
	(in million pesos)		
Consolidated core income	Php27,857	Php35,212	Php37,410
Add (deduct) adjustments:			
Gains on derivative financial instruments – net, excluding hedge costs	1,539	762	208
Net income (loss) attributable to noncontrolling interests	156	10	(1)
Net tax effect of aforementioned adjustments	79	260	778
Core income adjustment on equity share in net losses of associates and joint ventures	(95)	(179)	(79)
Asset impairment	(1,074)	(5,788)	(3,844)
Foreign exchange losses – net	(2,785)	(3,036)	(382)
Impairment of investments	(5,515)	(5,166)	–
Total adjustments	(7,695)	(13,137)	(3,320)
Consolidated net income	Php20,162	Php22,075	Php34,090

The following table shows the reconciliation of our consolidated basic and diluted core earnings per shares, or EPS, to our consolidated basic and diluted EPS attributable to common equity holders of PLDT for the years ended December 31, 2016, 2015 and 2014:

	2016		2015		2014	
	Basic	Diluted	Basic	Diluted	Diluted	Diluted
Consolidated core EPS	Php128.68	Php128.68	Php162.70	Php162.70	Php172.88	Php172.88
Add (deduct) adjustments:						
Gains on derivative financial instruments – net, excluding hedge costs	4.98	4.98	2.47	2.47	0.55	0.55
Core income adjustment on equity share in net losses of associates and joint ventures	(0.45)	(0.45)	(0.83)	(0.83)	(0.37)	(0.37)
Foreign exchange losses – net	(10.40)	(10.40)	(11.85)	(11.85)	(1.40)	(1.40)
Asset impairment	(30.48)	(30.48)	(50.64)	(50.64)	(14.15)	(14.15)
Total adjustments	(36.35)	(36.35)	(60.85)	(60.85)	(15.37)	(15.37)
Consolidated EPS attributable to common equity holders of PLDT	Php92.33	Php92.33	Php101.85	Php101.85	Php157.51	Php157.51

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

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 Php6,912 million, Php6,376 million and Php6,692 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total finance lease obligations amounted to nil and Php1 million as at December 31, 2016 and 2015, 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 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.

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	May 30, 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 Php12,647 million and Php12,749 million as at December 31, 2016 and 2015, 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”.

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 and 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”. 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 such 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 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. Further, 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, *Investment in Associates and Joint Ventures*. 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 decline in fair value of our investment in Rocket to Php14,587 million as at December 31, 2015 is considered significant as the cumulative net losses from changes in fair value amounting to Php5,124 million represents 26% decline in value below cost. As a result, we recognized in our consolidated income statement an impairment of our investment in Rocket amounting to Php5,124 million for the year ended December 31, 2015. We recognized additional impairment loss of Php5,381 million as the fair value of Rocket further declined to Php9,206 million for the six months ended June 30, 2016. We recognized an unrealized gain of Php852 million in the "Net gains (losses) on available-for-sale financial investments" account in our consolidated other comprehensive income for the six months ended December 31, 2016 due to slight recovery of Rocket's fair value to Php10,058 million as at December 31, 2016. See related discussion on *Note 5 – Income and Expenses* and *Note 11 – Available-for-Sale Financial Investments – Investment of PLDT Online in Rocket* 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 the 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 cash-generating units, or 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 Php1,074 million, Php5,788 million and Php3,844 million for the years ended December 31, 2016, 2015 and 2014, 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 *Notes 9, 10, 15 and 19*, 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 estimate of the useful lives of our property and equipment is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property and equipment 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 our property and equipment.

The total depreciation and amortization of property and equipment amounted to Php34,455 million, Php31,519 million and Php31,379 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php203,188 million and Php195,782 million as at December 31, 2016 and 2015, 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 Php929 million, Php1,076 million and Php1,149 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total carrying values of intangible assets with finite lives amounted to Php4,396 million and Php5,219 million as at December 31, 2016 and 2015, 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 Php5,829 million and Php10,759 million as at December 31, 2016 and 2015, respectively. Total consolidated benefit from deferred income tax amounted to Php4,134 million, Php4,710 million and Php1,024 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total consolidated recognized deferred income tax assets amounted to Php27,348 million and Php21,941 million as at December 31, 2016 and 2015, 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 Php8,027 million, Php3,391 million and Php2,023 million for the years ended December 31, 2016, 2015 and 2014, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php24,436 million and Php24,898 million as at December 31, 2016 and December 31, 2015, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment, Note 17 – Trade and Other Receivables and Note 28 – Financial Assets and Liabilities* 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, operating margin, 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 Php1,775 million, Php1,895 million and Php1,702 million for the years ended December 31, 2016, 2015 and 2014, respectively. The prepaid benefit costs amounted to Php261 million and Php306 million as at December 31, 2016 and 2015, respectively. The accrued benefit costs amounted to Php11,206 million and Php10,197 million as at December 31, 2016 and 2015, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 19 – Prepayments and Note 26 – Employee Benefits – Defined Benefit Pension Plans* 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/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/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 Php1,582 million and Php1,437 million as at December 31, 2016 and 2015, 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 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, 2016 amounted to Php8,120 million and Php160,990 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2015 amounted to Php3,277 million and Php165,572 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, 2016

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, 2016 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, 2016, 2015 and 2014. In each of the years ended December 31, 2016, 2015 and 2014, a 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 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. Additionally, we reclassified our impairment on investments not directly affecting operations (most significantly, the impairment of our investment in Rocket), from operating expenses to other expenses. Accordingly, we reclassified prior years' financial information to conform with the current year's presentation in order to provide a clear comparison.

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
	(in millions)				
For the year ended December 31, 2016					
Revenues	Php104,914	Php72,728	Php20	(Php12,400)	Php165,262
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%	–	–	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
For the year ended December 31, 2014					
Revenues	118,879	66,178	–	(14,222)	170,835
Expenses	89,102	56,855	56	(15,556)	130,457
Other income (expenses)	(724)	217	5,611	(1,334)	3,770
Income before income tax	29,053	9,540	5,555	–	44,148
Provision for income tax	7,158	2,818	82	–	10,058
Net income/Segment profit	21,895	6,722	5,473	–	34,090
Adjusted EBITDA	50,917	24,555	(56)	1,334	76,750
Adjusted EBITDA margin ⁽¹⁾	44%	38%	–	–	47%
Core income	25,176	6,691	5,543	–	37,410

⁽¹⁾ Adjusted EBITDA margin for the year is measured as Adjusted EBITDA from continuing operations divided by service revenues.

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 corporate data and leased lines, miscellaneous and non-service revenues from our fixed line business, as well as higher home broadband revenues.

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
(in millions)					
For the year ended December 31, 2016					
Service Revenues					
<i>Wireless</i>					
Mobile	Php100,582			(Php1,467)	Php99,115
Home Broadband	96,497			(1,431)	95,066
Digital platforms and mobile financial services	2,772			(14)	2,758
MVNO and others	728			(19)	709
	585			(3)	582
<i>Fixed Line</i>					
Voice		Php69,006		(10,920)	58,086
Data		29,630		(4,128)	25,502
Home broadband		37,711		(5,984)	31,727
Corporate data and leased lines		14,896		(167)	14,729
Data Center and IT		19,980		(5,025)	14,955
Miscellaneous		2,835		(792)	2,043
		1,665		(808)	857
<i>Others</i>					
			Php20	(11)	9
Total Service Revenues	100,582	69,006	20	(12,398)	157,210
Non-Service Revenues					
Sale of computers, 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					
<i>Wireless</i>					
Mobile	110,716			(1,528)	109,188
Home Broadband	105,655			(1,480)	104,175
Digital platforms and mobile financial services	3,040			(24)	3,016
MVNO and others	1,051			(3)	1,048
	970			(21)	949
<i>Fixed Line</i>					
Voice		65,475		(11,733)	53,742
Data		30,253		(4,454)	25,799
Home broadband		33,748		(6,578)	27,170
Corporate data and leased lines		12,338		(10)	12,328
Data Center and IT		18,806		(5,863)	12,943
Miscellaneous		2,604		(705)	1,899
		1,474		(701)	773
Total Service Revenues	110,716	65,475	–	(13,261)	162,930
Non-Service Revenues					
Sale of computers, 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	Php115,513	Php68,865	Php–	(Php13,275)	Php171,103

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	%
(in millions)						
Wireless	Php104,914	64	Php115,513	68	(Php10,599)	(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	Php165,262	100	Php171,103	100	(Php5,841)	(3)

Expenses

Consolidated expenses increased by Php1,291 million, or 1%, to Php140,559 million in 2016 from Php139,268 million in 2015, as a result of higher expenses related to depreciation and amortization, asset impairment, cost of sales, and operating expenses related to professional and other contracted services, rent, and repairs and maintenance, partially offset by lower expenses related to selling and promotions, compensation and employee benefits, taxes and licenses, communication, training and travel, and other operating expenses, as well as lower interconnection costs.

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	%
	(in millions)					
Wireless	Php93,204	66	Php95,358	68	(Php2,154)	(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	Php140,559	100	Php139,268	100	Php1,291	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 the combined effects of the following: (i) other income of Php4,284 million in 2016 as against other expenses of Php362 million in 2015 due to higher gain on sale of Beacon shares by PCEV in 2016 compared to gain on sale of Beacon's Meralco shares in 2015 and a higher gain on sale of property, partly offset by higher impairment resulting from the fair value decline of our investment in Rocket; (ii) higher net gain on derivative financial instruments by Php576 million on account of mark-to-market gains on foreign exchange derivatives due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar, partly offset by narrower dollar and peso interest rate differentials in 2016; (iii) lower foreign exchange losses by Php251 million due to lower net foreign currency-denominated liabilities, partly offset by higher level of depreciation of the Philippine peso relative to the U.S. dollar to Php49.77 as at December 31, 2016 from Php47.12 as at December 31, 2015 and Php44.74 as at December 31, 2014; (iv) higher interest income by Php247 million due to an increase in principal amount of temporary cash investments and the higher weighted average rate of the Philippine peso relative to the U.S. dollar in 2016, partly offset by lower weighted average interest rates; (v) higher net financing costs by Php1,095 million due to higher outstanding loan balance, higher weighted average interest rate, higher financing charges and higher weighted average rate of the Philippine peso relative to the U.S. dollar in 2016, partly offset by higher capitalized interest; and (vi) a decrease in equity share in net earnings of associates by Php2,060 million due to lower share in net earnings of Beacon, equity share in the net losses of VTI, Philippines Internet Holding S.à.r.l., or PHIH, and ECommerce Pay, and higher share in net losses of Cignal TV and AF Payments, Inc., or AFPI, for the year ended December 31, 2016, partly offset by higher share in net earnings of Beta due to the sale of its SPi CRM business, and Hastings.

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	%
	(in millions)			
Wireless	(Php3,517)	(Php1,958)	(Php1,559)	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	(Php2,632)	(Php5,197)	Php2,565	(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. The decrease was mainly due to the combined effects of the following: (i) lower consolidated revenues by Php5,841 million; (ii) higher consolidated expenses by Php1,291 million; (iii) a decrease in consolidated other expenses – net by Php2,565 million; and (iv) a decrease in consolidated provision for income tax by Php2,654 million. Our consolidated basic and diluted EPS decreased to Php92.33 in 2016 from consolidated basic and diluted EPS of 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	%
	(in millions)					
Wireless	Php9,463	47	Php15,434	70	(Php5,971)	(39)
Fixed line	8,134	40	6,193	28	1,941	31
Others	2,565	13	448	2	2,117	473
Consolidated	Php20,162	100	Php22,075	100	(Php1,913)	(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 consolidated revenues, higher provisions for doubtful accounts and inventory obsolescence, as well as an increase in cost of sales, partially offset by lower consolidated cash operating expenses mainly driven by selling and promotions, compensation and employee benefits, taxes and licenses, and interconnection costs.

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	%
(in millions)						
Wireless	Php32,661	53	Php44,237	63	(Php11,576)	(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	Php61,161	100	Php70,218	100	(Php9,057)	(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 lower consolidated Adjusted EBITDA and higher depreciation, partially offset by a decrease in other expenses and lower provision for income tax. Our consolidated basic and diluted core EPS, decreased to Php128.68 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	%
(in millions)						
Wireless	Php11,402	41	Php22,512	64	(Php11,110)	(49)
Fixed line	7,746	28	6,539	19	1,207	18
Others	8,709	31	6,161	17	2,548	41
Consolidated	Php27,857	100	Php35,212	100	(Php7,355)	(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	%
(in millions)						
Service Revenues:						
Mobile	Php96,497	92	Php105,655	91	(Php9,158)	(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	Php104,914	100	Php115,513	100	(Php10,599)	(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	%
	(in millions)					
Mobile Services:						
Voice	Php37,094	38	Php46,129	44	(Php9,035)	(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	Php96,497	100	Php105,655	100	(Php9,158)	(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.

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

	2016	%	2015	%	Decrease	
					Amount	%
	(in millions)					
Voice Services:						
Domestic	Php28,666	77	Php35,152	76	(Php6,486)	(18)
International	8,428	23	10,977	24	(2,549)	(23)
Total	Php37,094	100	Php46,129	100	(Php9,035)	(20)

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 value-added services, or 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.

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

	2016	%	2015	%	Decrease	
					Amount	%
	(in millions)					
SMS Services:						
Domestic ⁽¹⁾	Php30,848	94	Php35,445	93	(Php4,597)	(13)
International	1,897	6	2,537	7	(640)	(25)
Total	Php32,745	100	Php37,982	100	(Php5,237)	(14)

⁽¹⁾ Includes revenues, net of discounts and content provider costs, from Smart Pasa Load, Sun Give-a-load and Dial*SOS; Music (Spinnr and Deezer, music subscription mainly ring back tones and music downloads); Gaming (games subscriptions, downloads, and purchases); Videos (video subscriptions, downloads and video and movie streaming via iflix and Fox); Infotainment (subscriptions and downloads of broadcast materials that are intended both to entertain and to inform, as well as info-on-demand); financial services (revenues from Smart Money Clicks via Smart Menu and mobile banking); Communicate, (revenues from group chat, text and voice messaging services); and Other VAS (includes revenues from application program interface (API) downloads, info-on-demand and voice text services).

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.

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

	2016	%	2015	%	Increase	
					Amount	%
	(in millions)					
Data Services:						
Mobile internet ⁽¹⁾	Php17,167	67	Php12,055	60	Php5,112	42
Mobile broadband	8,147	32	7,951	39	196	2
Other data	203	1	173	1	30	17
Total	Php25,517	100	Php20,179	100	Php5,338	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 over-the-top, or OTT, services. Mobile internet services accounted for 18% and 11% of our mobile service revenues in 2016 and 2015, respectively. Data offerings such as *Smart Big Bytes Barkada*, *Shared Data*, *Giga Surf* and *App on Flexibundles* were also introduced during the year to boost data usage.

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.

Prepaid and Postpaid Revenues, and Inbound Roaming and Others

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

	2016	2015	Decrease	
			Amount	%
			(in millions)	
Mobile service revenues	Php96,497	Php105,655	(Php9,158)	(9)
<i>By service type</i>				
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.

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.

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

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

	2016	2015	Increase (Decrease)	
			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 following table summarizes our average monthly churn rates for the years ended December 31, 2016 and 2015:

	2016	2015
	(in %)	
Smart	7.5	6.4
Postpaid	4.8	3.3
Prepaid	7.6	6.6
TNT	6.3	5.7
Sun	8.5	10.3
Postpaid	6.4	4.3
Prepaid	8.8	11.3

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	%
Prepaid								
Smart	Php117	Php129	(Php12)	(9)	Php107	Php118	(Php11)	(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, average revenue per user 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 Cellular Satellite Corporation's, or 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 and promotions, compensation and employee benefits, rent, taxes and licenses, and interconnection costs, partially offset by higher expenses related to depreciation and amortization, asset impairment, professional and other contracted services, and cost of sales. 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:

	2016	%	2015	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Depreciation and amortization	Php18,984	20	Php17,218	18	Php1,766	10
Cost of sales	14,140	15	13,811	15	329	2
Rent	9,805	11	10,657	11	(852)	(8)
Asset impairment	9,284	10	8,446	9	838	10
Repairs and maintenance	8,367	9	8,577	9	(210)	(2)
Interconnection costs	8,035	9	8,513	9	(478)	(6)
Compensation and employee benefits	6,706	7	7,725	8	(1,019)	(13)
Professional and other contracted services	6,119	7	5,613	6	506	9
Selling and promotions	5,570	6	7,712	8	(2,142)	(28)
Taxes and licenses	2,675	3	3,124	3	(449)	(14)
Insurance and security services	1,149	1	1,190	1	(41)	(3)
Amortization of intangible assets	929	1	1,076	1	(147)	(14)
Communication, training and travel	809	1	958	1	(149)	(16)
Cost of content	289	–	62	–	227	366
Other expenses	343	–	676	1	(333)	(49)
Total	Php93,204	100	Php95,358	100	(Php2,154)	(2)

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 increased by Php329 million, or 2%, to Php14,140 million, primarily due to higher average costs and increased smartphone and data-capable device issuances for Smart Postpaid subscribers, and increased availments for *Smart Prepaid Android Phone Kits*.

Rent expenses decreased by Php852 million, or 8%, to Php9,805 million, primarily due to lower domestic fiber optic network rental charges.

Asset impairment increased by Php838 million, or 10%, to Php9,284 million, primarily due to higher provision for doubtful accounts and inventory obsolescence, partly offset by an impairment provision for property and equipment in 2015.

Repairs and maintenance expenses decreased by Php210 million, or 2%, to Php8,367 million, mainly due to lower site and office electricity costs, lower maintenance costs on domestic cable and wire facilities, customer premises and telecoms equipment, partially offset by higher maintenance costs on site facilities and IT software as a result of our network expansion.

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.

Compensation and employee benefits decreased by Php1,019 million, or 13%, to Php6,706 million, primarily due to lower salaries and employee benefits, provision for pension benefits and MRP costs. Employee headcount decreased to 7,343 as at December 31, 2016 as compared with 7,505 as at December 31, 2015.

Professional and other contracted service fees increased by Php506 million, or 9%, to Php6,119 million, primarily due to increase in managed services, facility usage costs and contracted services, partly offset by lower call center and consultancy fees.

Selling and promotion expenses decreased by Php2,142 million, or 28%, to Php5,570 million, primarily due to lower advertising and promotions, and public relations expenses, partially offset by higher commission expenses.

Taxes and licenses decreased by Php449 million, or 14%, to Php2,675 million due to lower tax settlement, real property and other business-related taxes, partly offset by higher spectrum user fees for mobile service and radio equipment.

Insurance and security services decreased by Php41 million, or 3%, to Php1,149 million, primarily due to lower site security expenses, partially offset by higher office security expenses.

Amortization of intangible assets decreased by Php147 million, or 14%, to Php929 million, primarily due to decrease in the remaining carrying value of intangible assets.

Communication, training and travel expenses decreased by Php149 million, or 16%, to Php809 million, primarily due to lower training and travel expenses, and lower fuel costs for vehicles as a result of lower average fuel cost per liter.

Cost of content increased by Php227 million to Php289 million, primarily due to music licenses recognized as cost of service effective 2016.

Other expenses decreased by Php333 million, or 49%, to Php343 million, primarily due to lower various business and operational-related expenses.

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	%
	(in millions)			
Other Income (Expenses):				
Financing costs – net	(Php2,487)	(Php1,799)	(Php688)	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	(Php3,517)	(Php1,958)	(Php1,559)	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 due to higher outstanding loan balance, higher weighted average interest rate, higher financing charges and higher weighted average of the Philippine peso relative to the U.S. dollar in 2016, partly offset by higher capitalized interest; (iii) higher equity share in net losses of associates by Php156 million due to equity share in net losses of PHIH and ECommerce Pay in 2016, and higher share in net losses of AFPI; (iv) higher foreign exchange losses by Php80 million on account of the revaluation of net foreign currency-denominated liabilities due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar in 2016 as against the same period in 2015; (v) lower interest income by Php38 million mainly due to lower weighted average interest rate, and a decrease in the principal amount of temporary cash investments, partly offset by higher weighted average rate of the Philippine peso relative to the U.S. dollar; and (vi) net gains on derivative financial instruments of Php485 million in 2016 on account of mark-to-market gains on foreign exchange derivatives due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar, partly offset by narrower dollar and peso interest rate differentials 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 on account of lower revenues and higher other expenses, partially offset by lower operating expenses and benefit for income tax in 2016.

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	%
	(in millions)					
Service Revenues:						
Voice	Php29,630	41	Php30,253	44	(Php623)	(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	Php72,728	100	Php68,865	100	Php3,863	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.

The following table summarizes our voice service revenues for the years ended December 31, 2016 and 2015:

	2016	%	2015	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Voice						
Local exchange	Php17,792	60	Php17,076	56	Php716	4
International	8,056	27	9,219	31	(1,163)	(13)
Domestic	3,782	13	3,958	13	(176)	(4)
Total	Php29,630	100	Php30,253	100	(Php623)	(2)

Local Exchange

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

	2016	2015	Increase	
			Amount	%
Total local exchange service revenues (in millions)	Php17,792	Php17,076	Php716	4
Number of fixed line subscribers	2,438,473	2,303,454	135,019	6
Number of fixed line LEC employees	7,205	7,039	166	2
Number of fixed line subscribers per employee	338	327	11	3

Revenues from our local exchange service increased by Php716 million, or 4%, to Php17,792 million in 2016 from Php17,076 million in 2015, primarily due to an increase in subscribers. The percentage contribution of local exchange revenues to our total fixed line service revenues was 26% in each of the years ended December 31, 2016 and 2015.

International

Our international service revenues decreased by Php1,163 million, or 13%, to Php8,056 million in 2016 from Php9,219 million in 2015, primarily due to lower call volumes for both inbound and outbound traffic as a result of the popularity of OTT service providers (such as *Facebook*, *Skype*, *Viber*, *WhatsApp*, and similar services) over traditional long distance services, partially offset by the favorable effect of a higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php47.48 in 2016 from Php45.51 in 2015, and the net increase in average billing rates in dollar terms. The percentage contribution of international service revenues to our total fixed line service revenues accounted for 12% and 14% in 2016 and 2015, respectively.

Domestic

Our domestic service revenues decreased by Php176 million, or 4%, to Php3,782 million in 2016 from Php3,958 million in 2015, primarily due to a decrease in call volumes. The percentage contribution of domestic service revenues to our fixed line service revenues were 5% and 6% in 2016 and 2015, respectively.

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	%
Data service revenues (in millions)	Php37,711	Php33,748	Php3,963	12
Home broadband	14,896	12,338	2,558	21
Corporate data and leased lines	19,980	18,806	1,174	6
Data Center and IT	2,835	2,604	231	9

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 IT 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 Leased Lines

Corporate data and leased line 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 Internet Protocol-Virtual Private Network, or IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data and leased line revenues accounted for 53% and 56% of total data services in 2016 and 2015, respectively.

Data Center and IT

Data center and IT 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 sales 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 professional and other contracted services, depreciation and amortization, rent, asset impairment, repairs and maintenance, cost of content, selling and promotions, communication, training and travel, and other operating expenses, partly offset by lower expenses related to interconnection costs, compensation and employee benefits, taxes and licenses, and insurance and security services. 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:

	2016	%	2015	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Depreciation and amortization	Php15,471	25	Php14,301	25	Php1,170	8
Compensation and employee benefits	13,238	22	13,899	24	(661)	(5)
Repairs and maintenance	7,480	12	7,028	12	452	6
Interconnection costs	5,940	10	6,666	11	(726)	(11)
Professional and other contracted services	5,641	9	4,382	8	1,259	29
Rent	3,373	6	2,768	5	605	22
Cost of sales	2,617	4	2,596	4	21	1
Selling and promotions	2,133	3	2,036	4	97	5
Asset impairment	1,758	3	1,244	2	514	41
Taxes and licenses	1,131	2	1,425	2	(294)	(21)
Insurance and security services	697	1	715	1	(18)	(3)
Communication, training and travel	612	1	549	1	63	11
Cost of content	287	—	163	—	124	76
Other expenses	907	2	645	1	262	41
Total	Php61,285	100	Php58,417	100	Php2,868	5

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

Compensation and employee benefits expenses decreased by Php661 million, or 5%, to Php13,238 million, primarily due to lower MRP costs by Php1,344 million, or 92%, to Php110 million in 2016, and lower provision for pension benefits, partially offset by higher salaries and employee benefits. Employee headcount increased to 10,695 as at December 31, 2016 as compared with 9,671 as at December 31, 2015.

Repairs and maintenance expenses increased by Php452 million, or 6%, to Php7,480 million, primarily due to higher repairs and maintenance costs on cable and wire facilities, and higher maintenance costs on IT hardware and software, and buildings, partially offset by lower office and site electricity charges.

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.

Professional and other contracted service expenses increased by Php1,259 million, or 29%, to Php5,641 million, primarily due to higher consultancy, contracted service, and technical service fees, partially offset by lower bill printing, collection agency and legal fees.

Rent expenses increased by Php605 million, or 22%, to Php3,373 million, primarily due to higher international leased circuit, office building and pole rental charges.

Cost of sales increased by Php21 million, or 1%, to Php2,617 million, primarily due to higher sales of *FabTab* for *myDSL* retention, *PLP* units, computer-bundled sales, and sales of TVolution units, partially offset by lower sale of UNO equipment, *Telpad* units, managed IT equipment, set top boxes and managed PABX solutions.

Selling and promotion expenses increased by Php97 million, or 5%, to Php2,133 million, primarily due to higher cost of events, and advertising and promotions expenses, partly offset by lower expenses on commissions and public relations.

Asset impairment increased by Php514 million, or 41%, to Php1,758 million mainly due to higher provision for inventory obsolescence and doubtful accounts.

Taxes and licenses decreased by Php294 million, or 21%, to Php1,131 million as a result of lower tax settlement and other business-related taxes.

Insurance and security services decreased by Php18 million, or 3%, to Php697 million, primarily due to lower insurance and bond premiums, office security services and life insurance premiums.

Communication, training and travel expenses increased by Php63 million, or 11%, to Php612 million mainly due to higher local training and travel, an increase in communication charges, and an increase in fuel consumption, partly offset by a decrease in average cost per liter of fuel.

Cost of content increased by Php124 million, or 76%, to Php287 million, primarily due to various partnership with content providers during the year.

Other expenses increased by Php262 million, or 41%, to Php907 million, primarily due to higher various business and operational-related expenses.

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	%
	(in millions)			
Other Income (Expenses):				
Financing costs – net	(Php4,917)	(Php4,509)	(Php408)	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	(Php291)	(Php2,599)	Php2,308	(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 due to lower net foreign currency-denominated liabilities, partly offset by higher level of depreciation of the Philippine peso relative to the U.S. dollar; (iii) higher net gain on derivative financial instruments by Php91 million on account of mark-to-market gains on foreign exchange derivatives due to the higher level of depreciation of the Philippine peso relative to the U.S. dollar, partly offset by narrower dollar and peso interest rate differentials in 2016; (iv) an increase in interest income by Php87 million due to an increase in principal amount of temporary cash investments, higher weighted average interest rates and higher weighted average rate of the Philippine peso relative to the U.S. dollar in 2016; (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 mainly due to the share in higher net losses of Cignal TV, partly offset by higher share in net earnings of Hastings; (vi) higher financing costs by Php408 million mainly due to higher outstanding loan balance, higher weighted average interest rate and the higher level of depreciation of the Philippine peso relative to the U.S. dollar in 2016, partially offset by lower financing charges and higher capitalized interest.

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 revenues and lower other expenses, partially offset by higher operating expenses and 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 primarily due to lower cash operating expenses.

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	%
			(in millions)	
Other Income (Expenses):				
Equity share in net earnings of associates and joint ventures	Php1,458	Php3,284	(Php1,826)	(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	Php2,748	Php651	Php2,097	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 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 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 and lower cash operating expenses.

Years Ended December 31, 2015 and 2014

On a Consolidated Basis

Revenues

We reported consolidated revenues of Php171,103 million in 2015, an increase of Php268 million as compared with Php170,835 million in 2014, primarily due to higher revenues from corporate data and leased lines, home broadband, data center and IT, and miscellaneous services from our fixed line business, and higher non-service revenues, partially offset by lower mobile, wireless home broadband, digital platforms and mobile financial services, and MVNO and other revenues from our wireless businesses.

The following table shows the breakdown of our consolidated revenues by services for the years ended December 31, 2015 and 2014:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
(in millions)					
For the year ended December 31, 2015					
Service					
<i>Wireless</i>					
	<i>Php110,716</i>			<i>(Php1,528)</i>	<i>Php109,188</i>
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
<i>Fixed Line</i>					
		<i>Php65,475</i>		<i>(11,733)</i>	<i>53,742</i>
Voice		30,253		(4,454)	25,799
Data		33,748		(6,578)	27,170
Home broadband		12,338		(10)	12,328
Corporate data and leased lines		18,806		(5,863)	12,943
Data Center and IT		2,604		(705)	1,899
Miscellaneous		1,474		(701)	773
Total Service Revenues	110,716	65,475	Php-	(13,261)	162,930
Non-Service					
Sale of computers, 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 for the year ended December 31, 2015	115,513	68,865	-	(13,275)	171,103
For the year ended December 31, 2014					
Service					
<i>Wireless</i>					
	<i>115,037</i>			<i>(1,582)</i>	<i>113,455</i>
Mobile	108,780			(1,544)	107,236
Home Broadband	4,019			(38)	3,981
Digital platforms and mobile financial services	1,056			-	1,056
MVNO and others	1,182			-	1,182
<i>Fixed Line</i>					
		<i>64,107</i>		<i>(12,619)</i>	<i>51,488</i>
Voice		32,356		(5,349)	27,007
Data		30,332		(6,611)	23,721
Home broadband		10,935		-	10,935
Corporate data and leased lines		17,325		(6,045)	11,280
Data Center and IT		2,072		(566)	1,506
Miscellaneous		1,419		(659)	760
Total Service Revenues	115,037	64,107	-	(14,201)	164,943
Non-Service					
Sale of computers, mobile handsets and SIM-packs	3,842	1,524	-	(2)	5,364
Point-product sales	-	547	-	(19)	528
Total Non-Service Revenues	3,842	2,071	-	(21)	5,892
Total revenues for the year ended December 31, 2014	Php118,879	Php66,178	Php-	(Php14,222)	Php170,835

The following table shows the breakdown of our consolidated revenues by business segment for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Change	
					Amount	%
(in millions)						
Wireless	Php115,513	68	Php118,879	69	(Php3,366)	(3)
Fixed line	68,865	40	66,178	39	2,687	4
Inter-segment transactions	(13,275)	(8)	(14,222)	(8)	947	(7)
Consolidated	Php171,103	100	Php170,835	100	Php268	-

Expenses

Consolidated expenses increased by Php8,811 million, or 7%, to Php139,268 million in 2015 from Php130,457 million in 2014, as a result of higher expenses related to asset impairment, cost of sales, depreciation and amortization, and operating expenses related to compensation and employee benefits, professional and other contracted services, repairs and maintenance, taxes and licenses, and other operating expenses, partially offset by lower expenses related to selling and promotions, rent, communication, training and travel, interconnection costs, insurance and security services, and amortization of intangible assets.

The following table shows the breakdown of our consolidated expenses by business segment for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Change	
					Amount	%
	(in millions)					
Wireless	Php95,358	68	Php89,102	68	Php6,256	7
Fixed line	58,417	42	56,855	44	1,562	3
Others	59	—	56	—	3	5
Inter-segment transactions	(14,566)	(10)	(15,556)	(12)	990	(6)
Consolidated	Php139,268	100	Php130,457	100	Php8,811	7

Other Income (Expenses)

Consolidated other expenses amounted to Php5,197 million in 2015, a change of Php8,967 million as against other income of Php3,770 million in 2014, primarily due to the combined effects of the following: (i) other expenses of Php362 million in 2015 as against other income of Php4,980 million in 2014 due to higher impairment resulting from the fair value decline of our investment in Rocket, gain on fair value adjustment of investment property in 2014, partially offset by higher realized portion of deferred gain on the sale of Meralco shares; (ii) higher foreign exchange losses by Php2,654 million on account of revaluation of net foreign currency-denominated liabilities due to higher depreciation of the Philippine peso relative to the U.S. dollar; (iii) higher net financing costs by Php939 million due to higher outstanding loan balance and weighted average interest rate, a higher weighted average foreign exchange rate and a decrease in capitalized interest, partly offset by lower financing charges; (iv) a decrease in equity share in net earnings of associates by Php600 million due to lower share in net earnings of Beta and share in net losses of Cignal TV in 2015, partially offset by higher net earnings of Beacon; (v) higher interest income by Php47 million due to higher weighted average peso and dollar interest rates, increase in principal amount of dollar temporary cash investments and the depreciation of the Philippine peso to the U.S. dollar; and (vi) gains on derivative financial instruments of Php420 million in 2015 as against losses on derivative financial instruments of Php101 million in 2014 on account of a higher mark-to-market gain on long-term currency swaps and forward purchase contracts due to the depreciation of the Philippine peso relative to the U.S. dollar and wider dollar and peso interest rate differentials.

The following table shows the breakdown of our consolidated other income (expenses) by business segment for the years ended December 31, 2015 and 2014:

	2015	2014	Change	
			Amount	%
	(in millions)			
Wireless	(Php1,958)	(Php724)	(Php1,234)	170
Fixed line	(2,599)	217	(2,816)	(1,298)
Others	651	5,611	(4,960)	(88)
Inter-segment transactions	(1,291)	(1,334)	43	(3)
Consolidated	(Php5,197)	Php3,770	(Php8,967)	(238)

Net Income

Consolidated net income decreased by Php12,015 million, or 35%, to Php22,075 million in 2015, from Php34,090 million in 2014. The decrease was mainly due to the combined effects of the following: (i) a decrease in consolidated other income – net by Php8,967 million; (ii) an increase in consolidated expenses by Php8,811 million; (iii) a decrease in consolidated provision for income tax by Php5,495 million; and (iv) an increase in consolidated revenues by Php268 million. Our consolidated basic and diluted EPS decreased to Php101.85 in 2015 from consolidated basic and diluted EPS of Php157.51 in 2014. Our weighted average number of outstanding common shares was approximately 216.06 million in each of 2015 and 2014.

The following table shows the breakdown of our consolidated net income by business segment for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Change	
					Amount	%
	(in millions)					
Wireless	Php15,434	70	Php21,895	64	(Php6,461)	(30)
Fixed line	6,193	28	6,722	20	(529)	(8)
Others	448	2	5,473	16	(5,025)	(92)
Consolidated	Php22,075	100	Php34,090	100	(Php12,015)	(35)

Adjusted EBITDA

Our consolidated Adjusted EBITDA amounted to Php70,218 million in 2015, a decrease of Php6,532 million, or 9%, as compared with Php76,750 million in 2014, primarily due to higher cost of sales, provisions for doubtful accounts and inventory obsolescence, and higher cash operating expenses related to compensation and employee benefits, and professional and other contracted services, partially offset by lower selling and promotions, rent, and communication, training and travel, as well as higher consolidated revenues.

The following table shows the breakdown of our consolidated Adjusted EBITDA by business segment for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Change	
					Amount	%
(in millions)						
Wireless	Php44,237	63	Php50,917	66	(Php6,680)	(13)
Fixed line	24,749	35	24,555	32	194	1
Others	(59)	—	(56)	—	(3)	5
Inter-segment transactions	1,291	2	1,334	2	(43)	(3)
Consolidated	Php70,218	100	Php76,750	100	(Php6,532)	(9)

Core Income

Our consolidated core income amounted to Php35,212 million in 2015, a decrease of Php2,198 million, or 6%, as compared with Php37,410 million in 2014 primarily due to lower consolidated Adjusted EBITDA, and higher depreciation and other expenses, partially offset by lower provision for income tax. Our consolidated basic and diluted core EPS, decreased to Php162.70 in 2015 from Php172.88 in 2014.

The following table shows the breakdown of our consolidated core income by business segment for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Change	
					Amount	%
(in millions)						
Wireless	Php22,512	64	Php25,176	67	(Php2,664)	(11)
Fixed line	6,539	19	6,691	18	(152)	(2)
Others	6,161	17	5,543	15	618	11
Consolidated	Php35,212	100	Php37,410	100	(Php2,198)	(6)

On a Business Segment Basis

Wireless

Revenues

We generated revenues from our wireless business of Php115,513 million in 2015, a decrease of Php3,366 million, or 3%, from Php118,879 million in 2014.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2015 and 2014 by service:

	2015	%	2014	%	Increase (Decrease)	
					Amount	%
(in millions)						
Service Revenues:						
Mobile	Php105,655	91	Php108,780	92	(Php3,125)	(3)
Home Broadband	3,040	3	4,019	3	(979)	(24)
Digital platforms and mobile financial services	1,051	1	1,056	1	(5)	—
MVNO and others ⁽¹⁾	970	1	1,182	1	(212)	(18)
Total Wireless Service Revenues	110,716	96	115,037	97	(4,321)	(4)
Non-Service Revenues:						
Sale of mobile handsets, mobile SIM-packs and broadband data modems	4,797	4	3,842	3	955	25
Total Wireless Revenues	Php115,513	100	Php118,879	100	(Php3,366)	(3)

⁽¹⁾ Includes service revenues generated by MVNO's of PLDT Global subsidiaries.

Service Revenues

Our wireless service revenues in 2015 decreased by Php4,321 million, or 4%, to Php110,716 million as compared with Php115,037 million in 2014, 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% and 97% in 2015 and 2014, respectively.

Mobile Services

Our mobile service revenues amounted to Php105,655 million in 2015, a decrease of Php3,125 million, or 3%, from Php108,780 million in 2014. Mobile service revenues accounted for 95% of our wireless service revenues in each of 2015 and 2014.

	2015	%	2014	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Mobile Services:						
Voice	Php46,129	44	Php51,785	48	(Php5,656)	(11)
SMS	37,982	36	41,459	38	(3,477)	(8)
Data	20,179	19	14,413	13	5,766	40
Inbound roaming and others ⁽¹⁾	1,365	1	1,123	1	242	22
Total	Php105,655	100	Php108,780	100	(Php3,125)	(3)

⁽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 Php5,656 million, or 11%, to Php46,129 million in 2015 from Php51,785 million in 2014 resulting from lower domestic and international voice revenues due to the availability of alternative calling options and other OTT services such as *Viber*, *Facebook Messenger*, *GoogleTalk*, *WhatsApp* and similar services. Mobile voice services accounted for 44% and 48% of our mobile service revenues in 2015 and 2014, respectively.

The following table shows the breakdown of our mobile voice revenues for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Decrease	
					Amount	%
	(in millions)					
Voice Services:						
Domestic	Php35,152	76	Php37,600	73	(Php2,448)	(7)
International	10,977	24	14,185	27	(3,208)	(23)
Total	Php46,129	100	Php51,785	100	(Php5,656)	(11)

Domestic voice service revenues decreased by Php2,448 million, or 7%, to Php35,152 million in 2015 from Php37,600 million in 2014, due to lower domestic outbound and inbound voice service revenues.

International voice service revenues decreased by Php3,208 million, or 23%, to Php10,977 million in 2015 from Php14,185 million in 2014 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 Php3,477 million, or 8%, to Php37,982 million in 2015 from Php41,459 million in 2014 mainly from lower bucket-priced and unlimited SMS revenues. Mobile SMS services accounted for 36% and 38% of our mobile service revenues in 2015 and 2014, respectively.

The following table shows the breakdown of our mobile SMS service revenues for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Decrease	
					Amount	%
	(in millions)					
SMS Services:						
Domestic ⁽¹⁾	Php35,445	93	Php38,270	92	(Php2,825)	(7)
International	2,537	7	3,189	8	(652)	(20)
Total	Php37,982	100	Php41,459	100	(Php3,477)	(8)

⁽¹⁾ Includes revenues, net of discounts and content provider costs, from Smart Pasa Load, Sun Give-a-load and Dial*SOS; Music (Spinnr and Deezer, music subscription mainly ring back tones and music downloads); Gaming (games subscriptions, downloads, and purchases); Videos (video subscriptions, downloads and video and movie streaming via iflix and Fox); Infotainment (subscriptions and downloads of broadcast materials that are intended both to entertain and to inform, as well as info-on-demand); financial services (revenues from Smart Money Clicks via Smart Menu and mobile banking); Communicate, (revenues from group chat, text and voice messaging services); and Other VAS (includes revenues from application program interface (API) downloads, info-on-demand and voice text services).

Data Services

Mobile revenues from our data services, which include mobile internet, mobile broadband and other data services, increased by Php5,766 million, or 40%, to Php20,179 million in 2015 from Php14,413 million in 2014.

The following table shows the breakdown of our mobile data revenues for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Increase	
					Amount	%
	(in millions)					
Data Services:						
Mobile internet ⁽¹⁾	Php12,055	60	Php8,253	57	Php3,802	46
Mobile broadband	7,951	39	6,000	42	1,951	33
Other data	173	1	160	1	13	8
Total	Php20,179	100	Php14,413	100	Php5,766	40

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

Mobile internet

Mobile internet service revenues increased by Php3,802 million, or 46%, to Php12,055 million in 2015 from Php8,253 million in 2014 as a result of the increase in smartphone ownership and greater data adoption 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 11% and 8% of our mobile service revenues in 2015 and 2014, respectively.

Mobile broadband

Mobile broadband revenues amounted to Php7,951 million in 2015, an increase of Php1,951 million, or 33%, from Php6,000 million in 2014 primarily due to higher mobile broadband traffic.

Other data

Revenues from our other data services, which include domestic leased lines and share in revenues from PLDT WeRoam, increased by Php13 million, or 8%, to Php173 million in 2015 from Php160 million in 2014.

Prepaid and Postpaid Revenues, and Inbound Roaming and Others

The following table shows the breakdown of our mobile service revenues for the years ended December 31, 2015 and 2014:

	2015	2014	Increase (Decrease)	
			Amount	%
	(in millions)			
Mobile service revenues	Php105,655	Php108,780	(Php3,125)	(3)
By service type				
Prepaid	76,143	82,298	(6,155)	(7)
Postpaid	28,147	25,359	2,788	11
Inbound roaming and others	1,365	1,123	242	22

Prepaid Revenues

Revenues generated from our mobile prepaid services amounted to Php76,143 million in 2015, a decrease of Php6,155 million, or 7%, as compared with Php82,298 million in 2014. Mobile prepaid service revenues accounted for 72% and 76% of mobile service revenues in 2015 and 2014, 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 Php28,147 million in 2015, an increase of Php2,788 million, or 11%, as compared with Php25,359 million in 2014, and accounted for 27% and 23% of mobile service revenues in 2015 and 2014, respectively. The increase in our mobile postpaid service revenues was primarily driven by a growing postpaid subscriber base.

Inbound Roaming and Others

Mobile revenues from inbound roaming and other services increased by Php242 million, or 22%, to Php1,365 million in 2015 from Php1,123 million in 2014.

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

The following table shows our mobile subscriber base as at December 31, 2015 and 2014:

	2015	2014	Increase (Decrease)	
			Amount	%
Mobile subscriber base	68,612,118	72,511,422	(3,899,304)	(5)
Smart ⁽¹⁾	26,921,211	27,894,947	(973,736)	(3)
Postpaid	1,502,678	1,222,764	279,914	23
Prepaid	25,418,533	26,672,183	(1,253,650)	(5)
TNT	28,054,160	28,149,360	(95,200)	-
Sun ⁽¹⁾	13,636,747	16,467,115	(2,830,368)	(17)
Postpaid	2,045,580	2,054,480	(8,900)	-
Prepaid	11,591,167	14,412,635	(2,821,468)	(20)
Home broadband subscriber base	258,776	331,781	(73,005)	(22)
Total wireless subscribers	68,870,894	72,843,203	(3,972,309)	(5)

(1) Includes mobile broadband subscribers.

The following table summarizes our average monthly churn rates for the years ended December 31, 2015 and 2014:

	2015	2014
	(in %)	
Smart	6.4	5.7
Postpaid	3.3	2.9
Prepaid	6.6	5.8
TNT	5.7	5.8
Sun	10.3	8.8
Postpaid	4.3	2.0
Prepaid	11.3	9.7

The following table summarizes our average monthly ARPUs for the years ended December 31, 2015 and 2014:

	Gross ⁽¹⁾		Increase (Decrease)		Net ⁽²⁾		Increase (Decrease)	
	2015	2014	Amount	%	2015	2014	Amount	%
Prepaid								
Smart	Php129	Php144	(Php15)	(10)	Php118	Php130	(Php12)	(9)
TNT	93	97	(4)	(4)	84	88	(4)	(5)
Sun	74	76	(2)	(3)	68	69	(1)	(1)
Postpaid								
Smart	993	1,054	(61)	(6)	982	1,045	(63)	(6)
Sun	444	475	(31)	(7)	441	472	(31)	(7)

⁽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 home broadband services decreased by Php979 million, or 24%, to Php3,040 million in 2015 from Php4,019 million in 2014 due to lower home broadband subscribers mainly due to migration of Canopy and WiMax to TD-LTE and other PLDT fixed broadband plans.

Digital Platforms and Mobile Financial Services

Revenues from digital platforms and mobile financial services, as reported by Voyager, decreased by Php5 million to Php1,051 million in 2015 from Php1,056 million in 2014.

MVNO and Others

Revenues from our other services decreased by Php212 million, or 18%, to Php970 million in 2015 from Php1,182 million in 2014, 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 Php45.51 for the year ended December 31, 2015 from Php44.40 for the year ended December 31, 2014 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, SIM-packs and broadband data modems, tablets and accessories. Our wireless non-service revenues increased by Php955 million, or 25%, to Php4,797 million in 2015 from Php3,842 million in 2014, primarily due to increased availments for broadband *Pocket WiFi*, *HOMEbro LTE*, broadband tablets accessories and computer packages, as well as higher postpaid mobile activation and retention packages, partly offset by lower quantity of broadband *Plug-It* modems issued.

Expenses

Expenses associated with our wireless business amounted to Php95,358 million in 2015, an increase of Php6,256 million, or 7%, from Php89,102 million in 2014. A significant portion of the increase was attributable to higher expenses related to asset impairment, cost of sales, depreciation and amortization, compensation and employee benefits, professional and other contracted services, interconnection costs, taxes and licenses, and other operating expenses, partially offset by lower selling and promotions, rent, communications, training and travel, repairs and maintenance, insurance and security services, and amortization of intangible assets. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 86% and 77% in 2015 and 2014, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2015 and 2014 and the percentage of each expense item in relation to the total:

	2015	%	2014	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Depreciation and amortization	Php17,218	18	Php16,375	18	Php843	5
Cost of sales	13,811	15	11,632	13	2,179	19
Rent	10,657	11	11,008	12	(351)	(3)
Repairs and maintenance	8,577	9	8,666	10	(89)	(1)
Interconnection costs	8,513	9	8,229	9	284	3
Asset impairment	8,446	9	5,620	6	2,826	50
Compensation and employee benefits	7,725	8	6,944	8	781	11
Selling and promotions	7,712	8	8,512	10	(800)	(9)
Professional and other contracted services	5,613	6	5,299	6	314	6
Taxes and licenses	3,124	3	2,944	3	180	6
Insurance and security services	1,190	1	1,274	2	(84)	(7)
Amortization of intangible assets	1,076	1	1,149	1	(73)	(6)
Communication, training and travel	958	1	1,072	1	(114)	(11)
Cost of content	62	—	—	—	62	100
Other expenses	676	1	378	1	298	79
Total	Php95,358	100	Php89,102	100	Php6,256	7

Depreciation and amortization charges increased by Php843 million, or 5%, to Php17,218 million, primarily due to a higher depreciable asset base and accelerated depreciation on service delivery platforms equipment.

Cost of sales increased by Php2,179 million, or 19%, to Php13,811 million, primarily due to increased modems and devices issued for *Pocket WiFi*, *HOMEbro LTE*, broadband accessories mainly tablets, as well as an increase in handset costs attributable to higher mobile postpaid activation and retention, partially offset by lower quantity of broadband *Plug-It* modems issued.

Rent expenses decreased by Php351 million, or 3%, to Php10,657 million, primarily due to lower leased circuit and dark fiber rental charges, as well as lower site, office building and pole rentals.

Repairs and maintenance expenses decreased by Php89 million, or 1%, to Php8,577 million, mainly due to lower site fuel consumption costs and maintenance costs on IT hardware, partially offset by higher maintenance and technical support costs on expanded network and site facilities, an increase in site electricity and higher maintenance costs on IT software.

Interconnection costs increased by Php284 million, or 3%, to Php8,513 million, primarily due to an increase in interconnection charges on domestic voice and SMS services, partially offset by lower interconnection cost on international voice and SMS services.

Asset impairment increased by Php2,826 million, or 50%, to Php8,446 million, primarily due to higher fixed asset impairment provision, provision for inventory obsolescence and provision for doubtful accounts.

Compensation and employee benefits increased by Php781 million, or 11%, to Php7,725 million, primarily due to higher salaries, manpower rightsizing program, or MRP, costs, and provision for pension, partly offset by lower incentives and employee benefits. Employee headcount decreased to 7,505 as at December 31, 2015 as compared with 7,786 as at December 31, 2014.

Selling and promotion expenses decreased by Php800 million, or 9%, to Php7,712 million, primarily due to lower costs of events, advertising, commissions and public relations expenses.

Professional and other contracted service fees increased by Php314 million, or 6%, to Php5,613 million, primarily due to an increase in facility usage costs, legal and other service fees, partly offset by lower consultancy, audit and contracted service fees.

Taxes and licenses increased by Php180 million, or 6%, to Php3,124 million, due to higher business-related taxes and tax settlements in 2015.

Insurance and security services decreased by Php84 million, or 7%, to Php1,190 million, primarily due to lower site and office security expenses, as well as lower group health insurance premiums.

Amortization of intangible assets decreased by Php73 million, or 6%, to Php1,076 million, primarily due to lower license fees.

Communication, training and travel expenses decreased by Php114 million, or 11%, to Php958 million primarily due to lower fuel costs for vehicles as a result of lower average fuel cost per liter, partially offset by higher travel expenses.

Cost of content amounted to Php62 million in 2015, primarily due to fees on iflix and Fox starting June 2015 for access to movie collections and international channels.

Other expenses increased by Php298 million, or 79%, to Php676 million, primarily due to higher various business and operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2015 and 2014:

	2015	2014	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Financing costs – net	(Php1,799)	(Php1,646)	(Php153)	9
Foreign exchange losses – net	(1,622)	(464)	(1,158)	250
Equity share in net losses of associates	(81)	(11)	(70)	636
Loss on derivative financial instruments – net	–	(34)	34	(100)
Interest income	308	217	91	42
Other income – net	1,236	1,214	22	2
Total	(Php1,958)	(Php724)	(Php1,234)	170

Our wireless business' other expenses amounted to Php1,958 million in 2015, an increase of Php1,234 million, or 170%, from Php724 million in 2014, primarily due to the combined effects of the following: (i) higher net foreign exchange losses by Php1,158 million on account of the revaluation of net foreign currency-denominated liabilities due to higher depreciation of the Philippine peso relative to the U.S. dollar; (ii) higher net financing costs by Php153 million primarily due to higher outstanding loan balances, higher weighted average interest rates on loans, an increase in accretion on financial liabilities and lower capitalized interest, partly offset by lower financing charges; (iii) higher equity share in net losses of AFPI by Php70 million; (iv) an increase in other income – net by Php22 million mainly due to higher income from consultancy and higher gain on sale of fixed assets, partly offset by lower gain on insurance claims; and (v) higher interest income by Php91 million mainly due to higher weighted average peso and dollar interest rates, increase in principal amount of temporary cash investments and the depreciation of the Philippine peso to the U.S. dollar.

Provision for Income Tax

Provision for income tax decreased by Php4,395 million, or 61%, to Php2,763 million in 2015 from Php7,158 million in 2014 primarily due to lower taxable income and recognition of deferred tax assets. The effective tax rates for our wireless business were 15% and 25% in 2015 and 2014, respectively.

Net Income

As a result of the foregoing, our wireless business' net income decreased by Php6,461 million, or 30%, to Php15,434 million in 2015 from Php21,895 million in 2014.

Adjusted EBITDA

Our wireless business' Adjusted EBITDA decreased by Php6,680 million, or 13%, to Php44,237 million in 2015 from Php50,917 million in 2014.

Core Income

Our wireless business' core income decreased by Php2,664 million, or 11%, to Php22,512 million in 2015 from Php25,176 million in 2014 on account of higher wireless-related operating and other expenses and lower wireless revenues, partially offset by lower provision for income tax.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php68,865 million in 2015, an increase of Php2,687 million, or 4%, from Php66,178 million in 2014.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2015 and 2014 by service segment:

	2015	%	2014	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Service Revenues:						
Voice	Php30,253	44	Php32,356	49	(Php2,103)	(6)
Data	33,748	49	30,332	46	3,416	11
Miscellaneous	1,474	2	1,419	2	55	4
	65,475	95	64,107	97	1,368	2
Non-Service Revenues:						
Sale of computers, phone units and SIM packs, and point-product sales	3,390	5	2,071	3	1,319	64
Total Fixed Line Revenues	Php68,865	100	Php66,178	100	Php2,687	4

Service Revenues

Our fixed line service revenues increased by Php1,368 million, or 2%, to Php65,475 million in 2015 from Php64,107 million in 2014 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 Php2,103 million, or 6%, to Php30,253 million in 2015 from Php32,356 million in 2014 due to lower international and domestic voice revenues, partly offset by higher local exchange service revenues.

The following table shows information of our voice service revenues for the years ended December 31, 2015 and 2014:

	2015	%	2014	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Voice						
Local exchange	Php17,076	56	Php16,587	51	Php489	3
International	9,219	31	11,404	35	(2,185)	(19)
Domestic	3,958	13	4,365	14	(407)	(9)
Total	Php30,253	100	Php32,356	100	(Php2,103)	(6)

Local Exchange

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2015 and 2014:

	2015	2014	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php17,076	Php16,587	Php489	3
Number of fixed line subscribers	2,303,454	2,207,889	95,565	4
Number of fixed line LEC employees	7,039	7,405	(366)	(5)
Number of fixed line subscribers per employee	327	298	29	10

Revenues from our local exchange service increased by Php489 million, or 3%, to Php17,076 million in 2015 from Php16,587 million in 2014, primarily due to an increase in subscribers. The percentage contribution of local exchange revenues to our total fixed line service revenues was 26% in each of the years ended December 31, 2015 and 2014.

International

Our international service revenues decreased by Php2,185 million, or 19%, to Php9,219 million in 2015 from Php11,404 million in 2014, primarily due to lower call volumes for both inbound and outbound traffic as a result of the popularity of OTT service providers (such as *Facebook*, *Skype*, *Viber*, *WhatsApp*, and similar services) over traditional long distance services, partially offset by the favorable effect of a higher weighted average exchange rate of the Philippine peso relative to the U.S. dollar to Php45.51 in 2015 from Php44.40 in 2014, and the net increase in average billing rates in dollar terms. The percentage contribution of international service revenues to our total fixed line service revenues accounted for 14% and 18% in 2015 and 2014, respectively.

Domestic

Our domestic service revenues decreased by Php407 million, or 9%, to Php3,958 million in 2015 from Php4,365 million in 2014, primarily due to a decrease in call volumes. The percentage contribution of domestic service revenues to our fixed line service revenues were 6% and 7% in 2015 and 2014, respectively.

Data Services

The following table shows information of our data service revenues for the years ended December 31, 2015 and 2014:

	2015	2014	Increase	
			Amount	%
Data service revenues (in millions)	Php33,748	Php30,332	Php3,416	11
Home broadband	12,338	10,935	1,403	13
Corporate data and leased lines	18,806	17,325	1,481	9
Data Center and IT	2,604	2,072	532	26

Our data services posted revenues of Php33,748 million in 2015, an increase of Php3,416 million, or 11%, from Php30,332 million in 2014, 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 IT revenues. The percentage contribution of this service segment to our fixed line service revenues was 52% and 47% in 2015 and 2014, respectively.

Home Broadband

Home broadband data revenues amounted to Php12,338 million in 2015, an increase of Php1,403 million, or 13%, from Php10,935 million in 2014 primarily due to an increase in the number of subscribers, which includes home and corporate subscribers, by 150,496, or 14%, to 1,255,864 subscribers as at December 31, 2015 from 1,105,368 subscribers as at December 31, 2014. Home broadband revenues accounted for 36% of total data service revenues in each of 2015 and 2014.

Corporate data and leased lines

Corporate data and leased line services contributed Php18,806 million in 2015, an increase of Php1,481 million, or 9%, as compared with Php17,325 million in 2014 mainly due to sustained market traction of broadband data services such as DSL and *Fibr*, as a result of higher internet connectivity requirements, *i-Gate*, and key Private Networking Solutions such as IP-VPN, Metro Ethernet and *Shops.Work*. Corporate data and leased line revenues accounted for 56% and 57% of total data services in 2015 and 2014, respectively.

Data Center and IT

As at December 31, 2015, ePLDT Group had a total of 3,150 rack capacity in six locations covering Metro Manila, Subic and Cebu. Data center revenues increased by Php532 million, or 26%, to Php2,604 million in 2015 from Php2,072 million in 2014 mainly due to higher revenues from colocation, cloud and big data services. Cloud services include cloud contact center, cloud IaaS, cloud SaaS, managed security services and cloud professional services. The percentage contribution of this service segment to our total data service revenues was 8% and 7% in 2015 and 2014, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental, outsourcing and facilities management fees. These service revenues increased by Php55 million, or 4%, to Php1,474 million in 2015 from Php1,419 million in 2014 mainly 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 2015 and 2014.

Non-service Revenues

Non-service revenues increased by Php1,319 million, or 64%, to Php3,390 million in 2015 from Php2,071 million in 2014, primarily due to higher sale of *PLP* units and *FabTAB* for *myDSL* retention, managed IT equipment and Home IP Cameras, partially offset by lower sale of *UNO* equipment and several managed PABX.

Expenses

Expenses related to our fixed line business totaled Php58,417 million in 2015, an increase of Php1,562 million, or 3%, as compared with Php56,855 million in 2014. The increase was primarily due to higher expenses related to compensation and employee benefits, asset impairment, cost of sales, professional and other contracted services, repairs and maintenance, and rent, partly offset by lower expenses related to interconnection costs, depreciation and amortization, taxes and licenses, communication, training and travel, and other operating expenses. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 85% and 86% in 2015 and 2014, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2015 and 2014 and the percentage of each expense item to the total:

	2015	%	2014	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Depreciation and amortization	Php14,301	25	Php15,004	27	(Php703)	(5)
Compensation and employee benefits	13,899	24	11,825	21	2,074	18
Repairs and maintenance	7,028	12	6,956	12	72	1
Interconnection costs	6,666	11	8,030	14	(1,364)	(17)
Professional and other contracted services	4,382	8	4,171	7	211	5
Rent	2,768	5	2,706	5	62	2
Cost of sales	2,596	4	1,903	3	693	36
Selling and promotions	2,036	4	2,126	4	(90)	(4)
Taxes and licenses	1,425	2	1,568	3	(143)	(9)
Asset impairment	1,244	2	426	1	818	192
Insurance and security services	715	1	717	1	(2)	-
Communication, training and travel	549	1	643	1	(94)	(15)
Cost of content	163	-	-	-	163	100
Other expenses	645	1	780	1	(135)	(17)
Total	Php58,417	100	Php56,855	100	Php1,562	3

Depreciation and amortization charges decreased by Php703 million, or 5%, to Php14,301 million, due to lower depreciable asset base as a result of higher accelerated depreciation in 2014.

Compensation and employee benefits expenses increased by Php2,074 million, or 18%, to Php13,899 million, primarily due to higher MRP costs, salaries and employee benefits and provision for pension. Employee headcount decreased to 9,671 as at December 31, 2015 as compared with 9,710 as at December 31, 2014 mainly due to lower PLDT headcount as a result of the MRP in 2015.

Repairs and maintenance expenses increased by Php72 million, or 1%, to Php7,028 million, primarily due to higher repairs and maintenance costs on cable and wire facilities, and an increase in site electricity expenses, partially offset by lower office electricity charges and lower maintenance costs on buildings.

Interconnection costs decreased by Php1,364 million, or 17%, to Php6,666 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 and other network interconnection/settlement costs, particularly Fibernet and Infonet.

Professional and other contracted service expenses increased by Php211 million, or 5%, to Php4,382 million, primarily due to higher contracted service fees, mailing and courier charges, and legal fees, partially offset by lower consultancy fees.

Rent expenses increased by Php62 million, or 2%, to Php2,768 million, primarily due to higher leased circuit, and office building rental charges, partially offset by lower customer premises equipment rental charges.

Cost of sales increased by Php693 million, or 36%, to Php2,596 million primarily due to higher sale of equipment for *PLDT UNO* and *Telpad* units, higher computer-bundled sales, *FabTAB* for *myDSL* retention, and several managed PABX and *OnCall* solution.

Selling and promotion expenses decreased by Php90 million, or 4%, to Php2,036 million, primarily due to lower cost of events and public relations, partially offset by higher advertising and commissions expenses.

Taxes and licenses decreased by Php143 million, or 9%, to Php1,425 million as a result of lower business-related taxes, partly offset by a higher tax settlement in 2015.

Asset impairment increased by Php818 million to Php1,244 million, mainly due to higher provision for uncollectible receivables in 2015, partly offset by fixed asset impairment provision in 2014.

Insurance and security services decreased by Php2 million to Php715 million, primarily due to lower insurance and bond premiums, partially offset by higher expenses on office security services and group health insurance premiums.

Communication, training and travel expenses decreased by Php94 million, or 15%, to Php549 million, mainly due to lower fuel consumption costs, partly offset by higher training and travel, and communication, and mailing and courier charges.

Cost of content, which includes settlement to Cignal TV for bundled service offerings and share in iflix and Fox contracts, amounted to Php163 million in 2015.

Other expenses decreased by Php135 million, or 17%, to Php645 million, primarily due to lower various business and operational-related expenses.

Other Income (Expenses)

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the years ended December 31, 2015 and 2014:

	2015	2014 ⁽¹⁾	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Financing costs – net	(Php4,509)	(Php3,724)	(Php785)	21
Foreign exchange losses – net	(892)	(39)	(853)	2,187
Equity share in net earnings (losses) of associates	38	63	(25)	(40)
Gains on derivative financial instruments – net	420	11	409	3,718
Interest income	620	350	270	77
Other income – net	1,724	3,556	(1,832)	(52)
Total	(Php2,599)	Php217	(Php2,816)	(1,298)

⁽¹⁾ Certain comparative information for 2014 were reclassified to conform with the current presentation.

Our fixed line business' other expenses amounted to Php2,599 million in 2015, a change of Php2,816 million as against other income of Php217 million in 2014 mainly due to the combined effects of the following: (i) a decrease in other income – net by Php1,832 million due to gain on purchase price adjustment in 2014 in relation to the acquisition of Digitel, gain on fair value adjustment of investment property in 2014 and higher loss on sale of fixed assets in 2015; (ii) higher foreign exchange losses by Php853 million on account of revaluation of net foreign currency-denominated liabilities due to higher depreciation of the Philippine peso relative to the U.S. dollar; (iii) higher financing costs by Php785 million mainly due to higher outstanding loan balances, higher weighted average interest rates on loans, effect of a higher weighted average exchange rate of the Philippine peso to the U.S. dollar and lower capitalized interest; (iv) lower equity share in net earnings of associates by Php25 million mainly due to the share in net losses of Cignal TV; (v) an increase in interest income by Php270 million due to higher weighted average peso and dollar interest rates, increase in principal amount of dollar temporary cash investments and the depreciation of the Philippine peso to the U.S. dollar; and (vi) higher gain on derivative financial instruments by Php409 million on account of mark-to-market gain on long-term currency swaps and forward purchase contracts due to higher level of depreciation of the Philippine peso relative to the U.S. dollar and wider dollar and peso interest rate differentials.

Provision for Income Tax

Provision for income tax amounted to Php1,656 million in 2015, a decrease of Php1,162 million, or 41%, from Php2,818 million in 2014 primarily due to lower taxable income and reversal of deferred tax liability. The effective tax rates for our fixed line business were 21% and 30% in 2015 and 2014, respectively.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php6,193 million in 2015, a decrease of Php529 million, or 8%, as compared with Php6,722 million in 2014.

Adjusted EBITDA

Our fixed line business' Adjusted EBITDA increased by Php194 million, or 1%, to Php24,749 million in 2015 from Php24,555 million in 2014.

Core Income

Our fixed line business' core income decreased by Php152 million, or 2%, to Php6,539 million in 2015 from Php6,691 million in 2014, primarily as a result of higher fixed line operating expenses and higher other expenses, partially offset by higher fixed line revenues and lower provision for income tax.

Others

Expenses

Expenses related to our other business totaled Php59 million in 2015, an increase of Php3 million, or 5%, as compared with Php56 million in 2015 primarily due to lower cash operating expenses.

Other Income

The following table summarizes the breakdown of other income – net for other business segment for the years ended December 31, 2015 and 2014:

	2015	2014	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Equity share in net earnings of associates and joint ventures	Php3,284	Php3,789	(Php505)	(13)
Interest income	99	295	(196)	(66)
Losses on derivative financial instruments – net	–	(78)	78	(100)
Financing costs – net	(179)	(60)	(119)	198
Foreign exchange losses – net	(522)	121	(643)	(531)
Other income – net	(2,031)	1,544	(3,575)	(232)
Total	Php651	Php5,611	(Php4,960)	(88)

Other income decreased by Php4,960 million, or 88%, to Php651 million in 2015 from Php5,611 million in 2014 primarily due to the combined effects of the following: (i) higher other expenses – net by Php3,575 million due to recognition of impairment loss resulting from the fair value decline of our investment in Rocket, partly offset by higher realized portion of deferred gain on the sale of Meralco shares; (ii) foreign exchange losses of Php522 million in 2015 as against foreign exchange gains of Php121 million in 2014; (iii) lower equity share in net earnings of associates by Php505 million mainly due to equity share in net losses of Signal TV in 2015 and a decrease in the equity share in net earnings of Beta; (iv) a decrease in interest income by Php196 million; (v) an increase in financing costs by Php119 million for the year ended December 31, 2015; and (vi) losses on derivative financial instruments of Php78 million in 2014.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php448 million, a decrease of Php5,025 million, or 92%, in 2015 from Php5,473 million in 2014.

Core Income

Our other business segment's core income amounted to Php6,161 million in 2015, an increase of Php618 million, or 11%, as compared with Php5,543 million in 2014 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 offer the broadest range of telecommunications services among all operators in the Philippines. We intend to reinforce our leading position in network quality and reach while offering a broader range and higher quality of products and services.

Our 2017 estimated consolidated capital expenditures is approximately Php46 billion, of which approximately Php29 billion is estimated to be spent by our wireless segment and approximately Php17 billion is estimated to be spent by our fixed line segment. Our capital spending is focused on our ambition to deliver the best customer experience through reliable products, services and touch points.

We plan to expand our LTE network in line with our commitment to provide coverage to substantially all of the country's cities and municipalities by end 2018. There will be more focus on the expansion and upgrade of our fixed access networks for cable fortification and resiliency in various locations. By end of the year 2017, we target having 4.4 million homes equipped for our fiber access network, and having modernized 1.7 million lines of our copper network to enable fiber-like

speeds. The expansion of our national and domestic networks will follow the roll-out of our access networks in an effort to ensure the best end-to-end customer experience.

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 Objectives – these include the expansion of capacity and footprint of wired and wireless, as well as new platforms to expand service offerings;
- (2) Technical Objectives – these include the transformation of service delivery platform of the group in order to realize operating and cost efficiencies, the provision of greater resilience and redundancy for the network, as well as investments in additional cable systems; and
- (3) IT/Support Systems – these include the upgrade of our IT and support systems.

We expect to fund incremental capital expenditures from both debt and free cash flow.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2016, 2015 and 2014 as well as our consolidated capitalization and other consolidated selected financial data as at December 31, 2016 and 2015:

	2016	2015	2014
	(in millions)		
Cash Flows			
Net cash from operations	Php48,976	Php69,744	Php66,015
Net cash used in investing activities	(41,982)	(39,238)	(51,686)
Capital expenditures	42,825	43,175	34,759
Net cash used in financing activities	(15,341)	(11,385)	(19,897)
Net increase (decrease) in cash and cash equivalents	(7,733)	19,796	(5,246)
	2016	2015	
	(in millions)		
Capitalization			
Interest-bearing financial liabilities:			
Long-term financial liabilities:			
Long-term debt	Php151,759	Php143,982	
Current portion of interest-bearing financial liabilities:			
Long-term debt maturing within one year	33,273	16,910	
Obligations under finance lease maturing within one year	–	1	
	33,273	16,911	
Total interest-bearing financial liabilities	185,032	160,893	
Total equity attributable to equity holders of PLDT	108,175	113,608	
	Php293,207	Php274,501	
Other Selected Financial Data			
Total assets	Php475,119	Php455,095	
Property and equipment	203,188	195,782	
Cash and cash equivalents	38,722	46,455	
Short-term investments	2,738	1,429	

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 avilment 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) capital expenditures, 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 by 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.

Our consolidated cash and cash equivalents and short-term investments totaled Php47,884 million as at December 31, 2015. Principal sources of consolidated cash and cash equivalents in 2015 were cash flows from operating activities amounting to Php69,744 million, proceeds from avilment of long-term debt of Php44,367 million, dividends received of Php5,544 million, interest received of Php939 million, proceeds from disposal of property, plant and equipment of Php334 million, net additions to capital expenditures under long-term financing of Php311 million and proceeds from redemption of investment in debt securities of Php292 million. These funds were used principally for: (1) capital outlays, including capitalized interest, of Php43,175 million; (2) dividend payments of Php32,532 million; (3) debt principal and interest payments of Php17,084 million and Php5,407 million, respectively; (4) purchase of investment in associates and joint ventures of Php1,274 million; (5) payment for purchase of available-for-sale investments of Php925 million; (6) net payment for purchase of short-term investments of Php725 million; and (7) settlement of derivative financial instruments of Php638 million.

Operating Activities

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 efficiency, 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.

Our consolidated net cash flows from operations increased by Php3,729 million, or 6%, to Php69,744 million in 2015 from Php66,015 million in 2014, primarily due to higher level of collection of outstanding receivables, lower level of settlement of accounts payable and lower corporate taxes paid, partially offset by lower operating income, settlement of LTIP in 2015, higher pension contribution and higher prepayments.

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 efficiency, 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 efficiency 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.

Cash flows from operations of our wireless business decreased by Php2,965 million, or 6%, to Php46,919 million in 2015 from Php49,884 million in 2014 primarily due to lower operating income, settlement of LTIP in 2015, higher pension contribution and higher prepayments, partially offset by lower corporate taxes paid, lower level of settlement of accounts payable and higher level of collection of outstanding receivables. Cash flows from operations of our fixed line business increased by Php4,411 million, or 24%, to Php22,556 million in 2015 from Php18,145 million in 2014, primarily due to higher level of collection of accounts receivable, lower level of settlement of accounts payable and higher operating income, partially offset by the settlement of LTIP in 2015, higher pension contribution and higher level of settlement of other liabilities. Cash flows from operations of our other business amounted to Php740 million in 2015 as against cash flows used in operations of Php1,818 million in 2014 primarily due to higher level of collection of accounts receivables, lower settlement of accounts payable and higher operating income, partly offset by higher level of settlement of accrued expenses and other liabilities.

Investing Activities

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 capital expenditures by Php350 million; and (8) higher proceeds from disposal of property and equipment by Php1,555 million.

Consolidated net cash flows used in investing activities amounted to Php39,238 million in 2015, a decrease of Php12,448 million, or 24%, from Php51,686 million in 2014, primarily due to the combined effects of the following: (1) lower purchase of available-for-sale financial investments by Php18,786 million; (2) higher dividends received by Php3,689 million; (3) higher interest received by Php357 million; (4) higher capital expenditures by Php8,416 million; (5) net proceeds from redemption of investment in debt securities by Php1,310 million; (6) higher payment for purchase of investment in joint ventures and associates by Php974 million; and (7) higher payment for purchase of short-term investments by Php806 million.

Our consolidated capital expenditures, 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, 4G and LTE 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 and was principally 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.

Our consolidated capital expenditures, including capitalized interest, in 2015 totaled Php43,175 million, an increase of Php8,416 million, or 24%, as compared with Php34,759 million in 2014, primarily due to Smart Group's and PLDT's higher capital spending. Smart Group's capital spending, which increased by Php7,266 million, or 32%, to Php30,307 million in 2015 from Php23,041 million in 2014, primarily focuses on expanding coverage and reach, as well as service enhancement. PLDT's capital spending, which increased by Php562 million, or 5%, to Php11,259 million in 2015 from Php10,697 million in 2014, was principally used to finance the facility roll-out and expansion of our domestic fiber optic network, cable fortification and resiliency in various locations and acquisition of new platforms to complement introduction of new products

and services. 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 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.

On a consolidated basis, net cash flows used in financing activities amounted to Php11,385 million in 2015, a decrease of Php8,512 million, or 43%, from Php19,897 million in 2014, resulting largely from the combined effects of the following: (1) lower cash dividend payments by Php7,368 million; (2) higher proceeds from availment of long-term debt by Php3,038 million; (3) net additions to capital expenditures under long-term financing by Php395 million; (4) higher net payments of long-term debt by Php1,358 million; (5) higher interest payments by Php671 million; and (6) proceeds from issuance of capital stock of Php166 million in 2014.

Debt Financing

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.

Proceeds from availment of long-term debt for the year ended December 31, 2015 amounted to Php44,367 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 Php17,084 million and Php5,407 million, respectively, for the year ended December 31, 2015.

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.

Our consolidated long-term debt increased by Php30,769 million, or 24%, to Php160,892 million as at December 31, 2015 from Php130,123 million as at December 31, 2014 primarily due to drawings from our term loan facilities and the effect of the depreciation of the Philippine peso relative to the U.S. dollar to Php47.12 as at December 31, 2015 from Php44.74 as at December 31, 2014, partially offset by debt amortizations and prepayments. As at December 31, 2015, the long-term debt levels of PLDT and Smart increased by 19% and 45% to Php94,124 million and Php61,864 million, respectively, while DMPI's long-term debt level decreased by 43% to Php4,904 million, as compared with December 31, 2014.

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. Furthermore, certain of DMPI's debt instruments contain provisions wherein DMPI may be declared in default in case of a change in control in DMPI.

As at December 31, 2016 and 2015, 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, 2016 and 2015:

Earnings	Date			Amount	
	Approved	Record	Payable	Per share	Total Declared
(in millions, except per share amount)					
2016					
Common					
Regular Dividend	August 2, 2016	August 16, 2016	September 1, 2016	Php49.00	Php10,587
	March 7, 2017	March 21, 2017	April 6, 2017	28	6,050
Preferred					
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					Php16,696
2015					
Common					
Regular Dividend	August 4, 2015	August 27, 2015	September 25, 2015 ⁽²⁾	Php65.00	Php14,044
	February 29, 2016	March 14, 2016	April 1, 2016	57.00	12,315
Preferred					
10% Cumulative Convertible Preferred Stock	May 5, 2015	May 19, 2015	May 30, 2015	1.00	–
Series IV Cumulative Non-convertible Redeemable Preferred Stock ⁽¹⁾	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
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
Charged to Retained Earnings					Php26,418

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

⁽²⁾ 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.

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 ASEAN regional scale	BBB+ axA+	Stable
Moody’s Investor Service, or Moody’s	Foreign Currency Senior Unsecured Debt Rating Local Currency Issuer Rating	Baa2 Baa2	Stable Stable
Fitch Ratings, or Fitch	Long-term Foreign Currency Issuer Default Rating Long-term Local Currency Issuer Default Rating National Long-term Rating	BBB BBB+ AAA(ph1)	Stable Negative Stable
CRISP	Issuer rating	AAA	Stable

On May 20, 2016, 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 June 1, 2016, 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 August 31, 2016, Fitch affirmed PLDT's long-term foreign currency issuer default rating and senior notes at "BBB" and its National Rating at "AAA (phl)", both with a stable outlook. Fitch also affirmed PLDT's long-term local currency issuer default rating at "BBB+" but with a revised outlook to negative. The ratings reflect PLDT's market leadership position in the Philippine telecommunications industry across the wireless, fixed line and broadband segments.

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.

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 Adjusted 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. 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 Php22,987 million, Php32,532 million and Php39,900 million as at December 31, 2016, 2015 and 2014, respectively.

Contractual Obligations and Commercial Commitments

Contractual Obligations

See Item 11. "Quantitative and Qualitative Disclosures About Market Risks – Liquidity Risk" for a table summarizing the maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at December 31, 2016 and 2015.

For a detailed discussion of our consolidated contractual undiscounted obligations as at December 31, 2016 and 2015, 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 Php6,788 million and Php46 million as at December 31, 2016 and 2015, respectively. These commitments will expire within one year. The amount in 2016 includes standby letters of credit issued in relation with the SMC Transactions as at December 31, 2016.

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 were 1.8% and 1.4% in 2016 and 2015, respectively. Moving forward, we currently expect inflation to rise following the peso depreciation's impact on oil prices.

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, 2017 are as follows:

Name	Age	Period during which individual has served as such
Manuel V. Pangilinan	70	November 24, 1998 to present
Helen Y. Dee	72	June 18, 1986 to present
Ray C. Espinosa	60	November 24, 1998 to present
James L. Go	77	November 3, 2011 to present
Bernido H. Liu ⁽¹⁾	54	September 28, 2015 to present
Hideaki Ozaki	51	December 6, 2011 to present
Ret. Chief Justice Artemio V. Panganiban ⁽¹⁾	80	April 23, 2013 to present
Ma. Lourdes C. Rausa-Chan	63	March 29, 2011 to present
Pedro E. Roxas ⁽¹⁾	60	March 1, 2001 to present
Albert F. del Rosario	77	July 11, 2016 to present
Atsuhisa Shirai	55	August 30, 2016 to present
Amado D. Valdez	70	November 14, 2016 to present
Marife B. Zamora	63	November 14, 2016 to present

⁽¹⁾ Independent Director.

The name, age, position and period of service of the executive officers of PLDT as at January 31, 2017 are as follows:

Name	Age	Position(s)	Period during which individual has served as such
Executive Officers:			
Manuel V. Pangilinan.....	70	Chairman of the Board President and CEO	February 19, 2004 to present January 1, 2016 to present
Ernesto R. Alberto.....	55	Executive Vice President Enterprise, International and Carrier Business Head Customer Sales and Marketing Head Corporate Business Head Chief Revenue Officer	January 1, 2012 to present September 16, 2011 to November 30, 2016 February 1, 2008 to September 15, 2011 May 15, 2003 to January 31, 2008 December 1, 2016 to present
Ray C. Espinosa.....	60	Regulatory Affairs and Policies Head Chief Corporate Services Officer	March 4, 2008 to November 30, 2016 December 1, 2016 to present
Anabelle L. Chua.....	56	Senior Vice President Corporate Finance and Treasury Head Treasurer Chief Financial Officer of Smart Chief Financial Officer of PLDT	February 26, 2002 to present March 1, 1998 to present February 1, 1999 to May 17, 2015 December 1, 2005 to May 17, 2015 May 18, 2015 to present
Ma. Lourdes C. Rausa-Chan.....	63	Senior Vice President Corporate Secretary Corporate Affairs and Legal Services Head Chief Governance Officer	January 5, 1999 to present November 24, 1998 to present January 5, 1999 to present March 4, 2008 to present
Ma. Elizabeth S. Sichon.....	58	Chief People and Culture Officer	February 7, 2017 to present
Victorico P. Vargas.....	64	Business Transformation Office Head	January 1, 2016 to present
Jun R. Florencio.....	60	Senior Vice President Internal Audit and Fraud Risk Management Head Audit and Assurance Head	June 14, 2005 to present February 16, 2006 to present
Menardo G. Jimenez, Jr. ⁽¹⁾	53	Senior Vice President Human Resources Head and Business Transformation Office (BTO) Head Business Transformation Office – Revenue Team Head Retail Business Head Corporate Communications and Public Affairs Head Deputy BTO Head	September 1, 2000 to February 15, 2006 December 9, 2004 to present August 1, 2010 to December 31, 2016 January 1, 2008 to July 2010 June 16, 2004 to December 31, 2007 December 1, 2001 to June 15, 2004 January 1, 2017 to present
Alejandro O. Caeg.....	56	Senior Vice President International and Carrier Business Head Wireless Consumer Division Sales and Distribution of Smart	January 1, 2012 to present March 1, 2009 to present December 1, 2016 to present
June Cheryl A. Cabal-Revilla.....	43	First Vice President Financial Reporting and Controllershship Head Financial Reporting and Planning Head Chief Financial Officer of Smart and DMPI	May 6, 2008 to present November 15, 2006 to present May 1, 2002 to November 15, 2006 May 18, 2015 to present
Leo I. Posadas.....	50	First Vice President Treasurer	March 6, 2007 to present 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.

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

Mr. Manuel V. Pangilinan, 70 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. 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 MPIC, Meralco and Philex Mining

Corporation, all of which are PSE-listed companies, and of several subsidiaries or affiliates of PLDT or MPIC, including, among others, Smart, Beacon, Manila North Tollways Corporation, Maynilad Water Services Corporation (“Maynilad”), Landco Pacific Corporation, 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 PLDT-Smart Foundation, Inc.

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 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, 72 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, National Reinsurance Corporation of the Philippines, Petro Energy Resources Corporation, Rizal Commercial Banking Corporation and Seafront Resources 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, which are listed on page 85 hereof. 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., and the Vice President of A. T. Yuchengco, Inc. Ms. Dee received her Master’s Degree in Business Administration from De La Salle University.

Atty. Ray C. Espinosa, 60 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 served as Chief Corporate Services Officer of PLDT since December 1, 2016 and General Counsel of Meralco since 2009. In June 2013, he joined First Pacific and was appointed as First Pacific Group’s Head of Government and Regulatory Affairs and Head of Communications Bureau for the Philippines. He is also a director of Meralco, Metro Pacific Investments Corporation and Roxas Holdings, Inc., and an independent director and Chairman of the Audit Committee of Lepanto Consolidated Mining Company, which are PSE-listed companies. He is the Chairman of PhilStar Group of Companies, Business World Publication Corporation, a director and Corporate Secretary of Philippine Telecommunications Investment Corporation, a director of Metro Pacific Resources, Inc. and BTF Holdings, Inc. and a trustee of the Beneficial Trust Fund of PLDT and PLDT-Smart Foundation, Inc.

Atty. Espinosa served as President & CEO of MediaQuest, TV5 and Signal TV until May 2013 and, prior thereto, was the President & CEO of ePLDT and its subsidiaries until April 2010.

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., U.S.A.) from 1987 to 1988.

Mr. James L. Go, 77 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, U.S.A.

Mr. Bernido H. Liu, 54 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, President and Chief Executive Officer of Golden ABC, Inc. (“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, and Red Logo Lifestyle Inc. He is also the Chairman of Greentree Food Solutions, Inc., a director of GABC International Pte Limited, Children's Hour Philippines and Mga Likha ni Inay, Inc., a trustee of Philippine Retailers Association, 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 has been recognized by different award-giving bodies. His awards include, among others, the Agora Award for Outstanding Achievement in Entrepreneurship from the Philippine Marketing Association, Ten Outstanding Young Men for Entrepreneurship, and Grand Bossing from PLDT SME Nation.

Mr. Hideaki Ozaki, 51 years old, has been a director of PLDT since December 6, 2011. He is the President and Chief Executive Officer of NTT Com Asia Ltd, a data center, network and cloud provider in Hong Kong and the North Asia Regional Headquarters of NTT Communications Corporation ("NTT Com"). He served as Vice President of Corporate Planning and Carrier Relations, Global Business of NTT Com from October 2006 to July 2016 and as part-time Director of NTT Communications Philippines from July 2009 to February 2012. Prior to that, he served as Vice President of Global Strategy, Global Business Division of NTT Com since 2006 and as Director of Legal and Internal Audit Department of NTT Com from 2003 to 2006. He also served as Vice President of Sales and Corporate Planning of NTT Communications (Thailand) Co., Ltd. from 1999 to 2003 and as Manager of Overseas Business Planning, Global Service Division of Nippon Telegraph and Telephone Corporation from 1995 to 1999. Mr. Ozaki obtained his Bachelor's Degree in Law from University of Tokyo and Master's Degree in Law from University of Pennsylvania.

Hon. Artemio V. Panganiban, 80 years old, has been an independent director of PLDT since April 23, 2013 and is 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. He also holds directorships in Metro Pacific Tollways Corporation, Tollways Management Corporation, LIB and Team Energy Corporation, is a senior adviser of Metropolitan Bank and Trust Company, a member of the Advisory Council of the Bank of the Philippine Islands and adviser of Double Dragon Properties, Corp. He is the Chairman of the Board of Trustees of the Foundation for Liberty and Prosperity, and the Board of Advisers of Metrobank Foundation, Inc., a trustee of Claudio Teehankee Foundation and Tan Yan Kee Foundation, President of the Manila Metropolitan Cathedral-Basilica Foundation, member of the Board of Advisers of De La Salle University College of Law, University of Asia and the Pacific College of Law and Johann Strauss Society, member of the Advisory Board of World Bank (Philippines), Senior Adviser of V. Mapa Falcon Honor Society, Chairman-Emeritus of the Philippine Dispute Resolution Center, Inc., Chairman of Philippine National Committee of the Asean Law Association, consultant of the Judicial and Bar Council, 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, practising 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, 77 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 February 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 (a PSE-listed company), 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 an Advisory Board of CSIS Southeast Asia Program.

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, 60 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 and Risk Committees and serves as an independent member of the 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, 55 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 of PLDT. 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.

Dean Amado D. Valdez, 70 years old, has been a director of PLDT since November 14, 2016. He is the Chairman of the Social Security Commission and is an independent director of Radiowealth Finance Corporation. Dean Valdez' service in the national government started during the term of H.E. President Corazon C. Aquino where he served as Director of the Bureau of Agrarian Legal Assistance and as member of the Cabinet Assistance System. In 2001, he served as Government Corporate Counsel with the rank of Presiding Justice of the Court of Appeals. He also served as Senior Undersecretary at the Office of the President of the Philippines and concurrent Executive Director of the Presidential Commission on the Visiting Forces Agreement. Prior thereto, he worked as General Attorney at the Law Center of the U.S. Naval Base in Subic Bay and Associate at the law firm Martin, Davis & Lewis Law Firm in Los Angeles, California.

His past business, professional, and civic involvement includes holding positions such as Dean of the University of the East College of Law, President and Chairman Emeritus of the Pamantasan ng Lungsod ng Maynila and Ospital ng Maynila, President of the International Association of Constitutional Law-Philippine Branch and the Philippine Association of Law Schools, member of the Board of Trustee of the Philippine Judicial Academy and the Universidad de Manila, director of Philex Mining Corporation, John Hay Management Corporation and Rotary Club of Manila, among others.

Dean Valdez obtained his Bachelor of Laws Degree from the University of the East and Bachelor of Arts Degree from Manuel L. Quezon University. He also attended special studies in International Business Law at the National University in Singapore and completed academic requirements in Master in Business Economics at University of Asia and the Pacific. He was conferred with Doctor of Humanities Degree by the Laguna State Polytechnic University and Doctor of Philosophy Degree by the Akamai University in Hawaii.

Ms. Marife B. Zamora, 63 years old, has been a director of PLDT since November 14, 2016. She is the Chairperson of Convergys Philippines, Inc., the Philippine branch of Convergys Corporation (NYSE:CVG), a global leader in customer management. 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. In April 2014, she was named Chair of Convergys Philippines.

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 at 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 STARpreneur Award 2012, and the 100 Most Influential Filipino Women in the World Award (Founders & Pioneers Category) 2013.

Mr. Ernesto R. Alberto, 55 years old, Group Chief Revenue Officer for PLDT and Smart since December 1, 2016, 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 has also served as the President and Chief Executive Officer of ePLDT since 2013 and is a member of the PLDT and Smart top management team. He is the Chairman or a director of several subsidiaries and affiliates of PLDT, Smart and ePLDT. He is also the Chairman of the Junior Achievement of the Philippines, member of the Board of Trustees of the Advertising Foundation of the Philippines, member of the Management Association of the Philippines and Makati Business Club, and founding member of the Board of Trustees of IBM Analitika Philippines.

Mr. Alberto brings with him over 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, 56 years old, was appointed as Chief Financial Officer of the PLDT Group effective May 18, 2015. She was 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, a director of the companies owned by PLDT Beneficial Trust Fund, and a director and member of the Finance, Audit 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. Ms. Chua graduated magna cum laude from the University of the Philippines with a Bachelor of Science Degree in Business Administration and Accountancy.

Atty. Ma. Lourdes C. Rausa-Chan, 63 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 of ePLDT, PLDT Global Investments Holdings, Inc., PCEV and ACeS Philippines and also serves as Corporate Secretary of several subsidiaries of PLDT, 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.

Ms. Ma. Elizabeth S. Sichon, 58 years old, was appointed as Chief People and Culture Officer effective December 1, 2016. A seasoned global HR executive, she has previously held HR roles across the Americas, Europe, Middle East and Africa, Asia Pacific and Latin America in high tech, financial and health care industries. Most recently she 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, 64 years old, was appointed as Business Transformation Office Head effective January 1, 2016. Mr Vargas joined First Pacific in 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 to his appointment as Assistant Director of First Pacific, 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 ultimately became 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 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, 56 years old, was appointed Head of WCD Sales and Distribution of Smart effective December 1, 2016. Prior to that, he served as Head of International & Carrier Business from March 1, 2009 until November 30, 2016. Previously, 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, 60 years old, 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 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. Menardo G. Jimenez, Jr., 53 years old, was appointed as Business Transformation Office Deputy Head effective January 1, 2017. Prior thereto, he served as Human Resources Group Head and Fixed Line Business Transformation Office Head from August 1, 2010 to November 30, 2016. 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.

Ms. June Cheryl A. Cabal-Revilla, 43 years old, PLDT Group Controller and Financial Reporting and Controllership Head, is concurrently the Chief Financial Officer of Smart, Digitel and DMPI effective May 18, 2015. She is also a director and/or the Chief Financial Officer/Treasurer of several subsidiaries of PLDT and Smart, the Treasurer of PLDT-Smart Foundation and the Philippine Disaster Resilience Foundation, Comptroller of First Pacific Leadership Academy Foundation and a 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, 50 years old, was appointed as Treasurer of PLDT effective May 18, 2015 and concurrently holds the position of Treasury Head. He 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 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) House of Investments (Regular Director/Chairman) National Reinsurance Corporation of the Philippines (Regular Director/Chairman) Petro Energy Resources Corporation (Regular Director/Chairman) Rizal Commercial Banking Corporation (Regular Director/Chairman) Seafont Resources Corporation (Regular Director/Chairman)	AY Holdings, Inc. (Regular Director) ET Yuchengco, Inc. (Regular Director) GPL Holdings, Inc. (Regular Director) Financial Brokers Insurance Agency, Inc. (Regular Director/Chairman) 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) iPeople, Inc. (Regular Director) 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 Insurance Company (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) Mijo Holdings, Inc. (Regular Director/Chairman) Moira Management, Inc. (Regular Director) Pan Malayan Express (Regular Director) Pan Malayan Management and Investment Corporation (Regular Director/Vice Chairman) Pan Malayan Realty Corp. (Regular Director/Chairman) Petrowind Energy, Inc. (Regular Director/Chairman) Philippine Integrated Advertising Agency, Inc. (Regular Director) RCBC Forex Brokers Corp. (Regular Director) RCBC Leasing & Finance Corp. (Regular Director/Chairman) RCBC Realty Corporation (Regular Director) RCBC Savings Bank (Regular Director/Chairman) Sunlife Grepa Financial, Inc. (Regular Director) Tameena Resources, Inc. (Regular Director/Chairman) West Spring Development Corp. (Regular Director/Vice Chairman) Xamdu Motors, Inc. (Regular Director/Chairman) YGC Corporate Services, Inc. (Regular Director) 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 2016 amounted to approximately Php400 million.

The following table below sets forth the aggregate amount of compensation paid in 2016 and 2015 and estimated amount of compensation expected to be paid in 2017 to: (1) the President and CEO and four most highly compensated officers of PLDT, as a group, namely, Anabelle L. Chua, Ernesto R. Alberto, Isaias P. Fermin, separated from service effective January 1, 2017, and Ma. Lourdes C. Rausa-Chan; and (2) all other executive officers, other officers and directors, as a group.

	2017	2016	2015
	Estimate	Actual	Actual
	(in millions)		
President and CEO and four most highly compensated executive officers:			
Salary ⁽¹⁾	Php109	Php117	Php123
Bonus ⁽²⁾	27	27	32
Other compensation ⁽³⁾	29	78	256
	165	222	411
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⁾	249	263	275
Bonus ⁽²⁾	60	66	69
Other compensation ⁽³⁾	101	223	657
	Php410	Php552	Php1,001

⁽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. The 2015 other compensation includes LTIP payments during the year. 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 2016 and 2015 were approximately Php57 million and Php55 million, respectively. The total amount of *per diems* estimated to be paid in 2017 is approximately Php61 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.

Long-term Incentive Plan

The LTIP is a cash plan that is intended to provide meaningful, contingent, financial incentive compensation for eligible executives, officers and advisors of the PLDT Group, who are consistent performers and contributors to the achievement of the long-term strategic plans and objectives, as well as the functional strategy and goals of the PLDT Group. The LTIP is administered by the ECC which has the authority to determine the following: (a) eligibility and identity of participants; (b) the award attributable to each participant based on the participant’s annual base compensation and taking into account such participant’s seniority, responsibility level, performance potential, tenure with the PLDT Group, job difficulty and such other measures as the Committee deems appropriate; (c) the level of achievement of the performance objectives; and (d) the actual award payable to each participant based on the level of achievement of the performance objectives.

The LTIP covering the period from January 1, 2012 to December 31, 2014 was approved by the Board of Directors with the endorsement of the ECC on March 22, 2012. The awards under the LTIP totaled Php3,264 million, and were paid in full in 2015. Therefore, PLDT currently has no outstanding LTIP liabilities.

The structure, terms and conditions of a new LTIP are currently being studied taking into account our strategic and operational business plans to execute our digital pivot and business and organizational transformation.

There are currently no other warrants or options held by PLDT’s officers or directors either singly or collectively.

See 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 related discussion.

Share Ownership

The following table sets forth information regarding ownership of our common stock, as at January 31, 2017 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	249,450	0.115456
Helen Y. Dee	25,080 ⁽²⁾	0.011608
Ray C. Espinosa	15,743 ⁽¹⁾	0.007287
James L. Go	125,914 ⁽¹⁾	0.058278
Bernido H. Liu	1	—
Hideaki Ozaki	1	—
Ret. Chief Justice Artemio V. Panganiban	1,771 ⁽¹⁾	0.000820
Pedro E. Roxas	231 ⁽³⁾	0.000107
Ma. Lourdes C. Rausa-Chan	199 ⁽¹⁾	0.000092
Albert F. del Rosario	142,410 ⁽¹⁾	0.065914
Atsuhisa Shirai	1	—
Amado D. Valdez	1	—
Marife B. Zamora	5	0.000002
Ernesto R. Alberto	—	—
Anabelle L. Chua	12,028 ⁽¹⁾	0.005567
Jun R. Florencio	515 ⁽¹⁾	0.000238
Menardo G. Jimenez, Jr.	22	0.000010
Alejandro O. Caeg	200 ⁽¹⁾	0.000093
June Cheryl A. Cabal-Revilla	—	—
Ma. Elizabeth S. Sichon	—	—
Victorico P. Vargas	1,470 ⁽⁴⁾	0.000680
Leo I. Posadas	10	0.000005

⁽¹⁾ Includes PLDT common shares that have been lodged with the Philippine Depository and Trust Co., or PDTC.

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

⁽⁴⁾ 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, 2017, was 575,052, or approximately 0.266159% 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. Mr. Menardo G. Jimenez, Jr.⁽¹⁾ and Atty. Ma. Lourdes C. Rausa-Chan are the non-voting members.

(1) Until February 6, 2017 when replaced by Chief People and Culture Officer Ma. Elizabeth S. Sichon.

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. Mr. Menardo G. Jimenez, Jr.⁽¹⁾ is the non-voting member.

(1) Until February 6, 2017 when replaced by Chief People and Culture Officer Ma. Elizabeth S. Sichon.

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. Veja 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. Veja, Mr. Christopher H. Young, Mr. Oscar S. Reyes and Mr. Washington Z. Sycip. 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, 2016, we had 18,038 employees within the PLDT Group, with 7,343 and 10,695 employees in our wireless and fixed line businesses, respectively. PLDT had 6,858 employees as at December 31, 2016, of which 18% were rank-and-file employees, 75% were management/supervisory staff and 7% were executives.

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

	December 31,		
	2016	2015	2014
PLDT Group	18,038	17,176	17,496
Wireless	7,343	7,505	7,786
Fixed Line	10,695	9,671	9,710
LEC	7,205	7,039	7,405
Others	3,490	2,632	2,305
PLDT Only	6,858	6,705	7,041

PLDT has three employee unions, representing in the aggregate 5,631, or 31% 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.

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 Fund's 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 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.

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, 2017, 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	11,760,930 ⁽⁵⁾	5.4	–	–	3.2
5. The Hongkong and Shanghai Banking Corporation Limited – Clients' Acct.	17,298,278 ⁽⁵⁾	8.0	–	–	4.7
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 American Depositary Receipts, or ADRs, held by a non-Philippine wholly-owned subsidiary of First Pacific.

⁽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, 2017.

⁽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, 2017, approximately 71.86% of the outstanding voting stock and 84.53% 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, First Pacific and certain of its affiliates, or 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

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, for example, in connection with the petition filed by Jose M. Roy III, we could be subject to penalties. 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.

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. If an adverse decision becomes final and executory without the necessary transfer of shares having been made, PLDT would have to secure a new franchise from the Philippine Congress (after the foreign ownership violation has been cured) if it still desires to engage in the telecommunications industry. In the case of a violation of the foreign ownership restrictions, the monetary sanctions described above would continue to apply notwithstanding any curative issuance or transfer of shares to Philippine nationals. 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.

Taxation

Local Business and Franchise Taxes

Smart and DMPI currently face various local business and franchise tax assessments by different local government units.

In some of these cases, Smart and DMPI are contesting these tax assessments due to tax exemptions or questions on how the tax assessments were computed.

PLDT has no contested local government unit assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction as at December 31, 2016. However, PLDT is contesting the imposition of business tax in addition to franchise tax on the same gross receipts received or collected.

See *Note 27 – Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 7. “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 2016.

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 depository 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 March 31, 2017 is 53.81%.

As at March 31, 2017, 10,260 stockholders were Philippine persons and held approximately 52.46% of PLDT's common capital stock. In addition, as at March 31, 2017, there were a total of approximately 40 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 271 holders.

For the period from January 1 to March 31, 2017, a total of 8.05 million shares of PLDT's common capital stock were traded on the PSE. During the same period, the volume of trading was 6.97 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
2017				
First Quarter				
January	Php1,618.00	Php1,360.00	US\$31.98	US\$27.65
February	1,535.00	1,386.00	30.46	27.60
March	1,655.00	1,400.00	32.59	27.71
Second Quarter				
April (April 1 to 25)	1,799.00	1,626.00	36.16	31.95
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
October	1,740.00	1,511.00	36.11	31.38
November	1,530.00	1,266.00	32.08	26.00
December	1,386.00	1,260.00	28.23	25.50
2015				
First Quarter	3,214.00	2,780.00	72.93	60.95
Second Quarter	2,984.00	2,748.00	66.48	61.21
Third Quarter	2,950.00	2,168.00	68.00	45.46
Fourth Quarter	2,430.00	1,959.00	50.86	39.70
2014	3,292.00	2,604.00	79.04	56.88
2013	3,290.00	2,530.00	78.63	58.63
2012	2,940.00	2,290.00	69.44	52.34

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, copies of which are furnished as Exhibits 4(i) and (j).
- 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, a copy of which is furnished as Exhibit 4(k).
- 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, a copy of which is furnished as Exhibit 4(l).
- 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, a copy of which is furnished as Exhibit 4(m).

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, 2016, 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".

Principal of and interest on PLDT's 8.35% Notes due March 2017 are payable in U.S. dollars which may be paid through the local banking system either pursuant to the registration of such notes with the BSP or otherwise pursuant to specific BSP approval of such payment. Such principal and interest may also be paid utilizing PLDT's own dollar resources without necessity of BSP approval. The BSP, with the approval of the President of the Philippines, may, however, restrict the availability of foreign exchange during an exchange crisis, when an exchange crisis is imminent, or in times of national emergency.

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 PLDT's voting 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 Depository 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, or GDRs. 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%, 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 June 23, 2016, the BIR issued BIR Revenue Memorandum Order No. 27-2016 ("RMO 27-2016") which provides that in lieu of filing of a tax treaty relief application, preferential treaty rates for dividends, interests and royalties shall be granted outright by withholding final taxes at the applicable treaty rate. As of the date of this report, the effectivity of RMO 27-2016 has been suspended.

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. 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. 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 of 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, barter, 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. 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 Philippine Stock Exchange 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.

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. 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%. 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 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, depending on your circumstances, be either “passive” or “general” 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 depository, as depository 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. The total amount that the depositary has agreed to reimburse and the amounts reimbursable for the year ended December 31, 2016 was US\$1,571,657.60.

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, 2016. Based on this evaluation, our CEO and principal financial officer concluded that our disclosure controls and procedures were effective as at December 31, 2016.

Management's Annual Report on Internal Control Over Financial Reporting. The Management of PLDT Inc. and Subsidiaries ("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, 2016, 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, 2016.

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, 2016. This attestation report is dated April 26, 2017 and is set forth in Item 18 “Financial Statements” of the Annual Report on Form 20-F for the year ended December 31, 2016.

Changes in Internal Control Over Financial Reporting.

In 2016, 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. 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, 2016 and 2015:

	2016	2015
	(in millions)	
Audit Fees	Php43	Php42
All Other Fees	23	18
Total	Php66	Php60

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, 2016 and 2015.

Tax Fees. We did not have any tax fees for the years ended December 31, 2016 and 2015.

All Other Fees. This category consists primarily of fees with respect to our Sarbanes-Oxley Act 404 assessment in 2016 and 2015, and other non-audit engagements.

The fees presented above include out-of-pocket expenses incidental to our independent auditors' work, the amount of which do not exceed 5% of the agreed-upon engagement fees.

Our audit committee 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

We did not repurchase any of our shares in the year ended December 31, 2016.

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 Philippine SEC Revised Code of Corporate Governance⁽¹⁾ ("Philippine SEC Governance Code") in respect of its corporate governance practices as well as with the NYSE listing standards applicable to foreign private issuers. 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.

⁽¹⁾ The Philippine SEC Governance Code was in effect from July 15, 2009 until December 31, 2016. Effective January 1, 2017, it was superseded by the Code of Corporate Governance for Publicly-Listed Companies issued by the Philippine SEC. The Code of Corporate Governance for Publicly-Listed Companies adopted the "comply or explain" approach which requires covered companies to either comply with the corporate governance practices recommended therein or to explain the reason for non-compliance in the company's annual corporate governance report. Philippine SEC MC Nos. 19 and 20, Series of 2016, require publicly-listed companies to submit their annual corporate governance reports based on Philippine SEC Governance Code for year 2016. For 2017 onwards, such reports shall be based on the Code of Corporate Governance for Publicly-Listed Companies.

- **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 requirements under the Philippine SEC Governance Code that at least two members or 20% of the board of directors 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 *vice versa*.
 - Examples 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, or a director's past or present affiliation with a firm that is PLDT's internal auditor do not preclude a determination that such director is independent.
 - Examples where PLDT's corporate governance practices impose more stringent standards than NYSE listing standards include the look back periods for the independence tests and the "material relationship with the listed company" test. The look back period for each of the "past employment" and the "auditor affiliation" tests under PLDT's corporate governance practices is five years compared to three years under the NYSE listing standards. Furthermore, in respect of material relationships that preclude an independence finding, 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 the holding of executive sessions with non-management directors only at least once a year and at such other times as the Board may deem necessary or appropriate.
- **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, which exceeds the requirements under the Philippine SEC Governance Code that one of at least three members of the nominating/corporate governance committee and one of at least three members of the compensation committee must be independent.

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 the Philippine SEC Governance Code and 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 under the Philippine SEC Governance Code 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://pldt.com/docs/default-source/compliance/nyse-pldt_303a-11_2013.pdf?sfvrsn=2. 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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and the Stockholders
PLDT Inc.

We have audited PLDT Inc. (formerly Philippine Long Distance Telephone Company) and its subsidiaries' (collectively referred to as "PLDT Group") internal control over financial reporting as at December 31, 2016, 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"). 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform 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.

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.

In our opinion, the PLDT Group maintained, in all material respects, effective internal control over financial reporting as at December 31, 2016, based on the COSO criteria.



We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of the PLDT Group as at December 31, 2016 and 2015, and the 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, 2016, and our report dated April 26, 2017 expressed an unqualified opinion thereon.

Sycip Gorres Velayo & Co

Makati City, Philippines
April 26, 2017



Report of Independent Registered Public Accounting Firm

The Board of Directors and the Stockholders
PLDT Inc.

We have audited the accompanying consolidated statements of financial position of PLDT Inc. (formerly Philippine Long Distance Telephone Company) and its subsidiaries (collectively referred to as “PLDT Group”) as at December 31, 2016 and 2015, and the 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, 2016. These consolidated 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the PLDT Group as at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, 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), the PLDT Group’s internal control over financial reporting as at December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework and our report dated April 26, 2017 expressed an unqualified opinion thereon.



Makati City, Philippines
April 26, 2017



PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2016 and 2015
(in million pesos)

	2016	2015
<u>ASSETS</u>		
Noncurrent Assets		
Property and equipment (Notes 9 and 22)	203,188	195,782
Investments in associates and joint ventures (Notes 10 and 25)	56,858	48,703
Available-for-sale financial investments (Notes 6, 11 and 28)	12,189	15,711
Investment in debt securities and other long-term investments – net of current portion (Notes 12 and 28)	374	952
Investment properties (Notes 6 and 13)	1,890	1,825
Goodwill and intangible assets (Notes 14 and 15)	70,280	72,117
Deferred income tax assets – net (Note 7)	27,348	21,941
Derivative financial assets – net of current portion (Note 28)	499	145
Prepayments – net of current portion (Note 19)	7,056	3,475
Advances and other noncurrent assets – net of current portion (Notes 25 and 28)	9,473	3,003
Total Noncurrent Assets	389,155	363,654
Current Assets		
Cash and cash equivalents (Note 16)	38,722	46,455
Short-term investments (Note 28)	2,738	1,429
Trade and other receivables (Note 17)	24,436	24,898
Inventories and supplies (Note 18)	3,744	4,614
Current portion of derivative financial assets (Note 28)	242	26
Current portion of investment in debt securities and other long-term investments (Note 12)	326	51
Current portion of prepayments (Note 19)	7,505	5,798
Current portion of advances and other noncurrent assets (Note 20)	8,251	8,170
Total Current Assets	85,964	91,441
TOTAL ASSETS	475,119	455,095
<u>EQUITY AND LIABILITIES</u>		
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)
Capital in excess of par value (Note 20)	130,488	130,517
Retained earnings (Note 20)	3,483	6,195
Other comprehensive loss (Note 6)	(20,894)	(18,202)
Total Equity Attributable to Equity Holders of PLDT (Note 28)	108,175	113,608
Noncontrolling interests (Note 6)	362	290
TOTAL EQUITY	108,537	113,898

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
As at December 31, 2016 and 2015
(in million pesos)

	2016	2015
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 21 and 25)	151,759	143,982
Deferred income tax liabilities – net (Note 7)	3,567	3,704
Derivative financial liabilities – net of current portion (Note 28)	2	736
Customers' deposits (Note 28)	2,431	2,430
Pension and other employee benefits (Note 26)	11,206	10,197
Deferred credits and other noncurrent liabilities (Notes 22 and 28)	15,604	21,482
Total Noncurrent Liabilities	184,569	182,531
Current Liabilities		
Accounts payable (Note 23)	52,950	52,679
Accrued expenses and other current liabilities (Note 24)	92,219	84,286
Current portion of interest-bearing financial liabilities (Note 21)	33,273	16,911
Provision for claims and assessments (Note 27)	897	897
Dividends payable (Notes 20 and 28)	1,544	1,461
Current portion of derivative financial liabilities (Note 28)	225	306
Income tax payable (Note 7)	905	2,126
Total Current Liabilities	182,013	158,666
TOTAL LIABILITIES	366,582	341,197
TOTAL EQUITY AND LIABILITIES	475,119	455,095

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

For the Years Ended December 31, 2016, 2015 and 2014

(in million pesos, except earnings per common share amounts which are in pesos)

	2016	2015	2014
REVENUES			
Service revenues	157,210	162,930	164,943
Non-service revenues (Note 5)	8,052	8,173	5,892
	165,262	171,103	170,835
EXPENSES			
Depreciation and amortization (Note 9)	34,455	31,519	31,379
Compensation and employee benefits (Notes 5 and 26)	19,928	21,606	18,749
Cost of sales (Notes 5, 18 and 25)	16,753	16,389	13,512
Repairs and maintenance (Notes 13, 18 and 25)	15,212	15,035	14,988
Asset impairment (Note 5)	11,042	9,690	6,046
Interconnection costs	9,573	10,317	10,420
Professional and other contracted services (Note 25)	9,474	8,234	7,748
Selling and promotions (Note 25)	7,687	9,747	10,619
Rent (Note 25)	6,912	6,376	6,692
Taxes and licenses (Note 27)	3,782	4,592	4,563
Insurance and security services (Note 25)	1,739	1,797	1,884
Communication, training and travel (Note 25)	1,253	1,349	1,552
Amortization of intangible assets (Note 15)	929	1,076	1,149
Cost of content	576	225	–
Other expenses	1,244	1,316	1,156
	140,559	139,268	130,457
	24,703	31,835	40,378
OTHER INCOME (EXPENSES)			
Equity share in net earnings of associates and joint ventures (Note 10)	1,181	3,241	3,841
Interest income (Note 5)	1,046	799	752
Gains (losses) on derivative financial instruments – net (Note 28)	996	420	(101)
Foreign exchange losses – net (Notes 9 and 28)	(2,785)	(3,036)	(382)
Financing costs – net (Note 5)	(7,354)	(6,259)	(5,320)
Other income (expenses) – net (Notes 11 and 13)	4,284	(362)	4,980
	(2,632)	(5,197)	3,770
INCOME BEFORE INCOME TAX	22,071	26,638	44,148
PROVISION FOR INCOME TAX (Note 7)	1,909	4,563	10,058
NET INCOME	20,162	22,075	34,090
ATTRIBUTABLE TO:			
Equity holders of PLDT (Note 8)	20,006	22,065	34,091
Noncontrolling interests (Note 8)	156	10	(1)
	20,162	22,075	34,090
Earnings Per Share Attributable to Common Equity Holders of PLDT (Note 8)			
Basic	92.33	101.85	157.51
Diluted	92.33	101.85	157.51

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016, 2015 and 2014
(in million pesos)

	2016	2015	2014
NET INCOME	20,162	22,075	34,090
OTHER COMPREHENSIVE INCOME (LOSS) – NET OF TAX (Note 6)			
Net gains (losses) on available-for-sale financial investments:			
Impairment recognized in profit or loss (Notes 5 and 11)	860	(8,135)	8,144
Unrealized gains (losses) from changes in fair value recognized during the year (Note 11)	5,381	5,124	–
Income tax related to fair value adjustments charged directly to equity (Note 7)	(4,520)	(13,258)	8,144
Share in the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Note 10)	(1)	(1)	–
Foreign currency translation differences of subsidiaries	151	(14)	34
Net transactions on cash flow hedges:	79	45	(3)
Net fair value gains (losses) on cash flow hedges (Note 28)	10	31	(74)
Income tax related to fair value adjustments charged directly to equity (Note 7)	76	5	(94)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent years	(66)	26	20
Revaluation increment on investment properties:			
Fair value adjustment to property and equipment transferred to investment properties during the year (Note 13)	17	(1)	364
Depreciation of revaluation increment in investment properties transferred to property and equipment (Note 9)	26	–	476
Income tax related to revaluation increment charged directly to equity (Note 7)	(2)	(2)	(2)
Actuarial losses on defined benefit obligations:	(7)	1	(110)
Remeasurement in actuarial losses on defined benefit obligations	(3,571)	(1,598)	(4,874)
Income tax related to remeasurement adjustments (Note 7)	(5,112)	(2,356)	(6,952)
Share in the other comprehensive loss of associates and joint ventures accounted for using the equity method (Note 10)	1,541	758	2,078
Net other comprehensive loss not to be reclassified to profit or loss in subsequent years	–	(235)	(391)
Total Other Comprehensive Income (Loss) – Net of Tax	(3,554)	(1,834)	(4,901)
TOTAL COMPREHENSIVE INCOME	(2,454)	(9,907)	3,200
ATTRIBUTABLE TO:			
Equity holders of PLDT	17,708	12,168	37,290
Noncontrolling interests	151	20	3
	17,708	12,168	37,290

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2016, 2015 and 2014
(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings	Other Comprehensive Loss	Total Equity Attributable to Equity Holders of PLDT	Noncontrolling Interests	Total Equity
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:	-	-	-	-	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:	-	-	-	-	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
Balances as at January 1, 2014	510	1,093	(6,505)	130,562	22,968	(11,481)	137,147	179	137,326
Total comprehensive income:	-	-	-	-	34,091	3,196	37,287	3	37,290
Net income (Note 8)	-	-	-	-	34,091	-	34,091	(1)	34,090
Other comprehensive income (Note 6)	-	-	-	-	-	3,196	3,196	4	3,200
Cash dividends (Note 20)	-	-	-	-	(40,029)	-	(40,029)	(29)	(40,058)
Issuance of capital stock (Note 20)	-	-	-	-	-	-	-	163	163
Acquisition and dilution of noncontrolling interests	-	-	-	(41)	-	-	(41)	(12)	(53)
Balances as at December 31, 2014	510	1,093	(6,505)	130,521	17,030	(8,285)	134,364	304	134,668

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016, 2015 and 2014
(in million pesos)

	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	22,071	26,638	44,148
Adjustments for:			
Depreciation and amortization (Note 9)	34,455	31,519	31,379
Asset impairment (Note 5)	11,042	9,690	6,046
Interest on loans and other related items – net (Note 5)	6,956	5,919	4,987
Impairment of investments (Note 11)	5,515	5,166	–
Foreign exchange losses – net (Notes 9 and 28)	2,785	3,036	382
Pension benefit costs (Notes 5 and 26)	1,775	1,888	1,702
Amortization of intangible assets (Note 15)	929	1,076	1,149
Accretion on financial liabilities – net (Note 5)	230	231	165
Losses (gains) on derivative financial instruments – net (Note 28)	(996)	(420)	101
Interest income (Note 5)	(1,046)	(799)	(752)
Equity share in net earnings of associates and joint ventures (Note 10)	(1,181)	(3,241)	(3,841)
Losses (gains) on disposal of property and equipment (Note 9)	(1,360)	298	42
Gain on disposal of investment in joint ventures	(7,365)	(2,838)	(1,448)
Incentive plans (Note 26)	–	–	168
Others	(400)	(1,968)	(950)
Operating income before changes in assets and liabilities	73,410	76,195	83,278
Decrease (increase) in:			
Trade and other receivables	(7,060)	(1,863)	(10,547)
Inventories and supplies	(917)	(1,122)	(507)
Prepayments	(5,634)	(617)	(150)
Advances and other noncurrent assets	(99)	147	(117)
Increase (decrease) in:			
Accounts payable	1,358	11,242	5,383
Accrued expenses and other current liabilities	755	4,969	6,146
Pension and other employee benefits	(5,863)	(10,642)	(5,586)
Customers' deposits	1	(8)	(108)
Other noncurrent liabilities	(10)	(13)	4
Net cash flows generated from operations	55,941	78,288	77,796
Income taxes paid	(6,965)	(8,544)	(11,781)
Net cash flows from operating activities	48,976	69,744	66,015
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received (Note 10)	4,409	5,544	1,855
Interest received	947	939	582
Proceeds from:			
Disposal of investments in associates and joint ventures	17,000	–	–
Disposal of available-for-sale financial investments	2,502	–	–
Disposal of property and equipment (Note 9)	1,889	334	253
Maturity of short-term investments	1,557	1,469	110
Redemption of investment in debt securities	559	–	–
Maturity of investment in debt securities	50	292	3,022
Disposal of investment properties (Note 13)	–	8	5
Collection of notes receivable	–	–	25
Disposal of investment	–	–	3
Payments for:			
Purchase of investment properties	(6)	–	–
Purchase of investment in debt securities	(20)	–	(1,420)
Purchase of shares of noncontrolling interests – net of cash acquired	(22)	(2)	(63)
Acquisition of intangible assets (Note 15)	(159)	(318)	(330)
Interest paid – capitalized to property and equipment (Note 9)	(566)	(370)	(442)
Purchase of short-term investments	(2,734)	(2,194)	(29)
Purchase of available-for-sale financial investments	(3,500)	(925)	(19,711)
Purchase of investments in associates and joint ventures	(21,524)	(1,274)	(300)
Purchase of subsidiaries – net of cash acquired	–	(151)	(139)
Deposit for future PDRs subscription	–	–	(300)
Additions to property and equipment (Note 9)	(42,259)	(42,805)	(34,317)
Decrease (increase) in advances and other noncurrent assets	(105)	215	(490)
Net cash flows used in investing activities	(41,982)	(39,238)	(51,686)

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *(continued)*
 For the Years Ended December 31, 2016, 2015 and 2014
 (in million pesos)

	2016	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availments of long-term debt (Note 21)	40,569	44,367	41,329
Issuance of capital stock (Note 20)	5	–	166
Availments of long-term financing for capital expenditures	–	311	–
Payments for:			
Debt issuance costs (Note 21)	(185)	(396)	(293)
Derivative financial instruments (Note 28)	(541)	(638)	(596)
Long-term financing for capital expenditures	(6,040)	–	(84)
Interest – net of capitalized portion (Notes 5 and 21)	(6,512)	(5,407)	(4,736)
Long-term debt (Note 21)	(19,650)	(17,084)	(15,726)
Cash dividends (Note 20)	(22,987)	(32,532)	(39,900)
Redemption of shares	–	(1)	(51)
Obligations under finance leases	–	(5)	(6)
Net cash flows used in financing activities	(15,341)	(11,385)	(19,897)
NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	614	675	322
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,733)	19,796	(5,246)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (Note 16)	46,455	26,659	31,905
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 16)	38,722	46,455	26,659

See accompanying Notes to Consolidated Financial Statements.

PLDT INC. AND SUBSIDIARIES

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, 2016. 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, 2016. 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, 2016, 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, 2016. 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 39.8 million ADSs outstanding as at December 31, 2016.

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, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014 were approved and authorized for issuance by the Audit Committee on April 26, 2017, as duly delegated by the Board of Directors on March 23, 2017.

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 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 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. The Parent Company files its separate financial statements with the Philippine SEC.

Our consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments, 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, 2015 and 2014 to conform with the 2016 presentation and classification. We did not present a consolidated statement of financial position as at the beginning of the earliest comparative period since these certain reclassifications do not have a material impact on our consolidated statements of financial position as at December 31, 2015 and January 1, 2015.

Our consolidated financial statements are presented in Philippine peso, PLDT's functional and presentation 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, 2016 and 2015:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership				
			2016		2015		
			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 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	
eInnovations Holdings Pte. Ltd., or eInnovations ^(a) :	Singapore	Investment company	–	100.0	–	100.0	
Takatak Holdings Pte. Ltd., or Takatak Holdings ^(c)	Singapore	Investment company	–	100.0	–	100.0	
Takatak Technologies Pte. Ltd., or Takatak Technologies ^(d)	Singapore	Development and maintenance of IT-based solutions for communications and e-Commerce platforms	–	100.0	–	100.0	
Takatak Malaysia Sdn. Bhd., or Takatak Malaysia ^(e)	Malaysia	Development, maintenance and support services to enable the digital commerce ecosystem	–	100.0	–	–	
iCommerce Investments Pte. Ltd., or iCommerce ^(b)	Singapore	Investment company	–	100.0	–	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	
Fintqologies Corporation,	Philippines	Development of financial technology	–	100.0	–	–	

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2016		2015		
			Percentage of Ownership				
			Direct	Indirect	Direct	Indirect	
or FINTQ ^(g)		innovations					
Fintq Inventures Insurance Agency Corporation ^(h)	Philippines	Insurance company	–	100.0	–	–	
ePay Investments Pte. Ltd., or ePay ^(b)	Singapore	Investment company	–	100.0	–	100.0	
PayMaya Philippines, Inc. or PayMaya ⁽ⁱ⁾	Philippines	Provide and market certain mobile payment services	–	100.0	–	100.0	
PayMaya Operations Philippines, Inc., or PayMaya Ops ⁽ⁱ⁾	Philippines	Market, sell and distribute payment solutions and other related services	–	100.0	–	100.0	
3 rd Brand Pte. Ltd., or 3 rd Brand	Singapore	Solutions and systems integration services	–	85.0	–	85.0	
WiFun, Inc., or WiFun ^(k)	Philippines	Software developer and selling of WiFi access equipment	–	100.0	–	100.0	
Telesat, Inc. ^(l)	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. ^(j)	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 ^(m)	Philippines	Business infrastructure and 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	–	99.8	
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	–	67.0	–	67.0	
netGames, Inc. ⁽ⁿ⁾	Philippines	Gaming support services	–	57.5	–	57.5	
Digitel:	Philippines	Telecommunications services	99.6	–	99.6	–	
Digitel Information Technology Services, Inc. ^(j)	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 PGI	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 ^(d)	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 February 24, 2015, the Accounting and Corporate Regulatory Authority, or ACRA, of Singapore, the national regulator of business entities in Singapore, approved the change in the business name of Smart Hub Pte. Ltd. to eInnovations Holdings Pte. Ltd.

^(b) On February 27, 2015, ePay and iCommerce were incorporated in Singapore to provide digital, internet, information, communication and IT-related activities. Both subsidiaries will serve as the holding companies of other digital investments. ePay and iCommerce are 100% owned by eInnovations, each having an initial capitalization of SGD10 thousand, or Php323 thousand. See Note 10 – Investments in Associates and Joint Ventures – eInnovations' Investment in ECommerce Pay.

^(c) On October 1, 2015, the ACRA of Singapore approved the change in the business name of Takatak Pte. Ltd. to Takatak Holdings Pte. Ltd.

^(d) On August 6, 2015, Takatak Holdings acquired 100% equity interest in Paywhere Pte. Ltd. On October 1, 2015, the ACRA of Singapore approved the change in the business name of Paywhere Pte. Ltd. to Takatak Technologies Pte. Ltd.

- (e) On April 12, 2016, Takatak Malaysia was incorporated in Malaysia to provide development, maintenance and support services and sales and marketing to enable the entire digital commerce ecosystem in favor of consumers, merchants, service providers and other third parties.
- (f) On August 21, 2015, eVentures was incorporated in Singapore to serve as a holding company of other digital investments providing digital, internet, information, communication and IT-related activities. 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 customer-centric, demand-driven and mobile-first financial technology platforms that enable banks and non-banks in offering their respective customer base seamless digital access to loans, savings, insurance, disbursements, payments, anti-fraud and card control services, among others. Its key thrust is to promote inclusive growth and financial inclusion leveraging on digital and mobile technologies in emerging markets.
- (h) On December 19, 2016, Fintq Ventures 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) Effective September 15, 2015, the Philippine SEC approved the amendment of Smart e-Money, Inc.'s name to PayMaya Philippines, Inc.
- (j) On February 10, 2015, mePay Operations Philippines, Inc. was incorporated in the Philippines to market, sell and distribute payment solutions and other related services. Effective June 22, 2015, the Philippine SEC approved the amendment of mePay Operations Philippines, Inc. name to PayMaya Operations Philippines, Inc., or PayMaya Ops. PayMaya Ops is 60% and 40% owned by PayMaya and Smart, respectively, with initial capitalization of Php1 million.
- (k) 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.
- (l) Ceased commercial operations.
- (m) On June 16, 2015, Talas was incorporated in the Philippines to implement the Intelligent Data Fabric and immediate delivery of Big Data capability platform of the PLDT Group.
- (n) 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.

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.

See *Note 14 – Business Combination* for further related disclosures.

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. Smart also informed the NTC that the divestment will be undertaken through an auction sale of CURE's shares of stock to the winning bidder and submitted CURE's audited financial statements as at June 30, 2012 to the NTC. In a letter dated January 21, 2013, the NTC referred the computation of the CRA to the Commissioners of the NTC. Smart sent a reply agreeing to the proposal and is awaiting advice from the NTC on the bidding and auction of the 3G license of CURE.

As at March 24, 2017, CURE is still waiting for advice from the NTC on how to proceed with the planned divestment.

Due to the planned divestment, franchise and licenses related to CURE qualify as noncurrent assets held-for-sale. However, these were not presented separately in our consolidated statements of financial position as the carrying amounts are not material.

PCEV's Common Stock

On June 24, 2014, PCEV's Board of Directors approved a program involving the repurchase or buyback program of its common shares, which are owned by its remaining minority stockholders and offered for sale at a price of not more than Php100,000 per share.

In 2014, the number of holders of PCEV common stock decreased to 97 and because the number of shareholders decreased below 100, PCEV filed a petition to the Philippine SEC for the suspension of duty to file reports under Section 17 of the Philippine SEC Regulation Code on December 22, 2014.

After the buyback program, which ended on June 30, 2015, the number of holders of PCEV common stock decreased to 96.

On December 22, 2015, a year after submission of the petition, PCEV re-filed the notification of suspension of duty to file reports, advising the commission that PCEV will cease filing any reports required under Section 17 of the Philippine SEC Regulation Code beginning January 1, 2016.

Consolidation of Various Digital Businesses of Smart under Voyager

On December 18, 2014, the Board of Directors of Smart approved the consolidation of various digital businesses under Voyager. To facilitate the consolidation of these entities, the following actions were taken: (a) on February 25, 2015, Smart made an additional capital cash infusion to Voyager amounting to Php250 million and converted Php400 million Smart advances to Voyager into additional paid-in capital; (b) on March 4, 2015, Smart sold all of its shares in eInnovations to Voyager for SGD7.6 million, or Php243 million; (c) on March 17, 2015, Smart granted an interest-bearing loan to eInnovations amounting to US\$13.5 million, or Php600 million; and (d) on March 26, 2015, Smart sold all of its shares in PayMaya to ePay for Php603 million.

Smart invested additional capital to Voyager amounting to Php3,480 million and Php1,332 million for the years ended December 31, 2016 and 2015, respectively. The additional equity is intended to be used for Voyager's various investments, as well as capital expenditures and working capital requirements. The total investment of Smart in Voyager amounted to Php5,468 million as at December 31, 2016.

The transactions above have no impact on our consolidated financial statements.

Incorporation of Talas

On June 9, 2015, the PLDT 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 28, 2015, for purposes of incorporation, and the balance of Php187.5 million was paid on May 13, 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. As a vehicle to execute the agreement, PLDT Capital incorporated Gohopscotch Southeast Asia Pte. Ltd., a Singapore company, on March 1, 2016.

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, the Philippine Congress granted the legislative franchise to Smart under Republic Act No. 7294, or R.A. 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. 7294 became law on April 15, 1992, which was 15 days from date of publication in at least two newspapers of general circulation in the Philippines.

On January 16, 2017, the House of Representatives approved House Bill No. 4637, seeking to extend for another 25 years the franchise granted to Smart. The same House Bill was approved on Third Reading by the Senate on March 13, 2017. The bill was signed by the Senate President, and submitted to the Presidential Legislative Liaison Office of the House of Representatives on March 23, 2017. Thereafter, the President could have approved, vetoed, or taken no action on the bill for a period of 30 days, the expiration of which fell on April 22, 2017.

As provided under Article VI, Section 27 of the 1987 Philippine Constitution, “The President shall communicate his veto of any bill to the House where it originated within 30 days after the date of receipt thereof; otherwise, it shall become a law as if he had signed it.” As of the date of this filing, the President has not communicated any approval nor veto of the bill.

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 new accounting pronouncements starting January 1, 2016. The adoption of these pronouncements did not have any significant impact on the PLDT Group’s financial position or performance.

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

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 shown on the face of 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 profit or loss.

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 the 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, 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, Takatack Technologies, iCommerce, Fintech Ventures, ePay, 3rd Brand, CPL and AGSPL, is the Singapore dollar; the functional currency of CCCBL is the Chinese renminbi; the functional currency of AGS Malaysia and Takatack Malaysia, is the Malaysian ringgit; and the functional currency of AGS Indonesia is the Indonesian rupiah. 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 “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, 2016 and 2015. 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, cash and cash equivalents, certain short-term investments, trade and other receivables and portions of advances and other noncurrent assets as at December 31, 2016 and 2015. 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 “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, 2016 and 2015. 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 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 “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 the consolidated income statement.

Our available-for-sale financial investments include listed and unlisted equity securities as at December 31, 2016 and 2015. See *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 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, 2016 and 2015. 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 “Financing costs – net” in our consolidated income statement.

Our other financial liabilities include accounts payable, accrued expenses and other current liabilities (except for statutory payables), interest-bearing financial liabilities, customers’ deposits, dividends payable, and accrual for long-term capital expenditures included under “Deferred credits and other noncurrent liabilities” account as at December 31, 2016 and 2015. 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. Permanent disconnections are made 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 – Impairment of non-financial assets*, *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 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 “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 “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 strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognized in our consolidated income statement. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in our consolidated income statement.

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

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 a financial asset or liability with a corresponding gain or loss recognized in our consolidated income statement. The changes in the fair value of the hedging instrument are also recognized in our 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 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 assets with indefinite useful lives

Intangible assets with indefinite useful lives are not amortized but are 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 Life* for further disclosures relating to impairment of non-financial assets.

Investment in Debt Securities

Investment in debt securities are government securities which are carried at amortized cost using the EIR method. Interest earned from these securities is recognized under “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 the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: (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 the 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

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 Cellular*, 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 Prepaid*, *TNT* and *Sun Cellular Prepaid*. 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 availability.

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. Revenues 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.

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.

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 "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. Smart and certain of its subsidiaries, however, are covered under R.A. 7641 otherwise known as "The Philippine Retirement Law", 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.

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

Our liability arising from the 2012 to 2014 Long-term Incentive Plan, or the 2012 to 2014 LTIP, is determined using the projected unit credit method. Other long-term 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 other 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.

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 using the balance sheet liability method 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 year-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 year-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 statements 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 statements of changes in equity and statements 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 statements 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 IFRSs.

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, 2017

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

Effective beginning on or after January 1, 2018

- *Amendments to IFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- *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 15, Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 by the IASB and 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.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. We are currently assessing the impact of adopting this standard.

- *IFRS 9, Financial Instruments*

The standard reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. The standard introduces new requirements for 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. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of IFRS 9 will have an effect on the classification and measurement of our financial assets, but will have no significant impact on the classification and measurement of our financial liabilities. The adoption will also have an effect on our application of hedge accounting and on the amount of credit losses on financial assets. We are currently assessing the impact of adopting this standard.

Effective beginning on or after January 1, 2019

- *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 IFRS 16.

Deferred effectivity

- *Amendments to IFRS 10 and IAS 28, Sale of Contribution of Assets between an Investor and Its Associate or Joint Venture*

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

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 Php6,912 million, Php6,376 million and Php6,692 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total finance lease obligations amounted to nil and Php1 million as at December 31, 2016 and 2015, 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 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.

The carrying value of our investments in PDRs issued by MediaQuest amounted to Php12,647 million and Php12,749 million as at December 31, 2016 and 2015, respectively. See related discussion on *Note 10 – Investments in Associates and Joint Ventures – Investments in Associates – Investment in MediaQuest PDRs*.

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*). 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 such 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 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. Further, 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, *Investment in Associates and Joint Ventures*. 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 decline in fair value of our investment in Rocket Internet SE, or Rocket, to Php14,587 million as at December 31, 2015 is considered significant as the cumulative net losses from changes in fair value amounting to Php5,124 million represents 26% decline in value below cost. As a result, we recognized in our consolidated income statement an impairment of our investment in Rocket amounting to Php5,124 million for the year ended December 31, 2015. We recognized additional impairment loss of Php5,381 million as the fair value of Rocket further declined to Php9,206 million for the six months ended June 30, 2016. We recognized an unrealized gain of Php852 million in the "Net gains (losses) on available-for-sale financial investments" account in our consolidated other comprehensive income for the six months ended December 31, 2016 due to slight recovery of Rocket's fair value to Php10,058 million as at December 31, 2016. See related discussion on *Note 5 – Income and Expenses* and *Note 11 – Available-for-Sale Financial Investments – Investment of PLDT Online in Rocket*.

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 the 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 Php1,074 million, Php5,788 million and Php3,844 million for the years ended December 31, 2016, 2015 and 2014, 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 *Notes 9, 10, 15 and 19*, 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 estimate of the useful lives of our property and equipment is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property and equipment 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 our property and equipment.

The total depreciation and amortization of property and equipment amounted to Php34,455 million, Php31,519 million and Php31,379 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total carrying values of property and equipment, net of accumulated depreciation and amortization, amounted to Php203,188 million and Php195,782 million as at December 31, 2016 and 2015, 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 Php929 million, Php1,076 million and Php1,149 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total carrying values of intangible assets with finite lives amounted to Php4,396 million and Php5,219 million as at December 31, 2016 and 2015, 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 Php5,829 million and Php10,759 million as at December 31, 2016 and 2015, respectively. Total consolidated benefit from deferred income tax amounted to Php4,134 million, Php4,710 million and Php1,024 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total consolidated recognized deferred income tax assets amounted to Php27,348 million and Php21,941 million as at December 31, 2016 and 2015, 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 Php8,027 million, Php3,391 million and Php2,023 million for the years ended December 31, 2016, 2015 and 2014, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php24,436 million and Php24,898 million as at December 31, 2016 and December 31, 2015, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment, Note 17 – Trade and Other Receivables and Note 28 – Financial Assets and Liabilities.*

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, operating margin, 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 Php1,775 million, Php1,895 million and Php1,702 million for the years ended December 31, 2016, 2015 and 2014, respectively. The prepaid benefit costs amounted to Php261 million and Php306 million as at December 31, 2016 and 2015, respectively. The accrued benefit costs amounted to Php11,206 million and Php10,197 million as at December 31, 2016 and 2015, respectively. See *Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 19 – Prepayments and Note 26 – Employee Benefits – Defined Benefit Pension Plans.*

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/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/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 Php1,582 million and Php1,437 million as at December 31, 2016 and 2015, 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, 2016 amounted to Php8,120 million and Php160,990 million, respectively, while the total fair values of noncurrent financial assets and noncurrent financial liabilities as at December 31, 2015 amounted to Php3,277 million and Php165,572 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, a wholly-owned subsidiary of Digitel, 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 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, 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, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014 are as follows:

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
(in million pesos)					
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 (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	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

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
	(in million pesos)				
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
December 31, 2014					
Revenues					
External customers	117,297	53,538	–	–	170,835
Service revenues	113,455	51,488	–	–	164,943
Non-service revenues	3,842	2,050	–	–	5,892
Inter-segment transactions	1,582	12,640	–	(14,222)	–
Service revenues	1,582	12,619	–	(14,201)	–
Non-service revenues	–	21	–	(21)	–
Total revenues	118,879	66,178	–	(14,222)	170,835
Results					
Depreciation and amortization	16,375	15,004	–	–	31,379
Asset impairment	5,620	426	–	–	6,046
Equity share in net earnings (losses) of associates and joint ventures	(11)	63	3,789	–	3,841
Interest income	217	350	295	(110)	752
Financing costs – net	1,646	3,724	60	(110)	5,320
Provision for income tax	7,158	2,818	82	–	10,058
Net income / Segment profit	21,895	6,722	5,473	–	34,090
Adjusted EBITDA	50,917	24,555	(56)	1,334	76,750
Adjusted EBITDA margin	44%	38%	–	–	47%
Core income	25,176	6,691	5,543	–	37,410
Assets and liabilities					
Operating assets	200,981	199,098	34,791	(57,752)	377,118
Investments in associates and joint ventures	492	11,956	29,598	–	42,046
Deferred income tax assets – net	3,504	13,627	–	–	17,131
Total assets	204,977	224,681	64,389	(57,752)	436,295
Operating liabilities	143,463	169,706	13,867	(29,836)	297,200
Deferred income tax liabilities – net	3,367	1,015	45	–	4,427
Total liabilities	146,830	170,721	13,912	(29,836)	301,627
Other segment information					
Capital expenditures, including capitalized interest	23,048	11,711	–	–	34,759

The following table shows the reconciliation of our consolidated Adjusted EBITDA to our consolidated net income for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
		(in million pesos)	
Adjusted EBITDA	61,161	70,218	76,750
Add (deduct) adjustments:			
Equity share in net earnings of associates and joint ventures	1,181	3,241	3,841
Interest income	1,046	799	752
Gains (losses) on derivative financial instruments – net	996	420	(101)
Amortization of intangible assets	(929)	(1,076)	(1,149)
Asset impairment	(1,074)	(5,788)	(3,844)
Provision for income tax	(1,909)	(4,563)	(10,058)
Foreign exchange losses – net	(2,785)	(3,036)	(382)
Impairment of investments	(5,515)	(5,166)	–
Financing costs – net	(7,354)	(6,259)	(5,320)
Depreciation and amortization	(34,455)	(31,519)	(31,379)
Other income – net	9,799	4,804	4,980
Total adjustments	(40,999)	(48,143)	(42,660)
Consolidated net income	20,162	22,075	34,090

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
		(in million pesos)	
Consolidated core income	27,857	35,212	37,410
Add (deduct) adjustments:			
Gains on derivative financial instruments – net, excluding hedge costs	1,539	762	208
Net income (loss) attributable to noncontrolling interests	156	10	(1)
Net tax effect of aforementioned adjustments	79	260	778
Core income adjustment on equity share in net losses of associates and joint ventures	(95)	(179)	(79)
Asset impairment	(1,074)	(5,788)	(3,844)
Foreign exchange losses – net	(2,785)	(3,036)	(382)
Impairment of investments	(5,515)	(5,166)	–
Total adjustments	(7,695)	(13,137)	(3,320)
Consolidated net income	20,162	22,075	34,090

5. Income and Expenses

Non-service Revenues

Non-service revenues for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Sale of computers, cellular handsets, cellular SIM-packs and broadband data modems	7,239	7,487	5,364
Point-product-sales	813	686	528
Total non-service revenues	8,052	8,173	5,892

Compensation and Employee Benefits

Compensation and employee benefits for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Salaries and other employee benefits	17,734	17,947	16,637
Pension benefit costs (Note 26)	1,775	1,895	1,702
Manpower rightsizing program, or MRP	419	1,764	242
Incentive plans (Note 26)	–	–	168
Total compensation and employee benefits	19,928	21,606	18,749

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.

Cost of Sales

Cost of sales for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Cost of computers, cellular handsets, cellular SIM-packs sold and broadband data modems	16,053	15,794	13,055
Cost of point-product-sales	700	579	432
Cost of satellite air time and terminal units (Note 25)	–	16	25
Total cost of sales	16,753	16,389	13,512

Asset Impairment

Asset impairment for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Trade and other receivables (Notes 17 and 28)	8,027	3,391	2,023
Inventories and supplies (Note 18)	1,941	511	179
Goodwill and intangible assets (Note 15)	1,038	–	–
Property and equipment (Note 9)	–	5,788	3,844
Others	36	–	–
Total asset impairment	11,042	9,690	6,046

Interest Income

Interest income for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Interest income on loans and receivables	980	742	533
Interest income on HTM investments (Note 12)	36	43	211
Interest income on FVPL	30	14	8
Total interest income (Notes 12 and 16)	1,046	799	752

Financing Costs – net

Financing costs – net for the years ended December 31, 2016, 2015 and 2014 consist of the following:

	2016	2015	2014
		(in million pesos)	
Interest on loans and other related items (Notes 21 and 28)	7,522	6,289	5,429
Accretion on financial liabilities (Notes 21 and 28)	230	231	165
Financing charges	168	109	168
Capitalized interest (Notes 9 and 21)	(566)	(370)	(442)
Total financing costs – net (Notes 9, 21 and 28)	7,354	6,259	5,320

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, 2016, 2015 and 2014 are as follows:

	Foreign currency translation differences of subsidiaries	Net gains (losses) 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 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, 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)
Balances as at January 1, 2014	496	67	40	239	(13,333)	1,010	(11,481)	(2)	(11,483)
Other comprehensive income (loss)	(7)	8,144	(74)	364	(4,874)	(357)	3,196	4	3,200
Balances as at December 31, 2014	489	8,211	(34)	603	(18,207)	653	(8,285)	2	(8,283)

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, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Net deferred income tax assets	27,348	21,941
Net deferred income tax liabilities	3,567	3,704

The components of our consolidated net deferred income tax assets and liabilities as at December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Net deferred income tax assets:		
Customer list and trademark	8,686	2,654
Unamortized past service pension costs	4,795	4,182
Pension and other employee benefits	3,569	3,142
Accumulated provision for doubtful accounts	2,925	2,921
Provision for other assets	2,798	2,552
Unrealized foreign exchange losses	2,735	2,335
Unearned revenues	1,572	1,730
Accumulated write-down of inventories to net realizable values	624	224
NOLCO	231	1,238
Fixed asset impairment	82	1,219
MCIT	65	-
Derivative financial instruments	(72)	230
Undepreciated capitalized interest charges	(1,167)	(1,378)
Others	505	892
Total deferred income tax assets – net	27,348	21,941
Net deferred income tax liabilities:		
Intangible assets and fair value adjustment on assets acquired – net of amortization	2,597	2,808
Unamortized fair value adjustment on fixed assets from business combination	409	458
Unrealized foreign exchange gains	273	159
Undepreciated capitalized interest charges	8	9
Others	280	270
Total deferred income tax liabilities – net	3,567	3,704

Changes in our consolidated net deferred income tax assets (liabilities) as at December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Net deferred income tax assets – balance at beginning of the year	21,941	17,131
Net deferred income tax liabilities – balance at beginning of the year	(3,704)	(4,427)
Net balance at beginning of the year	18,237	12,704
Provision for deferred income tax	4,134	4,710
Movement charged directly to other comprehensive income	1,467	784
Others	(57)	39
Net balance at end of the year	23,781	18,237
Net deferred income tax assets – balance at end of the year	27,348	21,941
Net deferred income tax liabilities – balance at end of the year	(3,567)	(3,704)

The analysis of our consolidated net deferred income tax assets as at December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	23,664	20,964
Deferred income tax assets to be recovered within 12 months	5,616	3,076
	29,280	24,040
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	(1,308)	(1,341)
Deferred income tax liabilities to be settled within 12 months	(624)	(758)
	(1,932)	(2,099)
Net deferred income tax assets	27,348	21,941

The analysis of our consolidated net deferred income tax liabilities as at December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after 12 months	–	11
Deferred income tax assets to be recovered within 12 months	–	3
	–	14
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after 12 months	(3,222)	(3,469)
Deferred income tax liabilities to be settled within 12 months	(345)	(249)
	(3,567)	(3,718)
Net deferred income tax liabilities	(3,567)	(3,704)

Provision for corporate income tax for the years ended December 31, 2016 and 2015 consist of:

	2016	2015	2014
	(in million pesos)		
Current	6,043	9,273	11,082
Deferred	(4,134)	(4,710)	(1,024)
	1,909	4,563	10,058

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, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
	(in million pesos)		
Provision for income tax at the applicable statutory tax rate	6,621	9,529	13,244
Tax effects of:			
Nondeductible expenses	3,239	1,171	450
Difference between Optional Standard Deduction, or OSD, and itemized deductions	(20)	(33)	(242)
Income not subject to income tax	(35)	(168)	(417)
Income subject to lower tax rate	(168)	(104)	(110)
Equity share in net earnings of associates and joint ventures	(354)	(972)	(1,152)
Income subject to final tax	(2,879)	(680)	(224)
Net movement in unrecognized deferred income tax assets and other adjustments	(4,495)	(4,180)	(1,491)
Actual provision for corporate income tax	1,909	4,563	10,058

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, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
NOLCO	7,844	7,194
Provisions for other assets	4,926	5,098
Accumulated provision for doubtful accounts	3,836	5,216
Fixed asset impairment	818	12,338
Asset retirement obligation	656	588
MCIT	260	398
Accumulated write-down of inventories to net realizable values	234	231
Pension and other employee benefits	93	94
Unrealized foreign exchange losses	87	312
Unearned revenues	65	3,417
Derivative financial instruments and others	4	48
	18,823	34,934
Unrecognized deferred income tax assets	5,829	10,759

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 Php3,573 million and Php9,874 million as at December 31, 2016 and 2015, 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, 2016 are as follows:

Date Incurred	Expiry Date	MCIT	NOLCO
		(in million pesos)	
December 31, 2014	December 31, 2017	73	310
December 31, 2015	December 31, 2018	93	1,911
December 31, 2016	December 31, 2019	159	6,394
		325	8,615
Consolidated tax benefits		325	2,584
Consolidated unrecognized deferred income tax assets		(260)	(2,353)
Consolidated recognized deferred income tax assets		65	231

The excess MCIT totaling Php325 million as at December 31, 2016 can be deducted against future RCIT liability. The excess MCIT that was deducted against RCIT amounted to nil for the years ended December 31, 2016 and 2015, and Php33 million for the year ended December 31, 2014. The amount of expired portion of excess MCIT amounted to Php232 million, Php91 million and Php61 million for the years ended December 31, 2016, 2015 and 2014, respectively.

NOLCO totaling Php8,615 million as at December 31, 2016 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php8,531 million, Php14 million and Php130 million for the years ended December 31, 2016, 2015 and 2014, respectively. The amount of expired portion of excess NOLCO amounted to Php571 million, nil and Php39 million for the years ended December 31, 2016, 2015 and 2014, 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.

Registration with Philippine Economic Zone Authorities, or PEZA

On June 14, 2012, the PEZA through its Resolution No. 12-312, approved the transfer of all rights, obligations and assets of IPCDSI under its Registration and Supplemental Agreements with the PEZA. The Registration Agreement dated April 24, 2006 provided that IPCDSI's Information Technology Operations shall be covered by the 5% gross income tax, or GIT, incentive, in lieu of national and local taxes, including additional deductions for training expenses and other incentives. The Supplemental Agreements dated November 13, 2007 and June 29, 2011 provided for the granting of non-pioneer status and tax incentives under R.A. 7916 to expansion project in Rizal Commercial Banking Corporation, or RCBC, Plaza and new project in Bonifacio Technology Center Building. Both projects were subjected to GIT after the expiration of income tax holiday incentive on October 23, 2015.

Consolidated income derived from non-registered activities with Economic Zone and Board of Investments, or BOI, is subject to the RCIT rate at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI amounted to nil, Php55 million and Php40 million for the years ended December 31, 2016, 2015 and 2014, respectively.

8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the years ended December 31, 2016, 2015 and 2014:

	2016		2015		2014	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(in million pesos)					
Consolidated net income attributable to equity holders of PLDT	20,006	20,006	22,065	22,065	34,091	34,091
Dividends on preferred shares (Note 20)	(59)	(59)	(59)	(59)	(59)	(59)
Consolidated net income attributable to common equity holders of PLDT	19,947	19,947	22,006	22,006	34,032	34,032
	(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	92.33	92.33	101.85	101.85	157.51	157.51

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 year.

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 year 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, 2016 and 2015 are as follows:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, aircraft, furniture and other network equipment	Communications satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
(in million pesos)										
As at December 31, 2014										
Cost	182,019	118,149	161,246	26,844	51,017	966	11,830	3,461	50,066	605,598
Accumulated depreciation, impairment and amortization	(127,860)	(98,074)	(116,041)	(16,704)	(43,201)	(966)	(10,507)	(261)	–	(413,614)
Net book value	54,159	20,075	45,205	10,140	7,816	–	1,323	3,200	50,066	191,984
Year Ended December 31, 2015										
Net book value at beginning of the year	54,159	20,075	45,205	10,140	7,816	–	1,323	3,200	50,066	191,984
Additions	2,258	540	10,276	239	2,309	–	519	15	27,076	43,232
Disposals/Retirements	(6)	(96)	(37)	(214)	(227)	–	–	(33)	(23)	(636)
Translation differences charged directly to cumulative translation adjustments	1	4	–	–	2	–	–	–	–	7
Impairment losses recognized during the year (Note 5)	(2,343)	–	(3,358)	–	(87)	–	–	–	–	(5,788)
Reclassifications (Note 13)	(42)	611	121	484	(666)	–	41	(4)	(2,041)	(1,496)
Transfers and others	4,185	2,456	7,773	300	2,358	–	594	2	(17,668)	–
Depreciation of revaluation increment on investment properties transferred to property and equipment charged to other comprehensive income	–	–	–	(2)	–	–	–	–	–	(2)
Depreciation and amortization	(9,975)	(4,059)	(11,902)	(1,452)	(3,336)	–	(793)	(2)	–	(31,519)
Net book value at end of the year	48,237	19,531	48,078	9,495	8,169	–	1,684	3,178	57,410	195,782
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

Interest capitalized to property and equipment that qualified as borrowing costs amounted to Php566 million, Php370 million and Php442 million for the years ended December 31, 2016, 2015 and 2014,

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 Php5,289 million and Php5,553 million as at December 31, 2016 and 2015, respectively. The average interest capitalization rate used was approximately 4% for each of the years ended December 31, 2016, 2015 and 2014.

Our net foreign exchange differences, which qualified as borrowing costs, amounted to Php111 million, Php144 million and Php71 million for the years ended December 31, 2016, 2015 and 2014, respectively. Our undepreciated capitalized net foreign exchange losses that qualified as borrowing costs amounted to Php356 million and Php274 million as at December 31, 2016 and 2015, 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 Php71 thousand and Php3 million as at December 31, 2016 and 2015, respectively. See *Note 21 – Interest-bearing Financial Liabilities – Obligations under Finance Leases*.

Impairment of Certain Network Equipment and Facilities

In 2014, SBI and PDSI recognized impairment losses equivalent to the net book values of our Canopy and Wimax equipment. Canopy and Wimax technologies have become less preferable as telecommunications operators shift to Long-Term Evolution, or LTE, which offers improved speed and more compatibility with 2G and 3G technologies. Total impairment losses recognized for the year ended December 31, 2014 amounted to Php2,394 million and Php1,223 million for SBI and PDSI, respectively.

Also in 2014, PLDT implemented a fiber optic footprint and backbone expansion which increased bandwidth connectivity between different regions of the country and provided subscribers with opportunities for better services. In relation to this expansion, PLDT recognized an impairment provision equivalent to the net book value of certain transmission facilities replaced by the program amounting to Php227 million for the year ended December 31, 2014.

In December 2015, DMPI recognized an impairment loss of Php5,789 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.

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, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Carrying value of investments in associates:		
MediaQuest PDRs	12,647	12,749
Asia Outsourcing Beta Limited, or Beta	855	654
AF Payments, Inc., or AFPI, (formerly Automated Fare Collection System, Inc.) ^(*)	407	533
Phunware	384	384
Digital Crossing, Inc., or DCI	238	173
Appcard	234	231
ACeS International Limited, or AIL	-	-
Asia Netcom Philippines Corp., or ANPC	-	-
	14,765	14,724
Carrying value of investments in joint ventures:		
VTI, Bow Arken and Brightshare	26,962	-
Beacon Electric Asset Holdings, Inc., or Beacon	13,593	32,304
Philippines Internet Holding S.à.r.l., or PHIH	1,538	1,595
ECommerce Pay Holding S.à.r.l., or ECommerce Pay	-	80
	42,093	33,979
Total carrying value of investments in associates and joint ventures	56,858	48,703

^(*) On February 26, 2015, AFPI through its Board of Directors and stockholders amended its corporate name to AF Payments, Inc.

Changes in the cost of investments for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Balance at beginning of the year	41,150	37,724
Additions during the year	27,993	3,413
Disposals	(11,692)	-
Translation and other adjustments	14	13
Balance at end of the year	57,465	41,150

Changes in the accumulated impairment losses for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Balance at beginning of the year	1,888	1,884
Translation and other adjustments	4	4
Balance at end of the year	1,892	1,888

Changes in the accumulated equity share in net earnings of associates and joint ventures for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Balance at beginning of the year	9,441	6,206
Realized portion of deferred gain on the transfer of Beacon and Manila Electric Company, or Meralco, shares	4,962	2,838
Equity share in net earnings (losses) of associates and joint ventures:	1,181	3,241
Beacon	2,089	3,205
Beta	396	79
DCI	62	114
ECommerce Pay	(52)	–
PHIH	(58)	–
MediaQuest PDRs	(102)	(76)
AFPI	(127)	(81)
VTI	(1,027)	–
Share in the other comprehensive loss of associates and joint ventures accounted for using the equity method	(91)	(249)
Dividends	(4,389)	(2,544)
Disposals	(9,617)	–
Translation and other adjustments	(202)	(51)
Balance at end of the year	1,285	9,441

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. 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. 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 May 30, 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.

The carrying value of investment in MediaQuest PDRs amounted to Php12,647 million and Php12,749 million as at December 31, 2016 and 2015, respectively. See *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Accounting for investments in MediaQuest through PDRs.*

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.

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 October 1, 2014, Asia Outsourcing Gamma Limited, or AOGL, ’s healthcare business, which provides revenue cycle management, health information management and software solutions for independent and provider-owned physician practices, was sold to Conifer Health Solutions, America’s leading provider of technology-enabled healthcare performance improvement services, for a total value of US\$235 million. AOGL is a wholly-owned subsidiary of Beta and the direct holding company of SPi Technologies, Inc. and Subsidiaries. As a result of the sale, PGIC received a cash distribution of US\$42 million from Beta.

On July 22, 2016, AOGL entered into Sale and Purchase Agreement, or SPA, with Relia, Inc., one of the largest BPO companies in Japan, relating to the sale 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. The transaction was completed on September 30, 2016. PGIC received a cash distribution of US\$11.2 million from Beta out of redemption of preferred shares it owns and buyback of portion of ordinary shares it held. The economic interest of PGIC in Beta remained at 18.32% as at December 31, 2016.

The carrying value of investment in common shares in Beta amounted to Php855 million and Php654 million as at December 31, 2016 and 2015, respectively. The carrying value of PGIC’s investment in Beta’s preferred shares amounting to nil and Php265 million were presented as part of investment in debt securities and other long-term investments in our consolidated statements of financial position as at December 31, 2016 and 2015, respectively.

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, project of the Department of Transportation and Communications, or DOTC, and Light Rail Transit Authority. The project aims to upgrade the Light Rail Transit 1 and 2, and Metro Rail Transit ticketing systems by substantially speeding up payments, reducing queuing time and facilitating efficient passenger transfer to other rail lines. The AFCS consortium led by MPIC and Ayala, composed of AC Infrastructure Holdings Corporation, BPI Card Finance Corporation, and Globe for the Ayala Group, and MPIC, Meralco Financial Services Corporation, and Smart for the MPIC Group, bid for the AFCS project and on January 30, 2014, received a Notice of Award from the DOTC declaring it as the winning bidder.

On February 10, 2014, AFPI, the joint venture company, was incorporated in the Philippines and registered with the Philippine SEC. As part of the agreement, Smart subscribed Php503 million equivalent to 503 million shares at a subscription price of Php1.00 per share representing 20% equity interest. Smart settled Php25 million and Php275 million in January and May 2014, respectively.

On June 30, 2014, MPIC and Ayala Group signed a ten-year concession agreement with the DOTC to build and implement the AFCS project.

On January 20, 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 by the shareholders in proportion to their share subscriptions. Smart contributed an additional Php160 million for its 20% share in AFPI.

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. On the same date, 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.

The carrying value of Smart's investment in AFPI amounted to Php407 million, including subscription payable of Php36 million as at December 31, 2016 and Php533 million, including subscription payable of Php166 million as at December 31, 2015. Smart has significant influence over AFPI given its 20% voting interest and its Board representation.

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 Digitel in DCI and ANPC

Digitel has 60% and 40% interest in Asia Netcom Philippines Corporation, or ANPC, and Digitel Crossing, Inc., or 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, Digitel recorded a

reversal of impairment loss amounting to Php92 million following improvement in the associates' operations.

Digitel has no control over ANPC. Though Digitel owns more than half of the voting interest in ANPC because of certain governance matters, management has assessed that Digitel only has significant influence and not control.

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 24, 2017, 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 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 ACeS Philippines in AIL

As at December 31, 2016, 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 Php173 million for the year ended December 31, 2016, while unrecognized share in net income amounted to Php70 million and Php361 million for the years ended December 31, 2015 and 2014, respectively. Share in net cumulative losses amounting to Php2,228 million and Php2,075 million as at December 31, 2016 and 2015, 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.

See *Note 25 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AIL Related Agreements* and *Note 28 – Financial Assets and Liabilities – Liquidity Risk – Unconditional Purchase Obligations* for further details as to the contractual relationships with respect to AIL.

Summarized financial information of associates

The table below presents the summarized financial information of Satventures as at December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014:

	2016	2015
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	21,295	21,523
Current assets	2,296	1,863
Noncurrent liabilities	4,645	4,674
Current liabilities	4,620	4,042
Equity	14,326	14,670
Carrying amount of interest in Satventures	9,169	9,389
Additional Information:		
Cash and cash equivalents	374	392
Current financial liabilities*	393	518
Noncurrent financial liabilities*	2,357	2,224

* Excluding trade, other payables and provisions.

	2016	2015	2014
	(in million pesos)		
Income Statements:			
Revenues	5,925	5,211	3,898
Depreciation and amortization	1,217	1,332	931
Interest income	2	2	2
Interest expense	259	207	209
Provision for (benefit from) income tax	(46)	(534)	42
Net income (loss)	(344)	(290)	83
Other comprehensive income	-	-	-
Total comprehensive income (loss)	(344)	(290)	83
Equity share in net earnings (losses) of Satventures	(220)	(186)	53

The table below presents the summarized financial information of Hastings as at December 31, 2016 and 2015, and for the year ended December 31, 2016 and for the seven months ended December 31, 2015:

	2016	2015
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	6,891	6,848
Current assets	2,251	2,323
Noncurrent liabilities	506	695
Current liabilities	1,748	1,816
Equity	4,969	4,800
Carrying amount of interest in Hastings	3,478	3,360
Additional Information:		
Cash and cash equivalents	1,128	1,061
Current financial liabilities*	500	500
Noncurrent financial liabilities*	-	-

* Excluding trade, other payables and provisions.

	For the Year Ended December 31, 2016	For the Seven Months Ended December 31, 2015
	(in million pesos)	
Income Statements:		
Revenues	2,394	1,580
Depreciation and amortization	153	89
Interest income	18	10
Interest expense	19	11
Provision for income tax	70	69
Net income	169	157
Other comprehensive income	–	–
Total comprehensive income	169	157
Equity share in net earnings of Hastings	118	110

The following tables present the summarized financial information of our individually immaterial investments in associates as at December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014:

	2016	2015
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	1,905	1,843
Current assets	584	1,453
Equity	2,063	1,411
Noncurrent liabilities	278	1,247
Current liabilities	148	638

	2016	2015	2014
	(in million pesos)		
Income Statements:			
Revenues	1,960	2,059	4,707
Net income	526	81	646
Other comprehensive income	–	–	–
Total comprehensive income	526	81	646

Dividends from our associates amounted to nil for the years ended December 31, 2016, 2015 and 2014.

We have no outstanding contingent liabilities or capital commitments with our associates as at December 31, 2016 and 2015.

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.

Consideration for the acquisitions is Php52.8 billion, representing the purchase price for the equity interests in the three companies and assigned advances of previous owners to VTI, Bow Arken and Brightshare. This consideration will be paid in three tranches: 50% was paid upon signing of the SPAs on May 30, 2016, 25% was paid on December 1, 2016 and the final 25% is payable on May 30, 2017, subject to the fulfillment of certain conditions. The second and final payments are secured by

irrevocable standby letters of credit. The SPA also provided that PLDT and Globe, through VTI, Bow Arken and Brightshare, assumed 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 the previous owners based on the results of confirmatory due diligence procedures jointly performed by PLDT and Globe after May 30, 2016. Pending the completion of the due diligence procedures, as at December 31, 2016, PLDT and Globe have advanced about Php2.6 billion to cover the working capital requirements of the acquired companies. Discussion on the result of the due diligence procedures is ongoing as at March 24, 2017. See *Note 28 – Financial Assets and Liabilities – Commercial Commitments*.

Provisional Accounting of Acquisition

PLDT has engaged an independent valuer to determine the fair value adjustments relating to the acquisition. As at May 30, 2016, the fair value of the intangible assets, significantly spectrum, amounting to Php38,398 million and our share on goodwill of Php16,496 million has been determined on a provisional basis as the final results of independent valuation have not been received by the date the financial statement was authorized for issue. Goodwill arising from this acquisition and carrying amount of the identifiable assets and liabilities, including deferred liability, and the related amortization will be retrospectively adjusted accordingly when the valuation is finalized.

The table below presents the summarized financial information of VTI as at December 31, 2016 and for the seven months ended December 31, 2016:

	2016
	(in million pesos)
Statements of Financial Position:	
Noncurrent assets	76,127
Current assets	3,126
Noncurrent liabilities	13,003
Current liabilities	12,327
Equity	53,923
Carrying amount of interest in VTI	26,962
Additional Information:	
Cash and cash equivalents	2,182
Current financial liabilities*	–
Noncurrent financial liabilities*	–

* Excluding trade, other payables and provisions.

	For the Seven Months Ended December 31, 2016
	(in million pesos)
Income Statements:	
Revenues	1,189
Depreciation and amortization	842
Interest income	18
Interest expense	2
Provision for income tax	158
Net loss	(2,055)
Other comprehensive income	–
Total comprehensive loss	(2,055)
Equity share in net losses of VTI	(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. The Circulars provide that, upon receipt by the PCC of the notices required thereby, the applicable transaction shall be deemed approved.

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 and should be deemed approved and not subject to retroactive review by the PCC. Moreover, the parties believe they 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 PCC, among others, copies of the SPAs for the Commission’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 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 SMC Transactions and performing any act which challenges or assails the “deemed approved” status of the transaction. On July 19, 2016, the 12th Division of the CA issued a Resolution directing 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 12th Division 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 subject acquisition based on its Letters dated June 7, 2016 and June 17, 2016 during the effectivity hereof and until further orders are issued by the Court. On September 14, 2016, the PCC filed a Motion for Reconsideration of the CA’s Resolution dated August 2016. In a Resolution promulgated on October 19, 2016, the CA’s 12th Division: (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 notice) PLDT’s Urgent Motion for the Issuance of a Gag Order dated September 30, 2016; and (iv) ordered all parties to submit simultaneous memoranda within a non-extendible period of 15 days from notice. Thereafter, with or without their respective memorandum, the instant cases are submitted for decision. On November 11, 2016, PLDT filed its Memorandum in compliance with the CA 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 Court denied PLDT’s Motion to Cite the PCC in 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 PSOC 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 subjudice 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 a Petition before the Supreme Court 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. The Petition remains pending resolution with the CA.

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 has been granted by the PSE effective November 21, 2016.

Investment in Beacon

On March 1, 2010, PCEV, MPIC and Beacon, entered into an Omnibus Agreement, or OA. 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. Under the OA, 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, PCEV and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers.

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 accounts for its investment in Beacon as investment in joint venture since the OA establishes joint control over Beacon.

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.

On March 30, 2010, MPIC subscribed to 1,157 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 164 million Meralco shares at a price of Php150.00 per share, or an aggregate amount of Php24,540 million; and (2) Php6,600 million in cash, as further discussed in “Transfer of Meralco Shares to Beacon” section below for further information.

PCEV likewise subscribed to 1,157 million common shares of Beacon on March 30, 2010 in consideration of the transfer of 154 million Meralco common shares at a price of Php150.00 per share, or an aggregate amount of Php23,130 million.

Transfer of Meralco Shares to Beacon

In addition to the subscription to the Beacon shares pursuant to the OA, Beacon purchased 154 million and 164 million Meralco common shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150.00 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares. PCEV transferred the 154 million Meralco common shares to Beacon on May 12, 2010.

On October 25, 2011, PCEV transferred to Beacon its remaining investment in 69 million of Meralco’s common shares for a total cash consideration of Php15,136 million. PCEV also subscribed to 1,199 million Beacon preferred shares at the same time. The transfers 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.

PCEV’s Additional Investment in Beacon Common Shares

On January 20, 2012, PCEV subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million. On the same date, MPIC also subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million.

Sale Transactions to MPIC

(1) Sale of PCEV’s Beacon Preferred Shares to MPIC

On June 6, 2012, PCEV agreed to sell approximately 282 million of its Beacon preferred shares to MPIC for total cash consideration of Php3,563 million. The sale was completed on June 29, 2012. Since Beacon preferred shares were sold to an entity not included in the PLDT Group, PCEV realized a portion of the deferred gain amounting to Php2,012 million, which was recorded when the underlying Meralco shares were transferred to Beacon.

(2) Sale of Beacon’s Meralco Shares to MPIC

Beacon has entered into the following Share Purchase Agreements with MPIC:

Date	Number of Shares Sold (in millions)	% of Meralco Shareholdings Sold	Price Per Share	Total Price (in millions)	Deferred Gain Realized⁽¹⁾ (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 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.

(3) Sale of PCEV's Beacon Shares to MPIC

On May 30, 2016, PCEV entered into a Share Purchase Agreement with MPIC to sell its 646 million shares of common stock and 458 million shares of preferred stock of Beacon, representing approximately 25% equity interest in Beacon to MPIC for a total consideration of Php26,200 million. 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. Consequently, PCEV realized a portion of the deferred gain amounting to Php4,962 million. After the sale, PCEV's equity ownership in Beacon was reduced from 50% to 25%, while MPIC's interest increased to 75%. MPIC agreed that for as long as: (i) PCEV owns at least 20% of the outstanding capital stock of Beacon; or (ii) the purchase price has not been fully paid by MPIC, PCEV shall retain the right to vote 50% of the outstanding capital stock of Beacon.

PCEV's effective interest in Meralco, through Beacon, was reduced to 8.74% from 17.48%, while MPIC's effective interest in Meralco, through its direct ownership in Meralco shares and through Beacon, increased to 41.22% as at December 31, 2016 from 32.48% as at December 31, 2015. There is no change in the aggregate joint interest of MPIC and Beacon in Meralco which remains at 49.96% as at December 31, 2016 and 2015.

Beacon owns 394 million Meralco common shares, representing approximately 34.96% effective ownership in Meralco with a carrying value of Php84,815 million and market value of Php104,426 million based on quoted price of Php265 per share as at December 31, 2016.

The carrying value of PCEV's investment in Beacon as at December 31, 2016 amounted to Php13,593 million, net of deferred gain of Php4,962 million, while the carrying value as at December 31, 2015 amounted to Php32,304 million, net of deferred gain of Php9,924 million.

PCEV's Additional Investment in Beacon Class "B" Preferred Shares

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.

On the same date, PCEV subscribed to 277 million Beacon Class "B" preferred shares for a total cash consideration of Php3,500 million. MPIC likewise subscribed to 277 million Beacon Class "B" preferred shares for a total cash consideration of Php3,500 million.

The amount raised from the subscription was used to fund the subscription to shares of common stock of Global Business Power Corporation, or Global Power, through Beacon Powergen Holdings, Inc., or Beacon Powergen.

On August 10, 2016, the Philippine SEC approved the increase in Beacon's authorized capital and issuance of the new class of preferred shares.

Class "B" preferred shares of Beacon are non-voting, not convertible to common shares or any shares of Beacon of any class and have no pre-emptive rights to subscribe to any share or convertible debt, securities or warrants issued or sold by Beacon. The Class "B" preferred shares are entitled to liquidation preference over the common shares of Beacon and, upon the declaration of Beacon's Board of Directors, yearly cumulative dividends at the rate of 6% of the issue value before any dividends can be paid to holders of common shares of Beacon subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment will not violate any dividend restrictions imposed by Beacon's bank creditors.

On September 9, 2016, the Board of Directors of Beacon approved the redemption of 198 million Class "B" preferred shares held by PCEV at an aggregate redemption price equal to the aggregate issue price of Php2,500 million. On the same date, Beacon also declared cash dividends on the said preferred

shares amounting to Php21 million. The redemption price and cash dividend were paid on September 30, 2016. PCEV accounts for its subscription in Beacon's Class "B" preferred shares as available-for-sale investments.

Beacon's Acquisition of Global Power

On May 27, 2016, Beacon, through a wholly-owned subsidiary, Beacon Powergen, entered into a Share Purchase Agreement with GT Capital Holdings, Inc., to acquire an aggregate 56% of the issued share capital of Global Power for a total consideration of Php22,058 million. Beacon Powergen settled Php11,029 million upon closing and the balance via a vendor financing facility, which was replaced with a long-term bank debt in August 2016.

Global Power is the leading power supplier in Visayas region and Mindoro Island. In 2016, Global Power increased its combined gross maximum capacity to 854 megawatts, or MW, through a 150MW expansion project that is currently undergoing final acceptance. In Luzon, Global Power has 670MW expansion project that is still in the process of Engineering, Procurement and Construction selection.

Beacon Powergen's investment in Global Power has a carrying value of Php21,902 million as at December 31, 2016.

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 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
February 26, 2015	February 27, 2015	Common	Php4,277	Php2,139
March 30, 2015	April 24, 2015	Class "A" Preferred	810	405
Total dividends declared as at December 31, 2015			Php5,087	Php2,544

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.

The table below presents the summarized financial information of Beacon as at December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014:

	2016	2015
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	97,308	87,831
Current assets	3,118	10,874
Equity	88,470	85,325
Noncurrent liabilities	10,664	12,149
Current liabilities	1,292	1,231
Additional Information:		
Cash and cash equivalents	3,107	2,270
Current financial liabilities*	1,195	1,084
Noncurrent financial liabilities*	9,981	11,176

* Excluding trade, other payables and provisions.

	2016	2015	2014
		(in million pesos)	
Income Statements:			
Revenues - equity share in net earnings	7,017	6,899	8,202
Interest income	223	455	205
Interest expense	915	1,723	2,315
Net income	6,318	6,539	6,439
Other comprehensive income (loss)	1,140	(497)	18
Total comprehensive income	7,458	6,042	6,457

The following table presents the reconciliation between the share in Beacon's equity and the carrying value of investment in Beacon as at December 31, 2016 and 2015:

	2016	2015
	(in million pesos)	
Beacon's equity	88,470	85,325
Outstanding Class "B" preferred shares and dividends paid on Class "B"	(4,462)	-
Beacon's equity (excluding outstanding Class "B" preferred shares)	84,008	85,325
PCEV's ownership interest	25%	50%
Share in net assets of Beacon	21,002	42,663
Purchase price allocation adjustments	(158)	(88)
Dividends in arrears	(1,957)	-
Deferred gain on transfer of Meralco shares	(4,962)	(9,924)
Others	(332)	(347)
Carrying amount of interest in Beacon	13,593	32,304

iCommerce's Investment in PHIH

On January 20, 2015, PLDT and Rocket entered into a JVA to further strengthen their existing partnership and to foster the development of internet-based businesses in the Philippines. PLDT, through iCommerce, a subsidiary of Voyager's eInnovations, and Asia Internet Holding S.à.r.l., which is 50%-owned by Rocket, are shareholders in PHIH.

PHIH focuses on creating and developing online businesses in the Philippines, leveraging local market and business model insights, facilitating commercial, strategic and investment partnerships, enabling local recruiting and sourcing, and accelerating the rollout of online startups.

PLDT, through iCommerce, acquired a 33.33% equity interest in PHIH. iCommerce has the option to increase its equity interest to 50%. iCommerce became a shareholder of PHIH on October 14, 2015 and paid approximately €7.4 million on October 27, 2015. As at December 31, 2016, the carrying value of the investment in PHIH amounted to €29.6 million, or Php1,538 million, including subscription payable of €22.6 million, or Php1,176 million, and capitalized professional fees and other start-up costs for the investment in PHIH amounted to Php32 million.

eInnovations' Investment in ECommerce Pay

On January 6, 2015, PLDT, through eInnovations, entered into a JVA with Rocket, 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 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 Ecommerce's effective interest in ePay went down to 50%. Pending completion of the other expected contributions from Rocket, ePay Group continued to be a subsidiary of PLDT.

Rocket 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 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 other individually immaterial joint ventures

The table below presents the summarized financial information of our individually immaterial investments in joint ventures as at and for the years ended December 31, 2016 and 2015:

	2016	2015
	(in million pesos)	
Statements of Financial Position:		
Noncurrent assets	–	157
Current assets	378	380
Equity	377	528
Noncurrent liabilities	–	–
Current liabilities	1	9
Income Statements:		
Revenues	–	–
Net income (loss)	(164)	9
Other comprehensive income	–	–
Total comprehensive income (loss)	(164)	9

Our aggregate share in the revenues, expenses, other expenses – net, net loss, other comprehensive income, and total comprehensive loss of our other investments in joint ventures for the years ended December 31, 2016, 2015 and 2014 are considered immaterial in relation to our consolidated financial statements.

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at December 31, 2016 and 2015.

11. Available-for-Sale Financial Investments

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, Emtex Group. PLDT Online's shares account for approximately 7.6% 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

On August 7, 2014, PLDT and Rocket entered into a global strategic partnership to drive the development of online and mobile payment solutions in emerging markets. Rocket provides a platform for the rapid creation and scaling of consumer internet businesses outside the U.S. and China. Rocket'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'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 as at August 2014. These new shares are of the same class and bear the same rights as the Rocket 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, to PLDT Online, an indirectly wholly-owned subsidiary of PLDT.

On October 1, 2014, Rocket announced the pricing of its initial public offering, or IPO, at €42.50 per share. On October 2, 2014, Rocket listed its shares on Entry Standard of the Frankfurt Stock Exchange under the ticker symbol "RKET." Our ownership stake in Rocket after the IPO was reduced to 6.6%. In February 2015, due to additional issuances of shares by Rocket, our ownership percentage in Rocket was further reduced to 6.1%, and remained as such as at December 31, 2016 and 2015. Total costs directly attributable to the acquisition of Rocket shares and recognized as part of the cost of investment amounted to Php134 million.

Further details on investment in Rocket are as follows:

	2016	2015	2014
Total market value as at beginning of the year (in million pesos)	14,587	27,855	19,711
Closing price per share at year-end (in Euros)	19.13	28.24	51.39
Total market value as at year-end (in million Euros)	193	285	519
Total market value as at end of the year (in million pesos) (Note 6)	10,058	14,587	27,855
Recognized in other comprehensive income (loss) (in million pesos)	852	(8,144)	8,144
Recognized in profit or loss (in million pesos) (Note 5)	(5,381)	(5,124)	–
Net gains (losses) from changes in fair value recognized during the year (in million pesos)	(4,529)	(13,268)	8,144

Based on our judgment, the decline in fair value of our investment in Rocket to Php14,587 million as at December 31, 2015 is considered significant as the cumulative net losses from changes in fair value amounting to Php5,124 million represents 26% decline in value below cost. As a result, we recognized in our consolidated income statement an impairment of our investment in Rocket amounting to Php5,124 million for the year ended December 31, 2015. We recognized additional impairment loss of Php5,381 million as the fair value of Rocket further declined to Php9,206 million for the six months ended June 30, 2016. We recognized an unrealized gain of Php852 million in the "Net gains (losses) on available-for-sale financial investments" account in our consolidated other comprehensive income for the six months ended December 31, 2016 due to slight recovery of Rocket's fair value to Php10,058 million as at December 31, 2016. In the first quarter of 2017, we recognized additional impairment on Rocket amounting to Php540 million as the fair value of Rocket went down to Php8,666 million as at

March 31, 2017 compared to Php9,206 million as at June 30, 2016. See Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions – Impairment of available-for-sale equity investments.

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.

As at April 25, 2017, closing price of Rocket is €16.57 per share resulting to total market value of PLDT’s stake in Rocket of €167 million, or Php10,624 million.

12. Investment in Debt Securities and Other Long-term Investments

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Security Bank Corporation, or Security Bank, Time Deposits	348	330
PSALM Bonds	202	207
GT Capital Bond	150	150
Beta’s preferred shares (Note 10)	–	265
National Power Corporation, or NAPOCOR, Bond	–	51
	700	1,003
Less current portion (Note 28)	326	51
Noncurrent portion (Note 28)	374	952

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 maturing on October 11, 2017 at a gross coupon rate of 4.00%. 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\$188 thousand, or Php8.9 million, US\$187 thousand, or Php8.6 million, and US\$187 thousand, or Php8 million, for the years ended December 31, 2016, 2015 and 2014, respectively. The carrying value of this investment amounted to Php248 million and Php236 million as at December 31, 2016 and 2015, 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 Php3.1 million, for the year ended December 31, 2016 and US\$66 thousand, or Php3 million, for each of the years ended December 31, 2015 and 2014. The carrying value of this investment amounted to Php99.5 million and Php94 million as at December 31, 2016 and 2015, respectively.

PSALM Bonds

In April 2013, Smart purchased, at a premium, PSALM Bonds with face value of Php200 million maturing on April 22, 2017 with yield-to-maturity at 4.25% gross. The bond has a gross coupon rate of 7.75% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php7.3 million, Php7.2 million and Php7 million for the years ended December 31, 2016, 2015 and 2014, respectively. The carrying value of this investment amounted to Php202 million and Php207 million as at December 31, 2016 and 2015, respectively.

In August 2013, Smart purchased, at a premium, PSALM Bonds with face value of Php100 million with yield-to-maturity at 3.25% gross, which matured on April 22, 2015. The bond has a gross coupon rate of 6.88% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php827 thousand and Php2.6 million for the years ended December 31, 2015 and 2014,

respectively.

In January 2014, Smart purchased, at a premium, additional PSALM Bonds with face value of Php60 million with yield-to-maturity at 3.00% gross, which matured on April 22, 2015. The bond has a gross coupon rate of 6.88% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php289 thousand and Php1.6 million for the years ended December 31, 2015 and 2014, respectively.

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 has 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 for each of the years ended December 31, 2016, 2015 and 2014. The carrying value of this investment amounted to Php150 million each as at December 31, 2016 and 2015.

Investment in Beta's Preferred Shares

See *Note 10 – Investments in Associates and Joint Ventures – Investment of PGIC in Beta* for a detailed discussion of our investment in Beta.

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 is amortized using the EIR method. Interest income recognized on this investment amounted to Php1.8 million for each of the years ended December 31, 2016 and 2015, and Php1 million for the year ended December 31, 2014.

Home Development Mutual Fund, or HDMF Bonds

In June 2014, Smart purchased, at a premium, HDMF Bonds with face value of Php100 million with yield-to-maturity at 2.75% gross, which matured on March 12, 2015. The bond had a gross coupon rate of 6.25% payable on a semi-annual basis, and was recognized as held-to-maturity investment. This investment was a tax-exempt bond. Premium is amortized using the EIR method. Interest income recognized on this investment amounted to Php468 thousand and Php1 million for the years ended December 31, 2015 and 2014, respectively.

Philippine Retail Treasury Bond, or Philippine RTB

In January 2014, Smart purchased, at a premium, a Philippine RTB with face value of Php32 million with yield-to-maturity at 2.38% gross, which matured on August 19, 2015. The bond had a gross coupon rate of 5.88% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is amortized using the EIR method. Interest income, net of withholding tax, recognized on this investment amounted to Php303 thousand and Php684 thousand for the years ended December 31, 2015 and 2014, respectively.

13. Investment Properties

Changes in investment properties account for the years ended December 31, 2016 and 2015 are as follows:

	Land	Land Improvements	Building	Total
(in million pesos)				
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
December 31, 2015				
Balance at beginning of the year	1,479	10	327	1,816
Net gains (losses) from fair value adjustments charged to profit or loss	18	(1)	(7)	10
Disposals	(6)	–	–	(6)
Transfers from property and equipment	5	–	–	5
Balance at end of the year	1,496	9	320	1,825

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 Php13 to Php140 thousand. The valuation for building and land improvements were 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 Php23 million, Php29 million and Php53 million for the years ended December 31, 2016, 2015 and 2014, 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 Takatack Technologies

On August 6, 2015, Voyager, through Takatack Holdings acquired a 100% equity interest in Takatack Technologies 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. Takatack Technologies 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
			6.6	220.6
Cash flow from investing activity:				
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. See Note 15 – Goodwill and Intangible Assets – Impairment of Goodwill.

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 Takatack Technologies actually taken place on January 1, 2015.

15. Goodwill and Intangible Assets

Changes in goodwill and intangible assets for the years ended December 31, 2016 and 2015 are as follows:

	Intangible Assets with Indefinite Life	Intangible Assets with Finite Life					Total Intangible Assets with Finite Life	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
		Trademark	Franchise	Customer List	Spectrum	Licenses				
(in million pesos)										
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 (Note 14)	–	–	–	–	–	–	–	–	(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
Amortization during the year	–	186	511	80	113	39	929	929	–	929
Impairment during the year (Note 5)	–	–	–	–	–	58	58	58	980	1,038
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
Estimated useful lives (in years)	–	16	2 – 9	15	18	1 – 10	–	–	–	–
Remaining useful lives (in years)	–	11	2 – 4	3	6	5 – 10	–	–	–	–
December 31, 2015										
Costs:										
Balance at beginning of the year	4,505	3,016	4,726	1,205	972	1,177	11,096	15,601	62,863	78,464
Business combination (Note 14)	–	–	–	–	–	–	–	–	229	229
Additions	–	–	–	–	107	15	122	122	–	122
Translation and other adjustments	–	–	–	–	–	(3)	(3)	(3)	–	(3)
Balance at end of the year	4,505	3,016	4,726	1,205	1,079	1,189	11,215	15,720	63,092	78,812
Accumulated amortization and impairment:										
Balance at beginning of the year	–	589	1,748	830	645	1,111	4,923	4,923	699	5,622
Amortization during the year	–	186	510	81	279	20	1,076	1,076	–	1,076
Translation and other adjustments	–	–	–	–	–	(3)	(3)	(3)	–	(3)
Balance at end of the year	–	775	2,258	911	924	1,128	5,996	5,996	699	6,695
Net balance at end of the year	4,505	2,241	2,468	294	155	61	5,219	9,724	62,393	72,117
Estimated useful lives (in years)	–	16	9	15	2 – 18	1 – 10	–	–	–	–
Remaining useful lives (in years)	–	12	5	4	1 – 7	2 – 4	–	–	–	–

The consolidated goodwill and intangible assets of our reportable segments as at December 31, 2016 and 2015 are as follows:

	2016		
	Wireless	Fixed Line	Total
(in million pesos)			
Trademark	4,505	–	4,505
Franchise	2,055	–	2,055
Customer list	1,957	–	1,957
Spectrum	214	–	214
Licenses	42	–	42
Others	128	–	128
Total intangible assets	8,901	–	8,901
Goodwill	56,571	4,808	61,379
Total goodwill and intangible assets	65,472	4,808	70,280

	2015		
	Wireless	Fixed Line	Total
	(in million pesos)		
Trademark	4,505	–	4,505
Customer list	2,468	–	2,468
Franchise	2,241	–	2,241
Spectrum	294	–	294
Licenses	155	–	155
Others	61	–	61
Total intangible assets	9,724	–	9,724
Goodwill	57,585	4,808	62,393
Total goodwill and intangible assets	67,309	4,808	72,117

Intangible Assets

Intangible asset with indefinite life as at December 31, 2016 and 2015 pertains to the “*Sun Cellular*” trademark of DMPI, which was acquired in connection with PLDT’s acquisition of Digitel in 2011. PLDT intends to continue using the “*Sun Cellular*” brand 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.

In August 2015, Smart entered into an asset purchase agreement with Wifi Nation Philippines, Inc., or Wifi Nation, for a total consideration of Php15 million. Under the terms of the agreement, Smart acquired the assigned assets of Wifi Nation such as all its rights, titles and interests in its technology platform, patents, patent applications, contracts, intellectual property rights, and the business and trade name “Wifi Nation”. Smart recognized intangible assets of Php15 million for the technology applications, amortized over the remaining life of the customer contracts acquired.

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 with finite life as at December 31, 2016 is as follows:

Year	(in million pesos)
2017	817
2018	817
2019	788
2020	644
2021 and onwards	5,835
	8,901

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, 2016, the PLDT Group’s goodwill comprised of goodwill resulting from acquisition of Takatack Technologies in 2015, PLDT’s additional investment in PG1 in 2014, Smart’s acquisition of WiFun 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, Smart’s acquisition of CURE and SBI’s acquisition 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. See *Note 2 – Consolidation of Various Digital Businesses of Smart under Voyager*.

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 10.1%, 9.6% and 15.0% for the Wireless, Fixed Line and Voyager CGUs, respectively. 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, 2016 and 2015 in relation to goodwill.

With regards 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 representing the entire amount of goodwill allocated to Voyager CGU. See *Note 5 – Income and Expenses* and *Note 14 – Business Combination*.

16. Cash and Cash Equivalents

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Cash on hand and in banks (Note 28)	6,384	7,352
Temporary cash investments (Note 28)	32,338	39,103
	38,722	46,455

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 Php582 million, Php579 million and Php476 million for the years ended December 31, 2016, 2015 and 2014, respectively.

17. Trade and Other Receivables

As at December 31, 2016 and 2015, this account consists of receivables from:

	2016	2015
	(in million pesos)	
Retail subscribers (Note 28)	20,290	19,750
Corporate subscribers (Notes 25 and 28)	9,333	9,263
Foreign administrations (Note 28)	5,819	5,514
Domestic carriers (Notes 25 and 28)	354	540
Dealers, agents and others (Notes 25 and 28)	7,428	5,752
	43,224	40,819
Less allowance for doubtful accounts (Notes 5 and 28)	18,788	15,921
	24,436	24,898

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 are generally with settlement term 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, 2016 and 2015 are as follows:

	Total	Retail Subscribers	Corporate Subscribers	Foreign Administrations	Domestic Carriers	Dealers, Agents and Others
(in million pesos)						
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
December 31, 2015						
Balance at beginning of the year	15,571	8,133	4,326	548	93	2,471
Provisions (reversals) and other adjustments	3,043	2,920	297	(233)	4	55
Write-offs	(2,693)	(2,505)	(172)	–	(11)	(5)
Reclassifications	–	992	–	–	–	(992)
Balance at end of the year	15,921	9,540	4,451	315	86	1,529
Individual impairment	8,593	2,677	4,121	306	86	1,403
Collective impairment	7,328	6,863	330	9	–	126
	15,921	9,540	4,451	315	86	1,529
Gross amount of receivables individually impaired, before deducting any impairment allowance	8,593	2,677	4,121	306	86	1,403

18. Inventories and Supplies

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
(in million pesos)		
Terminal and cellular phone units:		
At net realizable value	2,828	3,253
At cost	4,584	3,721
Spare parts and supplies:		
At net realizable value	576	539
At cost	948	835
Others:		
At net realizable value	340	822
At cost	829	975
Total inventories and supplies at the lower of cost or net realizable value	3,744	4,614

The cost of inventories and supplies recognized as expense for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
(in million pesos)			
Cost of sales	15,965	15,525	13,077
Write-down of inventories and supplies (Note 5)	1,941	511	179
Repairs and maintenance	596	643	575
	18,502	16,679	13,831

Changes in the allowance for inventory obsolescence for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Balance at beginning of the year	917	913
Provisions (Note 5)	1,941	511
Write-off and others	(241)	(507)
Balance at end of the year	2,617	917

19. Prepayments

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Prepaid taxes (Note 7)	11,311	5,949
Prepaid fees and licenses	1,194	856
Prepaid selling and promotions (Note 25)	494	881
Prepaid rent	433	468
Prepaid benefit costs (Note 26)	261	306
Prepaid repairs and maintenance	232	126
Prepaid insurance (Note 25)	105	145
Other prepayments (Note 25)	531	542
	14,561	9,273
Less current portion of prepayments	7,505	5,798
Noncurrent portion of prepayments	7,056	3,475

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, 2016 and 2015 are as follows:

	2016	2015
	(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 changes in PLDT's capital account are the redemption of 370 shares of Series II 10% Cumulative Convertible Preferred Stock and the issuance of 870 shares or Php8,700 of Series JJ 10% Cumulative Convertible Preferred Stock for the years ended December 31, 2016 and 2015, respectively.

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, 2016. 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 Php23 million, Php15 million and Php30 million were withdrawn from the Trust Account, representing total payments on redemption for the years ended December 31, 2016, 2015 and 2014, respectively. The balances of the Trust Account of Php7,883 million and Php7,906 million were presented as part of the "Current portion of advances and other noncurrent assets" and the related redemption liability of the same amount were presented as part of "Accrued expenses and other current liabilities" in our consolidated statements of financial position as at December 31, 2016 and 2015, 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.

We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388.00 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at December 31, 2016 and 2015.

Dividends Declared

Our dividends declared for the years ended December 31, 2016, 2015 and 2014 are detailed as follows:

December 31, 2016

Class	Date			Amount	
	Approved	Record	Payable	Per Share	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			Amount	
	Approved	Record	Payable	Per Share	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.

December 31, 2014

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos, except per share amounts)					
10% Cumulative Convertible Preferred Stock					
Series HH (Final Dividends)	April 1, 2014	February 14, 2014	May 16, 2014	0.0027/day	–
Series II	April 1, 2014	April 30, 2014	May 30, 2014	1.00	–
–					
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 28, 2014	February 27, 2014	March 15, 2014	–	12
	May 6, 2014	May 27, 2014	June 15, 2014	–	12
	August 5, 2014	August 20, 2014	September 15, 2014	–	13
	November 4, 2014	November 20, 2014	December 15, 2014	–	12
49					
Voting Preferred Stock					
	March 4, 2014	March 20, 2014	April 15, 2014	–	3
	June 10, 2014	June 27, 2014	July 15, 2014	–	3
	September 30, 2014	October 15, 2014	October 15, 2014	–	2
	December 2, 2014	December 19, 2014	January 15, 2015	–	2
10					
Common Stock					
Regular Dividend	March 4, 2014	March 18, 2014	April 16, 2014	62.00	13,395
	August 5, 2014	August 28, 2014	September 26, 2014	69.00	14,908
Special Dividend	March 4, 2014	March 18, 2014	April 16, 2014	54.00	11,667
39,970					
Charged to retained earnings					
40,029					

* Dividends were declared based on total amount paid up.

Our dividends declared after December 31, 2016 are detailed as follows:

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
(in million pesos, except per share amounts)					
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	February 7, 2017	February 24, 2017	March 15, 2017	–	12
Voting Preferred Stock					
	March 7, 2017	March 30, 2017	April 15, 2017	–	2
Common Stock					
Regular Dividend	March 7, 2017	March 21, 2017	April 6, 2017	28.00	6,050
Charge to retained earnings					
6,064					

* 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, 2016:

	(in million pesos)
Consolidated unappropriated retained earnings as at December 31, 2015	6,195
Effect of IAS 27 Adjustments and other adjustments	11,188
Parent Company's unappropriated retained earnings at beginning of the year	17,383
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	(862)
Fair value adjustments (mark-to-market gains)	(2,260)
Parent Company's unappropriated retained earnings available for dividends as at January 1, 2015	13,738
Parent Company's net income attributable to equity holders of PLDT for the year	29,841
Less: Fair value adjustment of investment property resulting to gain	(11)
Fair value adjustments (mark-to-market gains)	(662)
	29,168
Less: Cash dividends declared during the year	
Preferred stock (Note 8)	(59)
Common stock	(22,902)
Charged to retained earnings	(22,961)
Parent Company's unappropriated retained earnings available for dividends as at December 31, 2016	19,945

As at December 31, 2016, our consolidated unappropriated retained earnings amounted to Php3,483 million while the Parent Company's unappropriated retained earnings amounted to Php24,261 million. The difference of Php20,778 million pertains to the effect of IAS 27 in our investments in subsidiaries, associates and joint ventures accounted for under the equity method.

Php2,610 Million and Php1,590 Million Perpetual Notes

Smart issued Php2,610 million and Php1,590 million perpetual notes under two Notes Facility Agreements dated March 3, 2017 and March 6, 2017, respectively. Proceeds from the issuance of these notes are intended to finance capital expenditures. The notes have no fixed redemption date 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 of Smart. The notes are subordinated to and rank junior to all senior loans of Smart.

21. Interest-bearing Financial Liabilities

As at December 31, 2016 and 2015, this account consists of the following:

	2016	2015
	(in million pesos)	
Long-term portion of interest-bearing financial liabilities:		
Long-term debt (Notes 9 and 28)	151,759	143,982
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year (Notes 9 and 28)	33,273	16,910
Obligations under finance leases maturing within one year (Note 28)	–	1
	185,032	160,893

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 Php631 million and Php676 million as at December 31, 2016 and 2015, respectively. See *Note 28 – Financial Assets and Liabilities*.

The following table describes all changes to unamortized debt discount for the years ended December 31, 2016 and 2015.

	2016	2015
	(in million pesos)	
Unamortized debt discount at beginning of the year	676	511
Additions during the year	185	396
Accretion during the year included as part of Financing costs – net (Note 5)	(230)	(231)
Unamortized debt discount at end of the year (Note 28)	631	676

Long-term Debt

As at December 31, 2016 and 2015, long-term debt consists of:

Description	Interest Rates	2016		2015	
		(in millions)			
<i>U.S. Dollar Debts:</i>					
Export Credit Agencies-Supported Loans:					
Exportkreditnamnden, or EKN	1.4100% to 1.9000% and US\$ LIBOR + 0.3000% in 2016 and 1.4100% to 1.9000% and US\$ LIBOR + 0.3000% to 0.3500% in 2015	US\$31	Php1,533	US\$62	Php2,911
China Export and Credit Insurance Corporation, or Sinosure	US\$ LIBOR + 1.0000% to 1.8000% in 2016 and US\$ LIBOR + 0.5500% to 1.8000% in 2015	–	–	53	2,484
EKN and AB Svensk Exportkredit, or SEK	3.9550% in 2016 and 2015	–	–	32	1,528
		31	1,533	147	6,923
Fixed Rate Notes	8.3500% in 2016 and 2015	228	11,362	228	10,733
Term Loans:					
GSM Network Expansion Facilities	US\$ LIBOR + 0.8500% to 1.1125% in 2016 and 2015	5	276	36	1,722
Others	2.8850% and US\$ LIBOR + 0.7900% to 1.6000% in 2016 and US\$ LIBOR + 0.7900% to 1.9000% in 2015	905	45,021	1,024	48,242
		US\$1,169	Php58,192	US\$1,435	Php67,620
<i>Philippine Peso Debts:</i>					
Corporate Notes	5.3300% to 6.2600% in 2016 and 2015	Php21,105			Php21,320
Fixed Rate Retail Bonds	5.2250% to 5.2813% in 2016 and 2015	14,902			14,883
Term Loans:					
Unsecured Term Loans	3.9000% to 5.6400%; BSP overnight rate - 0.3500% to BSP overnight rate and PDST-R2 + 1.00% in 2016 and 4.4850% to 5.7895% BSP overnight rate – 0.3500% to BSP overnight rate in 2015	90,833			57,069
		126,840			93,272
Total long-term debt (Note 28)		185,032			160,892
Less portion maturing within one year (Note 28)		33,273			16,910
Noncurrent portion of long-term debt (Note 28)		Php151,759			Php143,982

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at December 31, 2016 are as follows:

Year	U.S. Dollar Debt		Php Debt	Total
	U.S. Dollar	Php	Php	Php
	(in millions)			
2017	496	24,672	8,802	33,474
2018	258	12,874	1,908	14,782
2019	110	5,472	14,341	19,813
2020	210	10,469	8,509	18,978
2021	45	2,259	19,649	21,908
2022 and onwards	56	2,756	73,952	76,708
(Note 28)	1,175	58,502	127,161	185,663

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, 2016 and 2015:

Loan Amount	Date of Loan Agreement	Lender(s)	Terms			Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts			
			Installments	Final Installment	Dates Drawn				2016	2015		
(in millions)									(in millions)			
<i>U.S. Dollar Debts</i>												
<i>EKN, the Export-Credit Agency of Sweden</i>												
DMPI US\$18.7M ⁽¹⁾	April 4, 2006	Nordea Bank AB (publ), or Nordea Bank	18 equal semi-annual	April 30, 2015	Various dates in 2006-2007	US\$18.7	US\$-	April 30, 2015	US\$-	Php-	US\$-	Php-
DMPI US\$59.2M ⁽²⁾	December 17, 2007	ING Bank, Societe Generale and Calyon	18 equal semi-annual	March 31, 2017	Various dates in 2008-2009	59.1	0.1	March 31, 2017	3	168	10	477
DMPI US\$51.2M ⁽³⁾	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	9	415
Smart US\$49M ⁽⁴⁾	June 10, 2011	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	-	-	5 ^(*)	233 ^(*)	14 ^(*)	674 ^(*)
									US\$11	Php547	US\$33	Php1,566

^(*) Amounts are net of unamortized discount and/or debt issuance cost.

⁽¹⁾ The purpose of this loan is to finance the supply of GSM mobile telephone equipment and related services.

⁽²⁾ The purpose of this loan is to finance the equipment and service contracts for the Phase 7 North Luzon Expansion and Change-out Project.

⁽³⁾ The purpose of this loan is to finance the equipment and service contracts for the Phase 7 Expansion Project in Visayas and Mindanao.

⁽⁴⁾ 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			Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts			
			Installments	Final Installment	Dates Drawn				2016	2015		
(in millions)									(in millions)			
Smart US\$45.6M ⁽⁴⁾	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	US\$45.6	US\$-	-	US\$20 ^(*)	Php986 ^(*)	US\$29 ^(*)	Php1,345 ^(*)
									20	986	29	1,345
									US\$31	Php1,533	US\$62	Php2,911

^(*) Amounts are net of unamortized discount and/or debt issuance cost.

⁽⁴⁾ 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			Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts			
			Installments	Final Installment	Dates Drawn				2 0 1 6	2 0 1 5		
(in millions)									(in millions)			
Sinosure												
DMPI US\$21M ⁽¹⁾	May 24, 2007	ING Bank	14 equal semi-annual	May 24, 2015	Various dates in 2008	US\$20.8	US\$0.2	May 22, 2015	US\$–	Php–	US\$–	Php–
DMPI US\$12.1M ⁽²⁾	May 24, 2007	ING Bank	14 equal semi-annual	May 24, 2015	Various dates in 2008	12.1	–	May 22, 2015	–	–	–	–
DMPI US\$23.8M ⁽³⁾	November 10, 2008	ING Bank	14 equal semi-annual	September 1, 2016	Various dates in 2008-2009	23.8	–	March 1, 2016	–	–	3	160
DMPI US\$5.5M ⁽⁴⁾	November 10, 2008	ING Bank	14 equal semi-annual	September 1, 2016	Various dates in 2008-2009	5.5	–	March 1, 2016	–	–	1	37
DMPI US\$4.9M ⁽⁵⁾	November 10, 2008	ING Bank	14 equal semi-annual	September 1, 2016	Various dates in 2008-2009	4.9	–	March 1, 2016	–	–	1	33
DMPI US\$50M ⁽⁶⁾	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	–	–	14	639
DMPI US\$117M ⁽⁷⁾	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	–	–	34	1,615
									–	–	53	2,484

EKN and SEK, the Export Credit Agency of Sweden

DMPI US\$96.6M ⁽⁸⁾	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\$32	Php1,528
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⁽¹⁾ The purpose of this loan is to finance the equipment for the Phase 6 South Luzon Change Out and Expansion Project.

⁽²⁾ The purpose of this loan is to finance the equipment for the Phase 6 NCR Expansion Project.

⁽³⁾ The purpose of this loan is to finance the equipment and service contracts for the Phase 7 Core Expansion Project.

⁽⁴⁾ The purpose of this loan is to finance the equipment and service contracts for the supply of 3G network in NCR.

⁽⁵⁾ The purpose of this loan is to finance the equipment and service contracts for the Phase 7 Intelligent Network Expansion Project.

⁽⁶⁾ 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.

⁽⁷⁾ 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. US\$20 million was partially prepaid on April 10, 2013 and the remaining balance is now payable over five years in 10 semi-annual installments, with final installment on April 10, 2018.

⁽⁸⁾ The purpose of this loan is to finance the supply of GSM mobile telephone equipment and related services.

Loan Amount	Date of Loan Agreement	Lender(s)	Terms			Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts			
			Installment	Final Installment	Dates Drawn				2 0 1 6	2 0 1 5		
(in millions)									(in millions)			
Finnvera, Plc, the Finnish Export Credit Agency												
Smart US\$50M ⁽¹⁾	October 9, 2009	FEC	10 equal semi-annual	April 7, 2015	April 7, 2010	US\$50.0	US\$–	April 7, 2015	US\$–	Php–	US\$–	Php–

⁽¹⁾ The purpose of this loan is to finance the GSM equipment and services contracts.

Loan Amount	Issuance Date	Trustee	Terms		Repurchase Date	Repurchase Amount	Paid in full on	Outstanding Amounts				
			Installments	Maturity				2 0 1 6	2 0 1 5			
(in millions)									(in millions)			
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\$228 ^(*)	Php11,362 ^(*)	US\$228 ^(*)	Php10,733 ^(*)	

^(*) Amounts are net of unamortized debt discount and/or debt issuance cost.

⁽¹⁾ This fixed rate note has a coupon rate of 8.350%. The purpose of this note is to finance 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			
			Installments	Final Installment					2016	2015	(in millions)	
<i>Term Loans</i>												
<i>GSM Network Expansion Facilities</i>												
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 18 th month from signing date	June 6, 2016	Various dates in 2012	US\$60	US\$–	June 6, 2016	US\$–	Php–	US\$7	Php353
Smart US\$50M ⁽²⁾	August 19, 2011	FEC	10 equal semi-annual, commencing 6 months after August 19, 2012	August 19, 2016	Various dates in 2012	50	–	August 19, 2016	–	–	12 ^(*)	588 ^(*)
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	–	–	5 ^(*)	276 ^(*)	17 ^(*)	781 ^(*)
									US\$5	Php276	US\$36	Php1,722

^(*) 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				
								2016	2015	(in millions)		
<i>Other Term Loans⁽¹⁾</i>												
PLDT US\$150M	March 7, 2012	Syndicate of Banks with the 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\$17	Php830	US\$50	Php2,356	
PLDT US\$25M	March 16, 2012	Citibank, N.A.	17 equal quarterly-installments, commencing 12 months from the initial drawdown date, with final installment on May 30, 2017	May 29, 2012	25	–	May 29, 2015	–	–	–	–	
									US\$17	Php830	US\$50	Php2,356

⁽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			
								2016	2015	(in millions)	
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	US\$300	US\$–	–	US\$100	Php4,977	US\$167	Php7,853
Smart US\$35M	January 28, 2013	China Banking Corporation	10 equal semi-annual, with final installment on January 29, 2018	May 7, 2013	35	–	January 30, 2017	10	522	18	825
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	–	11 ^(*)	531 ^(*)	18 ^(*)	833 ^(*)
Smart US\$80M	May 31, 2013	China Banking Corporation	10 equal semi-annual, commencing six months after drawdown date, with final installment on May 31, 2018	September 25, 2013	80	–	–	24	1,194	40	1,885
Smart US\$120M	June 20, 2013	Mizuho Bank Ltd. and	8 equal semi-annual, commencing six	September 25, 2013	120	–	–	45 ^(*)	2,226 ^(*)	74 ^(*)	3,501 ^(*)

			Sumitomo Mitsui Banking Corporation with Sumitomo as Facility Agent	months after drawdown date, with final installment on June 20, 2018								
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	– –	– –	55 ^(*) –	2,744 ^(*) –	77 ^(*) –	3,625 ^(*) –
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	50	–	–	28 ^(*)	1,372 ^(*)	38 ^(*)	1,813 ^(*)
PLDT US\$100M	August 5, 2014	Philippine National Bank		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	–	–	98	4,877	99	4,665
PLDT US\$50M	August 29, 2014	Metropolitan Bank and Trust Company, or 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	2,451	50	2,344
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	–	–	198 ^(*)	9,879 ^(*)	198 ^(*)	9,320 ^(*)
									US\$618	Php30,773	US\$779	Php36,664

Loan Amount	Date of Loan Agreement	Lender(s)	Terms	Dates Drawn	Drawn Amount	Cancelled Undrawn Amount	Paid in full on	Outstanding Amounts				
								2 0 1 6	2 0 1 5		2 0 1 5	
						(in millions)		(in millions)				
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	US\$200	US\$–	–	US\$154 ^(*)	Php7,663 ^(*)	US\$197 ^(*)	–	Php9,299 ^(*)
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	–	–	91 ^(*)	4,521 ^(*)	(2) ⁽¹⁾	–	(77) ⁽¹⁾
PLDT US\$25M	March 22, 2016	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 30, 2023	March 30, 2016	25	–	–	25 ^(*)	1,234 ^(*)	–	–	–
US\$25M	January 31, 2017	NTT Finance Corporation	Non-amortizing, payable upon maturity on March 27, 2024	March 30, 2017	25	–	–	–	–	–	–	–
									270	13,418	195	9,222
									US\$905	Php45,021	US\$1,024	Php48,242

^(*) Amounts are net of unamortized debt discount and/or debt issuance cost.

⁽¹⁾ Amounts pertain to debt issuance cost.

Loan Amount	Date of Loan Agreement	Facility Agent	Installments	Date of Issuance/ Drawdown	Prepayments		Outstanding Amounts	
					Amount	Date	2 0 1 6	2 0 1 5
					(in millions)		(in millions)	
<i>Philippine Peso Debts</i>								
<i>Fixed Rate Corporate Notes⁽¹⁾</i>								
Smart								
Php5,500M	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	July 19, 2013	Php3,930^(*)	Php3,966 ^(*)
Series A: Php1,910M;			Series B: 1% annual amortization starting March 19, 2013 with the balance of 91% payable on March 19, 2022					
Series B: Php3,590M								
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	288	291
PLDT								
Php8,800M	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	6,475	6,543
Series A: Php4,610M;			Series B: 1% annual amortization on the first up to ninth year, with the balance payable on September 21, 2022					
Series B: Php4,190M								
PLDT								
Php6,200M	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	–	–	5,952	6,014
Series A: 7-year notes Php3,775M;			Series B: Annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 22, 2022					
Series B: 10-year notes Php2,425M								
							Php16,645	Php16,814

^(*) 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 Loan Agreement	Facility Agent	Installments	Date of Issuance/ Drawdown	Prepayments		Outstanding Amounts	
					Amount	Date	2 0 1 6	2 0 1 5
					(in millions)		(in millions)	
Smart								
Php1,376M	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	Php–	–	Php1,335	Php1,349
Series A: Php742M;			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					
Series B: Php634M								
PLDT								
Php2,055M	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	–	–	1,973	1,993
Series A: Php1,735M;			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					
Series B: Php320M								
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	–	–	1,152	1,164

								4,460	4,506
								Php21,105	Php21,320
Fixed Rate Retail Bonds⁽¹⁾									
PLDT									
Php15,000M	January 22, 2014	Philippine Depository 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–	–		Php14,902^(*)	Php14,883 ^(*)

^(*) 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 5.225% 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	
								2016	2015
					(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–	–	Php2,000	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	2,910
								Php4,880	Php4,910

⁽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	
								2016	2015
					(in millions)			(in millions)	
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	Php2,000	Php-	-	Php1,920	Php1,940
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	970
DMPI Php1,500M	June 27, 2012	BPI, BPI Asset Management and Trust Group and ALFM Peso Bond Fund, Inc.	Annual amortization rate of 1% of the principal amount with the balance payable upon maturity on June 29, 2019	Various dates in 2012	1,500	-	July 1, 2015	-	-
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% of 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	-	-	970	980
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	-	-	2,880	2,910
PLDT Php2,000M	November 13, 2013	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	-	-	1,940	1,960
Smart Php3,000M	November 25, 2013	Metrobank	Annual amortization rate of 10% of the total amount drawn for the six years and the final installment is payable upon maturity on November 27, 2020	November 29, 2013	3,000	-	-	2,093^(*)	2,391 ^(*)
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	3,000	-	-	2,901^(*)	2,929 ^(*)
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	-	-	2,931^(*)	2,959
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	-	-	490	495
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	-	-	1,960	1,980
								Php20,245	Php20,714

^(*) 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 refinancing 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	
								2016	2015
					(in millions)			(in millions)	
PLDT Php1,500M	April 2, 2014	Philam Life	Payable in full upon maturity on April 4, 2024	April 4, 2014	Php1,500	Php-	-	Php1,500	Php1,500
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	-	-	490	495
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	-	-	980	990
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	-	-	1,470	1,485
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	March 24, 2015	2,000	-	-	1,980	2,000
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	-	-	2,970	3,000
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	-	-	4,950	5,000
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	5,000	-	-	4,928^(*)	4,975 ^(*)
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	-	-	4,927^(*)	5,000
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	-	-	4,927^(*)	5,000
Smart Php7,000M	December 18, 2015	China Banking Corporation	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	-	-	6,973^(*)	1,000
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	-	-	-	-
								Php37,095	Php31,445

^(*) 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	
								2016	2015
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	Php6,000	Php-	Php-	Php5,971 ^(*)	Php-
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	-	-	-	-
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	-	-	6,483 ^(*)	-
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	-	-	2,985	-
Smart Php5,400M	September 28, 2016	UBP	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	October 24, 2016 and November 21, 2016	5,400	-	-	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	-	-	5,300	-
Smart Php2,500M	October 27, 2016	China Banking Corporation	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	-
Smart Php4,000M	October 28, 2016	Security Bank	Semi-annual amortization rate of 1% of the total amount drawn from the first year up to the ninth year and balance payable upon maturity on April 5, 2027	April 5, 2017	4,000	-	-	-	-
Smart Php1,000M	December 16, 2016	Philippine National Bank, or 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 balance payable upon maturity	-	-	-	-	-	-
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 balance payable upon maturity	-	-	-	-	-	-
Smart Php1,500M	April 18, 2017	PNB	Annual amortization rate of 1% of the amount drawn starting on the first anniversary of the advance and balance payable upon maturity	-	-	-	-	-	-
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	-	-	-	-
								28,613	-
								Php90,833	Php57,069

^(*) 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 31% and 42% were denominated in U.S. dollars as at December 31, 2016 and 2015, 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% and 17% as at December 31, 2016 and 2015, respectively, 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. 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.

Furthermore, certain of DMPI's debt instruments contain provisions wherein DMPI may be declared in default in case of a change in control in DMPI.

PLDT's debt instruments and guarantees for DMPI loans 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.

DMPI's liabilities are guaranteed up to a certain extent by Digitel and PLDT. In addition, the loan agreements contain covenants which, among others, restrict the incurrence of loans or debts not in the ordinary course of business, merger or disposition of any substantial portion of Digitel and DMPI's assets, distribution of capital or profits, redemption of any of its issued shares, and reduction of Digitel and DMPI's registered and paid-up capital.

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, 2016 and 2015, 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) in the aggregate amount to nil and Php1 million as at December 31, 2016 and 2015, respectively. See *Note 2 – Summary of Significant Accounting Policies*, *Note 3 – Management’s Use of Accounting Estimates, Judgments 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, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Accrual of capital expenditures under long-term financing	13,673	19,743
Provision for asset retirement obligations (Note 9)	1,582	1,437
Unearned revenues	270	245
Others	79	57
	15,604	21,482

Accrual of capital expenditures under long-term financing represent 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.

The following table summarizes all changes to asset retirement obligations for the years ended December 31, 2016 and 2015:

	2016	2015
	(in million pesos)	
Provision for asset retirement obligations at beginning of the year	1,437	2,068
Additional liability recognized during the year	147	(88)
Accretion expenses	36	–
Settlement of obligations and others	(38)	(543)
Provision for asset retirement obligations at end of the year	1,582	1,437

23. Accounts Payable

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Suppliers and contractors (Note 28)	46,820	46,487
Carriers and other customers (Note 28)	2,422	3,014
Taxes (Note 27)	1,972	1,134
Related parties (Notes 25 and 28)	290	507
Others	1,446	1,537
	52,950	52,679

Accounts payable are non-interest-bearing and are normally settled within 180 days.

For terms and conditions pertaining 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, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Accrued utilities and related expenses (Notes 25 and 28)	48,898	46,256
Accrued taxes and related expenses (Note 27)	9,922	9,561
Liability from redemption of preferred shares (Notes 20 and 28)	7,883	7,906
Unearned revenues (Note 22)	6,990	7,456
Accrued employee benefits and other provisions (Notes 25, 26 and 28)	6,214	6,290
Accrued interests and other related costs (Notes 21 and 28)	1,412	1,284
Others (Note 10)	10,900	5,533
	92,219	84,286

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 also 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.

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, 2016 and 2015. 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, 2016 and 2015 transactions that have been entered into with related parties:

	Classifications	Terms	Conditions	2016	2015
	(in million pesos)				
<i>Indirect investment in joint ventures through PCEV:</i>					
Meralco	Accrued expenses and other current liabilities (Note 24)	Electricity charges – immediately upon receipt of invoice	Unsecured	327	472
		Pole rental – 45 days upon receipt of invoice	Unsecured	–	4
Meralco Industrial Engineering Services Corporation, or	Accrued expenses and other current liabilities (Note 24)	Outside and inside plant – 20 days upon receipt	Unsecured	–	6

	Classifications	Terms	Conditions	2016	2015
				(in million pesos)	
MIESCOR		of invoice			
MPIC	Advances and other noncurrent assets – net of current portion (Note 10)	Due on 2018 to 2020; non-interest-bearing	Unsecured	6,514	–
	Trade and other receivables (Note 17)	Due on June 1, 2017; non-interest-bearing	Unsecured	1,838	–
<i>Indirect investment in associate through ACeS Philippines:</i>					
AIL	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	30 days upon receipt of invoice	Unsecured	–	4
<i>Transactions with major stockholders, directors and officers:</i>					
NTT Finance Corporation	Interest-bearing financial liabilities (Note 21)	Non-amortizing, payable upon maturity on March 30, 2023	Unsecured	1,244	–
Asia Link B.V., or ALBV	Accounts payable (Note 23)	30 days upon receipt of invoice	Unsecured	–	46
NTT World Engineering Marine Corporation	Accrued expenses and other current liabilities (Note 24)	1 st month of each quarter; non-interest-bearing	Unsecured	35	50
NTT Communications	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	54	12
NTT Worldwide Telecommunications Corporation	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	2	3
JGSHI and Subsidiaries	Accounts payable and accrued expenses and other current liabilities (Notes 23 and 24)	Immediately upon receipt of invoice	Unsecured	2	4
NTT DOCOMO	Accrued expenses and other current liabilities (Note 24)	30 days upon receipt of invoice; non-interest-bearing	Unsecured	41	5
Malayan Insurance Co., Inc., or Malayan	Accrued expenses and other current liabilities (Note 24)	Immediately upon receipt of invoice	Unsecured	11	5
<i>Others:</i>					
Various	Trade and other receivables (Note 17)	30 days upon receipt of invoice	Unsecured	1,416	1,588

The following table provides the summary of transactions that have been entered into with related parties for the years ended December 31, 2016, 2015 and 2014 in relation with the table above.

	Classifications	2016	2015	2014
		(in million pesos)		
<i>Indirect investment in joint ventures through PCEV:</i>				
Meralco	Repairs and maintenance	2,401	2,328	2,929
	Rent	272	264	298
MIESCOR	Repairs and maintenance	144	165	81
	Construction-in-progress	67	95	83
Republic Surety and Insurance Co., Inc., or RSIC	Insurance and security services	1	3	3

Indirect investment in associate through ACeS

		Classifications	2016	2015	2014
				(in million pesos)	
<i>Philippines:</i>					
AIL	Cost of sales (Note 5)		–	16	25
<i>Transactions with major stockholders, directors and officers:</i>					
JGSHI and Subsidiaries	Rent		125	303	332
	Repairs and maintenance		57	20	46
	Communication, training and travel		2	2	5
ALBV	Professional and other contracted services		183	203	222
Malayan	Insurance and security services		242	236	206
Gotuaco del Rosario and Associates, or Gotuaco	Insurance and security services		156	–	–
NTT DOCOMO	Professional and other contracted services		95	90	67
NTT World Engineering Marine Corporation	Repairs and maintenance		18	60	26
NTT Worldwide Telecommunications Corporation	Selling and promotions		10	14	15
NTT Finance Corporation	Financing costs		19	–	–
NTT Communications	Professional and other contracted services		77	77	75
	Rent		7	10	12
<i>Others:</i>					
Various	Revenues		781	864	761

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 Php2,401 million, Php2,328 million and Php2,929 million for the years ended December 31, 2016, 2015 and 2014, 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 Php327 million and Php472 million as at December 31, 2016 and 2015, 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 Php272 million, Php264 million and Php298 million for the years ended December 31, 2016, 2015 and 2014, 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 nil and Php4 million as at December 31, 2016 and 2015, respectively.

See also *Note 10 – Investments in Associates and Joint Ventures – Investment in Beacon – Beacon's Acquisition of Additional Meralco Shares* for additional transactions involving Meralco.

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 February 28, 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 Php32 million, Php45 million and Php24 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total amounts capitalized to property and equipment amounted to Php4 million, Php3 million and Php7 million for the years ended December 31, 2016, 2015 and 2014, 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 Php25 thousand and Php6 million as at December 31, 2016 and 2015, respectively.

PLDT also has an existing One Area One Partner for Outside Plant Subscriber Line Rehabilitation, Repair, Installation and Related Activities agreement with MIESCOR, from January 1, 2011 and extended until March 31, 2017. Under the agreement, MIESCOR is responsible for the customer line installation, repair, rehabilitation and maintenance activities of cables and cabinets 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 Php112 million, Php120 million and Php57 million for the years ended December 31, 2016, 2015 and 2014, respectively. Total amounts capitalized to property and equipment amounted to Php63 million, Php92 million and Php76 million for the years ended December 31, 2016, 2015 and 2014, respectively. There were no outstanding obligations under this agreement as at December 31, 2016 and 2015.

c. Transactions with Republic Surety and Insurance Co., Inc., or RSIC

Since 2012, PLDT has had insurance policies with RSIC, a wholly-owned subsidiary of Meralco, covering material damages for buildings, building improvements and equipment. Total fees under the related contracts, which were presented as part of insurance and security services in our consolidated income statements, amounted to Php1 million for the year ended December 31, 2016 and Php3 million for each of the years ended December 31, 2015 and 2014. There were no outstanding obligations for these contracts as at December 31, 2016, 2015 and 2014.

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, Php16 million and Php25 million for the years ended December 31, 2016, 2015 and 2014, respectively. 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 and Php4 million as at December 31, 2016 and 2015, respectively.

e. 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, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014 are as follows:

1. *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 Php183 million, Php203 million and Php222 million for the years ended December 31, 2016, 2015 and 2014, 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 nil and Php46 million as at December 31, 2016 and 2015, respectively.

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 Php18 million, Php60 million and Php26 million for the years ended December 31, 2016, 2015 and 2014, 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 Php35 million and Php50 million as at December 31, 2016 and 2015, 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 Php77 million for each of the years ended December 31, 2016 and 2015 and Php75 million for the year ended December 31, 2014. 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 Php52 million and Php10 million as at December 31, 2016 and 2015, 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 Php7 million, Php10 million and Php12 million for the years ended December 31, 2016, 2015 and 2014, 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, 2016 and 2015; 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 Php10 million, Php14 million and Php15 million for the years ended December 31, 2016, 2015 and 2014, 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 and Php3 million as at December 31, 2016 and 2015, respectively.

3. *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 Php125 million, Php303 million and Php332 million for the years ended December 31, 2016, 2015 and 2014, 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 Php211 thousand and Php2 million as at December 31, 2016 and 2015, 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 Php59 million, Php22 million and Php51 million for the years ended December 31, 2016, 2015 and 2014, 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 Php2 million each as at December 31, 2016 and 2015.

4. *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 Php95 million, Php90 million and Php67 million for the years ended December 31, 2016, 2015 and 2014, 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 Php41 million and Php5 million as at December 31, 2016 and 2015, 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 Php242 million, Php236 million and Php206 million for the years ended December 31, 2016, 2015 and 2014, 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 and Php5 million as at December 31, 2016 and 2015, 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 Php156 million for the year ended December 31, 2016. Under this agreement, the outstanding obligations, which were presented as part of accrued expenses and other current liabilities in our consolidated statement of financial position, amounted to Php597 thousand as at December 31, 2016. Under this agreement, outstanding prepayments, which were presented as part of prepayments in our consolidated statement of financial position, amounted to Php712 thousand as at December 31, 2016.

7. *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, 2016 and 2015.

- *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.

f. Others

1. Agreement of PLDT and Smart with TV5 Network, Inc., or 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 prepayment under the advertising placement agreements amounted to Php414 million and Php533 million as at December 31, 2016 and 2015, respectively.

2. Agreement of PLDT, Smart and DMPI with Dakila Cable TV Corp. or 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. Total prepayment related to the agreement in 2015 amounted to US\$3.1 million, or Php138.2 million. Content cost recognized for the years ended December 31, 2016 and 2015 amounted to Php106 million and Php51 million, respectively. Total unamortized cost under prepayment amounted to nil and US\$1.9 million, or Php87 million, as at December 31, 2016 and 2015, respectively.

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 Php781 million, Php864 million and Php761 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The outstanding receivables of PLDT and certain of its subsidiaries, which were presented as part of trade and other receivables, advances and other noncurrent assets – net of current portion in our consolidated statements of financial position, from these transactions amounted to Php1,416 million and Php1,588 million as at December 31, 2016 and 2015, respectively.

See Note 10 – Investments in Associates and Joint Ventures – Investment in MediaQuest PDRs and Sale of PCEV's Beacon Shares to MPIC and Note 19 – Prepayments – Agreement of PLDT and Smart with TV5 for other related party transactions.

4. Advances to VTI, Bow Arken and Brightshare

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 largest amounts of the advances outstanding to PLDT since the date of assignment to PLDT were: (i) Php11,038 million from VTI and its subsidiaries; (ii) Php238 million from Bow Arken and its subsidiaries; and (iii) Php83 million from Brightshare. The amounts of the advances outstanding to PLDT as at December 31, 2016

were: (i) Php12,332 million from VTI and its subsidiaries; (ii) Php248 million from Bow Arken and its subsidiaries; and (iii) Php83 million from Brightshare. The advances were presented as part of investments as at December 31, 2016. See *Note 10 – Investments in Associates and Joint Ventures – Investments of PLDT in VTI, Bow Arken and Brightshare* for other details.

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, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
		(in million pesos)	
Short-term employee benefits	527	602	768
Post-employment benefits (Note 26)	50	43	39
Other long-term employee benefits (Note 26)	–	–	14
Total compensation paid to key officers of the PLDT Group	577	645	821

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 Php57 million, Php55 million and Php45 million for the years ended December 31, 2016, 2015 and 2014, 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 accrued (prepaid) benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
	(in million pesos)		
Changes in the present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	21,602	23,072	19,497
Interest costs on benefit obligation	1,071	1,050	970
Service costs	1,066	1,113	986
Actuarial losses – experience	369	3	332
Actual benefits paid/settlements	(241)	(2,112)	(92)
Actuarial losses (gains) – economic assumptions	(694)	(1,414)	1,479
Curtailments and others (Note 5)	(31)	(110)	(100)
Present value of defined benefit obligations at end of the year	23,142	21,602	23,072
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	11,439	9,950	9,187
Actual contributions	5,708	7,086	5,510
Interest income on plan assets	600	519	489
Actual benefits paid/settlements	(241)	(2,112)	(92)
Return on plan assets (excluding amount included in net interest)	(5,546)	(4,004)	(5,144)
Fair value of plan assets at end of the year	11,960	11,439	9,950
Unfunded status – net	(11,182)	(10,163)	(13,122)
Accrued benefit costs	11,197	10,178	13,125
Prepaid benefit costs (Note 19)	15	15	3
	(in million pesos)		
Components of net periodic benefit costs:			
Service costs	1,066	1,113	986
Interest costs – net	471	531	481
Curtailment/settlement gain	–	(29)	(6)
Net periodic benefit costs (Note 5)	1,537	1,615	1,461

Actual net losses on plan assets amounted to Php4,946 million, Php3,485 million and Php4,655 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Based on the latest actuarial valuation, our expected contribution to the defined benefit plan in 2017 will amount to Php1,783 million.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at December 31, 2016:

	(in million pesos)
2017	313
2018	320
2019	450
2020	595
2021	831
2022 to 2060	95,637

The average duration of the defined benefit obligation at the end of the reporting period is 10 to 20 years.

The weighted average assumptions used to determine pension benefits for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Rate of increase in compensation	6.0%	6.0%	6.0%
Discount rate	5.3%	5.0%	4.5%

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 the end of the reporting period, assuming if all other assumptions were held constant:

	2016	
	Increase (Decrease)	
	(in million pesos)	
Discount rate	1%	(2,521)
	(1%)	2,951
Future salary increases	1%	2,899
	(1%)	(2,526)

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 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 invests 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 assesses 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, 2016 and 2015:

	2016	2015
	(in million pesos)	
Noncurrent Financial Assets		
<i>Investments in:</i>		
Unlisted equity investments	8,898	8,258
Shares of stock	2,426	2,621
Corporate bonds	106	-
Government securities	23	41
Investment properties	4	10
Mutual funds	3	61
Total noncurrent financial assets	11,460	10,991
Current Financial Assets		
Cash and cash equivalents	412	360
Receivables	4	5
Total current financial assets	416	365
Total PLDT's Plan Assets	11,876	11,356
Subsidiaries Plan Assets	84	83
Total Plan Assets of Defined Benefit Pension Plans	11,960	11,439

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, 2016 and 2015, this account consists of:

	2016	2015	2016	2015
	% of Ownership		(in million pesos)	
MediaQuest	100%	100%	8,267	7,672
Tahanan Mutual Building and Loan Association, Inc., or TMBLA, (net of subscriptions payable of Php32 million)	100%	100%	400	365
BTFHI	100%	100%	192	182
Superior Multi Parañaque Homes, Inc.	100%	100%	38	38
Bancholders, Inc., or Bancholders	100%	100%	1	1
			8,898	8,258

Investment 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.

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 give 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 May 30, 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 2015, the Board of Trustees of the Beneficial Trust Fund approved additional investments in MediaQuest amounting to Php5,500 million and Php5,090 million, respectively, to fund MediaQuest's investment requirements, which amounts were fully drawn by MediaQuest during the respective year of approval.

IAS 19 requires employee benefit plan assets to be measured at fair value. The fair values of the investments in MediaQuest were measured using an income approach valuation technique using cash flows projections based on financial budgets and forecasts approved by MediaQuest's Board of Directors, covering a five-year period from 2017 to 2021.

Other key assumptions used in the cash flow projections include revenue growth, operating margin 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 3.0% to 4.5% 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 value of this investment amounted to Php320 million and Php285 million as at December 31, 2016 and 2015, 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, 2016, 2015 and 2014. Dividend receivables amounted to Php2 million each as at December 31, 2016 and 2015.

Shares of Stocks

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(in million pesos)	
Common shares		
PSE	1,590	1,754
PLDT	36	54
Others	440	453
Preferred shares	360	360
	2,426	2,621

Dividends earned on PLDT common shares amounted Php3 million, Php2 million and Php5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Preferred shares represent 300 million unlisted preferred shares of PLDT at Php10 par value as at December 31, 2016 and 2015, net of subscription payable of Php2,640 million. 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 the year ended December 31, 2016 and Php49 million for each of the years ended December 31, 2015 and 2014.

Corporate Bonds

Investment in corporate bonds includes various long-term peso and dollar denominated bonds with maturities ranging from August 2019 to June 2024 and fixed interest rates from 4.38% to 6.94% per annum. Total investment in corporate bonds amounted to Php106 million as at December 31, 2016.

Government Securities

Investment in government securities includes Fixed Rate Treasury Notes bearing interest rates ranging from 5.87% to 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 Php23 million and Php41 million as at December 31, 2016 and 2015, respectively.

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 Php3 million and Php61 million as at December 31, 2016 and 2015, 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 and Php10 million as at December 31, 2016 and 2015, respectively.

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 allocation of the fair value of the assets for the PLDT pension plan as at December 31, 2016 and 2015 are as follows:

	2016	2015
Investments in listed and unlisted equity securities	95%	96%
Temporary cash investments	4%	3%
Debt and fixed income securities	1%	–
Investments in mutual funds	–	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, 2016 and 2015, 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, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
	(in million pesos)		
Changes in the present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of the year	2,116	2,149	1,685
Service costs	284	289	241
Interest costs on benefit obligation	94	98	92
Actuarial losses (gains) – economic assumptions	1	(67)	98
Actuarial losses (gains) – experience	(77)	(217)	75
Actual benefits paid/settlements	(226)	(96)	(42)
Curtailment and others	(15)	(40)	–
Present value of defined benefit obligations at end of the year	2,177	2,116	2,149
Changes in fair value of plan assets:			
Fair value of plan assets at beginning of the year	2,388	2,205	1,884
Actual contributions	201	227	261
Interest income on plan assets	125	92	92
Return on plan assets (excluding amount included in net interest)	(74)	(40)	10
Actual benefits paid/settlements	(226)	(96)	(42)
Fair value of plan assets at end of the year	2,414	2,388	2,205
Funded status – net (Note 19)	237	272	56
Accrued benefit costs	9	19	6
Prepaid benefit costs	246	291	62
Components of net periodic benefit costs:			
Service costs	284	289	241
Curtailment/settlement gain	(15)	(23)	–
Interest costs – net	(31)	7	–
Net periodic benefit costs (Note 5)	238	273	241

Smart's net consolidated pension benefit costs amounted to Php238 million, Php273 million and Php241 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Actual net gains on plan assets amounted to Php51 million, Php52 million and Php102 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Based on the latest actuarial valuation, Smart and certain of its subsidiaries expect to contribute the amount of approximately Php331 million to its defined benefit plan in 2017.

The following table sets forth the expected future settlements by the Plan of maturing defined benefit obligation as at December 31, 2016:

	(in million pesos)
2017	102
2018	78
2019	85
2020	136
2021	102
2022 to 2060	19,212

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, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Rate of increase in compensation	5.0%	5.0%	7.0%
Discount rate	5.2%	5.0%	4.5%

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, 2016, assuming if all other assumptions were held constant:

	Increase (Decrease)	
	(in million pesos)	
Discount rate	(1%)	(6)
	1%	15
Future salary increases	1%	15
	(1%)	(7)

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, 2016 and 2015:

	2016	2015
	(in million pesos)	
Noncurrent Financial Assets		
<i>Investments in:</i>		
Domestic fixed income	1,390	1,411
Philippine foreign currency bonds	478	352
International equities	475	460
Domestic equities	379	424
International fixed income	163	–
Total noncurrent financial assets	2,885	2,647
Current Financial Assets		
Cash and cash equivalents	237	431
Receivables	1	4
Total current financial assets	238	435
Total plan assets	3,123	3,082
Employee's share, forfeitures and mandatory reserve account	709	694
Total Plan Assets of Defined Contribution Plans	2,414	2,388

Domestic Fixed Income

Investments in domestic fixed income include Philippine peso denominated bonds, such as government securities and corporate debt securities, and a local fixed income fund. The Philippine peso denominated bonds earned between 2.80% and 11.25% interest for the years ended December 31, 2016 and 2015. Total investments in domestic fixed income amounted to Php1,390 million and Php1,411 million as at December 31, 2016 and 2015, 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, and a U.S. dollar denominated fixed income fund. The investments under this category earned between 3.70% and 10.62% interest for the years ended December 31, 2016 and 2015. Total investment in Philippine foreign currency bonds amounted to Php478 million and Php352 million as at December 31, 2016 and 2015, respectively.

International Equities

Investments in international equities include mutual funds managed by ING International and a U.S. dollar denominated global equity fund. Total investment in international equities amounted to Php475 million and Php460 million as at December 31, 2016 and 2015, 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 Php379 million and Php424 million as at December 31, 2016 and 2015, respectively. This includes investment in PLDT shares with fair value of Php11 million and Php31 million as at December 31, 2016 and 2015, respectively.

International Fixed Income

Investments in international fixed income include mutual funds which are invested in diversified portfolios of high-yield foreign currency denominated bonds. Total investments in international fixed income amounted to Php163 million and nil as at December 31, 2016 and 2015, 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 invests 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 assesses 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, 2016 and 2015 is as follows:

	2016	2015
Investments in debt and fixed income securities and others	73%	71%
Investments in listed and unlisted equity securities	27%	29%
	100%	100%

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 LGU. As at December 31, 2016, 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 contested the imposition of local business taxes in addition to local franchise tax by the City of Tuguegarao for the years 2006 to 2011 by filing a Petition with the Regional Trial Court, or RTC, of the City of Makati on July 8, 2011. In an order dated October 12, 2012, the RTC, following a Motion to Dismiss filed by the City of Tuguegarao, dismissed the petition for lack of jurisdiction. Upon denial of its Motion for Reconsideration, PLDT filed a Petition for Review before the Court of Tax Appeals, or CTA, which dismissed the said Petition and upheld the decision of the RTC. On July 28, 2014, PLDT filed a Motion for Reconsideration which was also denied by the CTA. PLDT filed a Petition before the CTA En Banc on November 3, 2014. On June 17, 2016, CTA En Banc affirmed the Decision of CTA Division and dismissed the petition for lack of jurisdiction. PLDT filed its Motion for Reconsideration on the said Decision of CTA En Banc last July 12, 2016. Said motion for reconsideration was denied by CTA En Banc in a Resolution dated November 15, 2016. PLDT will appeal the case before the Supreme Court.

PLDT also contested the imposition of local business tax in addition to local franchise tax by the City of Tuguegarao for the years 2012 to 2014. The case was filed on January 14, 2015 before the Second Judicial Region of Tuguegarao City. Upon motion by both parties and considering that the case involves legal issues, the Court issued an Order terminating the pre-trial conference and ordering the parties to submit their respective Memorandum last July 27, 2016 and the case is now submitted for decision. On November 3, 2016, PLDT received a Judgment dated September 26, 2016 issued by the Court in favor of the City of Tuguegarao. PLDT filed its Motion for Reconsideration on the said Judgment last November 18, 2016.

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 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 Temporary Restraining Order 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 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.

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 Court of Tax Appeals seeking to reverse the Decision. Smart has already filed its Comment to the Petition and awaiting for further orders from the Court.

Digitel's Franchise Tax Assessment and Real Property Tax Assessment

In the case of *Digitel vs. Province of Pangasinan* (G.R. No. 152534, February 23, 2007), the Supreme Court held that Digitel is liable to the Province of Pangasinan for franchise tax from November 13, 1992 and real property tax only on real properties not actually, directly and exclusively used in the franchise operations from February 17, 1994. Digitel has fully settled its obligation with the Province of Pangasinan with respect to franchise tax and is currently in talks with the Province for the settlement of the real property tax.

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. The CTA ordered the City of Cotabato to file their Comment.

In the *DMPI vs. City of Davao*, DMPI filed in 2011 a Petition for Prohibition and Mandamus and sought the Court's intervention due to the threats issued by the City of Davao to stop the operations of DMPI business centers in the locality due to lack of business permits. DMPI contended that the City of Davao's act of refusing to process its applications due to failure to pay real property taxes and business taxes is unwarranted. Davao's Legal Officer and City Assessor confirmed that DMPI's machinery is exempt from real property tax. On March 20, 2015, the Court has approved DMPI's Motion which prayed for the dismissal of the case.

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. The judicial dispute resolution for the case has been terminated. The Pre-Trial Conference is set on June 15, 2017. The parties are still exploring options to settle the matter amicably.

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.

Globe Telecom, et al. vs. City of Lipa – In 2006, Globe filed a Protest of Assessment questioning the act of the City of Lipa in assessing tower fees for its sites amounting to Php105 thousand per year. Smart, Digitel and DMPI submitted a joint memorandum in June 2013 pertaining to the issue. However, the Sangguniang Panglungsod has since repealed the ordinance, and issued instead Tax Ordinance No. 177, which imposes a one-time regulatory fee of Php50 thousand for every tower to be constructed in the City of Lipa. The Joint Motion to Dismiss filed by Smart and DMPI on June 8, 2015 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 until full payment. 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. No outstanding Letter of Authority for other years.

Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI

Since 1990, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into compromise agreements in the past (one in February 1990, and another one in March 1999), these agreements have not put to rest their issues against each other. Accordingly, to avoid further protracted litigation and improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other) ETPI, on one hand, submitted its claims with a cap of Php2.8 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Pursuant to an agreement between PLDT and ETPI, the arbitration proceedings were suspended and eventually terminated.

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

On June 29, 2011, the Supreme Court of the Philippines, or the Court, promulgated a Decision in the case of *Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al. (G.R. No. 176579)* (the “Gamboa Case”), holding 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)”. This decision reversed earlier opinions issued by the Philippine SEC that non-voting preferred shares are included in the computation of the 60%-40% Filipino-alien equity requirement of certain economic activities, such as telecommunications (which is a public utility under Section 11, Article XII of the 1987 Constitution).

Although PLDT is not a party to the Gamboa Case, in its decision, the Court 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 1987 Constitution, to impose the appropriate sanctions under the law.” Although the parties to the Gamboa Case filed Motions for Reconsideration of the decision and argued their positions before the Court, the Court ultimately denied the motions on October 9, 2012.

Meanwhile, on July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of Amended Articles of Incorporation of PLDT, or the Amendments to the Articles, which subclassified its authorized preferred capital into preferred shares with full voting rights, or Voting Preferred Shares, and serial preferred shares without voting rights. The Amendments to the Articles were subsequently approved by the stockholders of PLDT and the Philippine SEC.

On October 15, 2012, PLDT and BTFHI, a Filipino corporation and a wholly-owned company of The Board of Trustees for the Account of the Beneficial Trust Fund created pursuant to the PLDT’s Benefit Plan, entered into a Subscription Agreement, pursuant to which PLDT issued 150 million Voting Preferred Shares to BTFHI at Php1.00 per share reducing the percentage of PLDT’s voting stock held by foreigners from 56.62% (based on Voting Common Stock) as at October 15, 2012 to 18.37% (based on Voting Common and Preferred Stock) as at April 15, 2013.

On May 20, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, Series of 2013, or the Philippine SEC Guidelines MC No. 8, which we believe was intended to fulfill the Court’s directive to the Philippine SEC in the Gamboa Case. The Philippine SEC Guidelines provided 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.” PLDT believes it was, and continues to be, compliant with the Philippine SEC Guidelines. As at April 21, 2017, PLDT’s foreign ownership was 31.01% of its outstanding shares entitled to vote (Common and Voting Preferred Shares), and 28.01% of its total outstanding capital stock. Therefore, we believe that as at April 21, 2017, PLDT is in compliance with the requirement of Section 11, Article XII of the 1987 Constitution.

On June 10, 2013, Jose M. Roy III filed a petition for certiorari with the Supreme Court against the Philippine SEC, Philippine SEC Chairperson Teresita Herbosa and PLDT, claiming: (1) that the Philippine SEC Guidelines violates the Court’s decision in the Gamboa Case (on the basis 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 corporations subject to the foreign ownership requirements); 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, cannot be considered Filipino-owned corporations.

PLDT raised several procedural and substantive arguments against the petition, including in particular, that (a) the Philippine SEC Guidelines merely implemented the dispositive portion of the decision in the Gamboa Case, and that the dispositive portion of the Gamboa Case that defines “capital” is properly reflected in the Philippine SEC Guidelines, and (b) the fundamental requirements which need to be satisfied in order for PLDT Beneficial Trust Fund and BTFHI to be considered Filipino (for PLDT Beneficial Trust Fund’s Trustees to be Filipinos and for 60% of the Fund to accrue to the benefit of Philippine nationals) are satisfied with respect to the PLDT Beneficial Trust Fund, and therefore, PLDT Beneficial Trust Fund and BTFHI are Filipino shareholders for purposes of classifying their 150 million Voting Preferred Shares in PLDT. As a result, more than 60% of PLDT’s total voting stock is Filipino-owned and PLDT is compliant with the Constitutional ownership requirements.

In 2013, the Philippine SEC and Chairperson Teresita Herbosa also raised a number of arguments for dismissal of the petition for being procedurally flawed and for lack of merit.

In May 2014, the petitioner filed a consolidated reply and a motion for the issuance of a temporary restraining order to prevent PLDT from holding its 2014 annual stockholders meeting. The temporary restraining order was denied and PLDT held its 2014 annual meeting on June 10, 2014 as scheduled.

On February 10, 2015, PLDT filed a consolidated memorandum setting forth its arguments against the petition.

The Supreme Court, in a Resolution dated June 14, 2016, granted the Omnibus Motion: (i) for Leave to Intervene; and (ii) to Admit Comment-in-Intervention, dated May 30, 2016, filed by counsel for Intervenor Shareholders Association of the Philippines, Inc., or Sharephil, noted the aforesaid Comment-in-Intervention, and required the adverse parties to file a Reply to the Comment-in-Intervention within a non-extendible period of 10 days from receipt thereof. On July 5, 2016, PLDT was furnished a copy of the Opposition and Reply to Interventions of the PSE and Sharephil dated June 30, 2016 and filed by Petitioner Jose M. Roy III.

The Supreme Court, in a Decision dated November 22, 2016, dismissed the petitions filed by Jose M. Roy III and other petitioners-in-intervention against Philippine SEC Chairperson, Teresita Herbosa (the “Decision”). The Decision upheld the validity of the Philippine SEC Guidelines MC No. 8, or MC No. 8, which requires public utility corporations to maintain at least 60% Filipino ownership in both its “total number of outstanding shares of stock entitled to vote in the election of directors” and its “total number of outstanding shares of stock, whether or not entitled to vote in the election of directors” and declared the same to be compliant with the Court’s ruling in the Gamboa Case. Consequently, the Court ruled that MC No. 8 cannot be said to have been issued with grave abuse of discretion.

In the course of discussing the petitions, 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 the petitioners’ suggestion would “effectively and unwarrantedly amend or change” the Court’s ruling in the Gamboa Case. 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/prepayment, 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 “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.”

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, or the “Bandwidth Agreement; (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.

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, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, 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, 2016 and 2015:

	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, 2016								
<i>Noncurrent:</i>								
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
<i>Current:</i>								
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								
<i>Noncurrent:</i>								
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
<i>Current:</i>								
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)
Assets as at December 31, 2015								
<i>Noncurrent:</i>								
Available-for-sale financial investments	–	–	–	–	–	15,711	–	15,711
Investment in debt securities and other long-term investments – net of current portion	–	595	357	–	–	–	–	952
Derivative financial assets – net of current portion	–	–	–	–	145	–	–	145
Advances and other noncurrent assets – net of current portion	–	2,580	–	–	–	–	–	2,580
<i>Current:</i>								
Cash and cash equivalents	46,455	–	–	–	–	–	–	46,455

	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)								
Short-term investments	-	744	-	685	-	-	-	1,429
Trade and other receivables	-	24,898	-	-	-	-	-	24,898
Current portion of derivative financial assets	-	-	-	10	16	-	-	26
Current portion of investment in debt securities and other long-term investments	-	-	51	-	-	-	-	51
Current portion of advances and other noncurrent assets	-	7,936	-	-	-	-	-	7,936
Total assets	46,455	36,753	408	695	161	15,711	-	100,183
Liabilities as at December 31, 2015								
Noncurrent:								
Interest-bearing financial liabilities – net of current portion	-	-	-	-	-	-	143,982	143,982
Derivative financial liabilities – net of current portion	-	-	-	659	77	-	-	736
Customers' deposits	-	-	-	-	-	-	2,430	2,430
Deferred credits and other noncurrent liabilities	-	-	-	-	-	-	19,788	19,788
Current:								
Accounts payable	-	-	-	-	-	-	51,542	51,542
Accrued expenses and other current liabilities	-	-	-	-	-	-	66,844	66,844
Current portion of interest-bearing financial liabilities	-	-	-	-	-	-	16,911	16,911
Dividends payable	-	-	-	-	-	-	1,461	1,461
Current portion of derivative financial liabilities	-	-	-	22	284	-	-	306
Total liabilities	-	-	-	681	361	-	302,958	304,000
Net assets (liabilities)	46,455	36,753	408	14	(200)	15,711	(302,958)	(203,817)

The following table sets forth our consolidated offsetting of financial assets and liabilities recognized as at December 31, 2016 and 2015:

	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, 2016			
Current Financial Assets			
<i>Trade and other receivables</i>			
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			
<i>Accounts payable</i>			
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
December 31, 2015			
Current Financial Assets			
<i>Trade and other receivables</i>			
Foreign administrations	9,623	4,424	5,199
Domestic carriers	12,777	12,323	454
Total	22,400	16,747	5,653
Current Financial Liabilities			
<i>Accounts payable</i>			
Suppliers and contractors	46,532	45	46,487
Carriers and other customers	9,109	6,095	3,014
Total	55,641	6,140	49,501

There are no financial instruments subject to an enforceable master netting arrangement as at December 31, 2016 and 2015.

The following table sets forth our consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at December 31, 2016 and 2015 other than those whose carrying amounts are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	2016	2015	2016	2015
	(in million pesos)			
Noncurrent Financial Assets				
Investment in debt securities and other long-term investments	374	952	377	972
Advances and other noncurrent assets	9,152	2,580	7,743	2,305
Total	9,526	3,532	8,120	3,277
Noncurrent Financial Liabilities				
<i>Interest-bearing financial liabilities:</i>				
Long-term debt	151,759	143,982	146,654	145,731
Customers' deposits	2,431	2,430	1,879	1,868
Deferred credits and other noncurrent liabilities	13,720	19,788	12,457	17,973
Total	167,910	166,200	160,990	165,572

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, 2016 and 2015. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

	2016			2015		
	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	10,173	–	10,173	14,695	–	14,695
Derivative financial assets – net of current portion	–	499	499	–	145	145
Current Financial Assets						
Short-term investments	–	2	2	–	685	685
Current portion of derivative financial assets	–	242	242	–	26	26
Total	10,173	743	10,916	14,695	856	15,551
Noncurrent Financial Liabilities						
Derivative financial liabilities	–	2	2	–	736	736
Current Financial Liabilities						
Derivative financial liabilities	–	225	225	–	306	306
Total	–	227	227	–	1,042	1,042

⁽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, 2016 and 2015, 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, 2016 and 2015, there were no transfers into and out of Level 3 fair value measurements.

As at December 31, 2016 and 2015, 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 2
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-F (valid until March 31, 2015) and PDST-R2* (valid after March 31, 2015) 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

* PDST-F was replaced by PDST-R2 on April 1, 2015 per BAP Memo dated January 8, 2015.

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, 2016 and 2015, 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, 2016 and 2015:

	Original Notional Amount	Trade Date	Underlying Transaction in U.S. Dollar	Termination Date	Weighted Average Hedge Cost	Weighted Average Foreign Exchange Rate in Php	2016		2015	
							Notional	Net Mark-to-market Gains (Losses)	Notional	Net Mark-to-market Gains (Losses)
	(in millions)		(in millions)				(in millions)			
<i>Transactions not designated as hedges:</i>										
PLDT										
Long-term currency swaps	US\$262	2001 and 2002	300 Notes 2017	March 6, 2017	3.42%	49.85	US\$202	Php1	US\$202	(Php655)
Forward foreign exchange contracts		Various dates in 2015	U.S. dollar liabilities	Various dates in 2015 and 2016	-	46.97	-	-	22	6
		Various dates in 2016	U.S. dollar liabilities	Various dates in 2016	-	-	-	-	-	-
	3	October 2016	U.S. dollar liabilities	November 29, 2016	-	-	-	-	-	-
	6	February 15, 2017	U.S. dollar liabilities	March 3, 2017	-	49.95	-	-	-	-
		April 2017	U.S. dollar liabilities	Various dates in 2017	-	49.97	-	-	-	-
Smart										
Forward foreign exchange contracts		March and May 2015	200 Mizuho facility	Various dates in 2015	-	44.83	-	-	-	-
		Various dates in 2015	U.S. dollar liabilities	Various dates in 2015 and 2016	-	46.95	-	-	13	4
		Various dates in 2016	U.S. dollar liabilities	Various dates in 2016	-	47.01	-	-	-	-
		August and September 2016	U.S. dollar liabilities	Various dates in 2017	-	46.79	48	50	-	-
	8	October and November 2016	U.S. dollar liabilities	January 2017	-	48.46	-	-	-	-
	7	Various dates in 2017	U.S. dollar liabilities	Various dates in 2017	-	50.05	-	-	-	-
	11	March to April 2017	U.S. dollar liabilities	Various dates in 2017	-	50.09	-	-	-	-
Foreign exchange options	5 ^(a)	August 10, 2016	U.S. dollar liabilities	November 14, 2016	-	46.82	-	-	-	-
						46.90				
	6 ^(b)	October 2016	U.S. dollar liabilities	April 2017	-	47.98	11	4	-	-
						47.96				
						48.75				
	3 ^(c)	Various dates in 2017	U.S. dollar liabilities	July 2017	-	49.75	-	-	-	-
						50.50				
						51.50				
	15 ^(d)	March to April 2017	U.S. dollar liabilities	Various dates in 2017	-	50.10	-	-	-	-
						50.60				
						51.34				
DMPI										
Interest rate swaps	54	October 7, 2008	59 loan facility	March 30, 2017	3.88%	-	3	(2)	10	(14)
	47	October 7, 2008	51 loan facility	June 30, 2017	3.97%	-	3	(3)	9	(12)
							Php50		(Php671)	
<i>Transactions designated as hedges:</i>										
PLDT										
Interest rate swaps ^(d)	30	January 23, 2015	150 term loan	March 7, 2017	2.11%	-	US\$8	Php-	US\$23	Php2
	240	2013 and 2015	300 term loan	January 16, 2018	2.17%	-	100	9	167	10
	100	August 2014	100 PNB	August 21, 2020	3.46%	-	98	(50)	99	(86)
	50	September 2014	50 MBTC	September 2, 2020	3.47%	-	49	(29)	50	(47)
	150	April and June 2015	200 term loan	February 25, 2022	2.70%	-	150	(35)	150	(95)
Long-term currency swaps ^(e)	140	October 2015 to June 2016	300 term loan	January 16, 2018	2.20%	46.67	94	230	90	18
	4	January 2017	100 PNB	August 11, 2020	1.01%	49.79	-	-	-	-
	2	April 2017	200 BTMU	August 26, 2019	1.48%	49.41	-	-	-	-
Smart										
Interest rate swaps ^(f)	45	May 8, 2013	60 loan facility	June 6, 2016	1.53%	-	-	-	7	-
	38	May 9, 2013	50 loan facility	August 19, 2016	1.43%	-	-	-	13	1
	44	May 16, 2013	50 loan facility	May 29, 2017	1.77%	-	6	1	17	2
	110	Various dates in 2013 and 2014	120 loan facility	June 20, 2018	2.22%	-	45	9	75	6
	85	Various dates in 2014 and 2015	100 loan facility	March 7, 2019	2.23%	-	49	6	68	(9)
	50	October 2, 2014	50 loan facility	May 14, 2019	2.58%	-	28	-	39	(10)
	200	Various dates in 2015	200 loan facility	March 4, 2020	2.10%	-	156	39	200	1
	30	February 2016	100 loan facility	December 7, 2021	2.03%	-	30	22	-	-
	100	Various dates in 2015	200 loan facility	March 5, 2018	2.21%	46.66	60	155	100	7
	45	Various dates in 2016	100 loan facility	December 7, 2018	1.93%	46.55	36	107	-	-
	6	Various dates in 2017	80 loan facility	May 31, 2018	1.10%	49.80	-	-	-	-
	3	April 2017	80 Chinabank	May 31, 2018	1.50%	49.63	-	-	-	-
							464		(200)	
							Php514		(Php871)	

- (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 Php48.75 to Php49.75, Smart will purchase the U.S. dollar for Php48.75. However, if on maturity, the exchange rate settles above Php49.75, Smart will purchase the U.S. dollar for Php48.75 plus the excess above Php49.75, and if the exchange rate is lower than Php48.75, Smart will purchase the U.S. dollar at the prevailing Philippine peso to U.S. dollar spot exchange rate, subject to a floor of Php47.96.
- (c) If the Philippine peso to U.S. dollar spot exchange rate on the maturity date settles between Php50.50 to Php51.50, Smart will purchase the U.S. dollar for Php50.50. However, if on maturity, the exchange rate settles above Php51.50, Smart will purchase the U.S. dollar for Php50.50 plus the excess above Php51.50, and if the exchange rate is lower than Php50.50, Smart will purchase the U.S. dollar at the prevailing Philippine peso to U.S. dollar spot exchange rate, subject to a floor of Php49.34.
- (d) PLDT's interest rate swap agreements outstanding as at December 31, 2016 and 2015 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 losses amounting to Php82 million and Php172 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2016 and 2015, respectively. Interest accrual on the interest rate swaps amounting to Php23 million and Php44 million were recorded as at December 31, 2016 and 2015, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the years ended December 31, 2016 and 2015.
- (e) PLDT's long-term principal only-currency swap agreements entered into in 2015 and 2016 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 Php275 million and Php18 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2016 and 2015, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php45 million and nil were recognized as at December 31, 2016 and 2015, 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 Php8 million and nil were recognized in our consolidated income statements for the years ended December 31, 2016 and 2015, respectively.
- (f) Smart's interest swap agreements outstanding as at December 31, 2016 and 2015 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 loss amounting to Php79 million and mark-to-market gain amounting to Php14 million were recognized in our consolidated statements of other comprehensive income as at December 31, 2016 and 2015, respectively. Interest accrual on the interest rate swaps amounting to Php2 million and Php23 million were recognized as at December 31, 2016 and 2015, respectively. There were no ineffective portion in the fair value recognized in our consolidated income statements for the years ended December 31, 2016 and 2015.
- (g) Smart's long-term principal only-currency swap agreements outstanding as at December 31, 2016 and 2015 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 Php284 million and Php27 million were recognized in our consolidated

statements of other comprehensive income as at December 31, 2016 and 2015, respectively. Hedge cost accrual on the long-term principal only-currency swaps amounting to Php22 million and Php20 million were recognized as at December 31, 2016 and 2015, 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 Php9 million and nil were recognized in our consolidated income statements for the years ended December 31, 2016 and 2015, respectively.

	2016	2015
	(in million pesos)	
Presented as:		
Noncurrent assets	499	145
Current assets	242	26
Noncurrent liabilities	(2)	(736)
Current liabilities	(225)	(306)
Net assets (liabilities)	514	(871)

Movements of our consolidated mark-to-market gains (losses) for the years ended December 31, 2016 and 2015 are summarized as follows:

	2016	2015
	(in million pesos)	
Net mark-to-market losses at beginning of the year	(871)	(1,618)
Gains on derivative financial instruments (Note 4)	1,539	781
Settlements, accretions and conversions	141	320
Net fair value gains on cash flow hedges charged to other comprehensive income	76	5
Effective portion recognized in the profit or loss for the cash flow hedges	(371)	(359)
Net mark-to-market gains (losses) at end of the year	514	(871)

Our consolidated analysis of gains (losses) on derivative financial instruments for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015	2014
	(in million pesos)		
Gains on derivative financial instruments (Note 4)	1,539	781	208
Hedge costs	(543)	(361)	(309)
Net gains (losses) on derivative financial instruments	996	420	(101)

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, managed funds and other structured products linked to the Republic of the Philippines. 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 Php38,722 million and Php2,738 million, respectively, as at December 31, 2016, 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, 2016 and 2015:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
(in million pesos)					
December 31, 2016					
<i>Cash equivalents</i>	32,338	32,338	–	–	–
<i>Loans and receivables:</i>	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	–	–	–
<i>HTM investments:</i>	352	202	–	150	–
Investment in debt securities and other long-term investments	352	202	–	150	–
<i>Financial instruments at FVPL:</i>	2	2	–	–	–
Short-term investments	2	2	–	–	–
<i>Available-for-sale financial investments</i>	12,189	–	1,000	–	11,189
Total	108,467	86,542	5,951	4,633	11,341
December 31, 2015					
<i>Cash equivalents</i>	39,103	39,103	–	–	–
<i>Loans and receivables:</i>	52,875	49,499	2,697	516	163
Advances and other noncurrent assets	10,717	7,936	2,102	516	163
Short-term investments	744	744	–	–	–
Investment in debt securities and other long-term investments	595	–	595	–	–
Retail subscribers	19,750	19,750	–	–	–
Corporate subscribers	9,263	9,263	–	–	–
Foreign administrations	5,514	5,514	–	–	–
Domestic carriers	540	540	–	–	–
Dealers, agents and others	5,752	5,752	–	–	–
<i>HTM investments:</i>	408	51	207	150	–
Investment in debt securities and other long-term investments	408	51	207	150	–
<i>Financial instruments at FVPL:</i>	685	685	–	–	–
Short-term investments	685	685	–	–	–
<i>Available-for-sale financial investments</i>	15,711	–	–	–	15,711
Total	108,782	89,338	2,904	666	15,874

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, 2016 and 2015:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
(in million pesos)					
December 31, 2016					
<i>Debt</i> ⁽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
<i>Lease obligations</i> :	18,456	10,734	3,581	1,972	2,169
Operating lease	18,456	10,734	3,581	1,972	2,169
<i>Other obligations</i> :	134,057	117,717	1,793	12,593	1,954
Derivative financial liabilities ⁽²⁾ :	247	106	141	-	-
Long-term currency swap	100	100	-	-	-
Interest rate swap	147	6	141	-	-
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
December 31, 2015					
<i>Debt</i> ⁽¹⁾ :	195,603	1,716	78,007	41,890	73,990
Principal	161,568	1,411	61,847	34,355	63,955
Interest	34,035	305	16,160	7,535	10,035
<i>Lease obligations</i> :	17,920	10,161	3,640	2,003	2,116
Operating lease	17,919	10,160	3,640	2,003	2,116
Finance lease	1	1	-	-	-
<i>Other obligations</i> :	139,148	110,874	23,378	3,012	1,884
Derivative financial liabilities ⁽²⁾ :	6,067	10	6,050	7	-
Long-term currency swap	5,670	-	5,670	-	-
Interest rate swap	397	10	380	7	-
Various trade and other obligations:	133,081	110,864	17,328	3,005	1,884
Suppliers and contractors	66,229	46,487	16,788	2,954	-
Utilities and related expenses	38,155	38,155	-	-	-
Liability from redemption of preferred shares	7,906	7,906	-	-	-
Employee benefits	6,262	6,262	-	-	-
Carriers and other customers	3,014	3,014	-	-	-
Customers' deposits	2,430	-	495	51	1,884
Dividends	1,461	1,461	-	-	-
Others	7,624	7,579	45	-	-
Total contractual obligations	352,671	122,751	105,025	46,905	77,990

⁽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.

The consolidated future minimum lease commitments payable with non-cancellable operating leases as at December 31, 2016 and 2015 are as follows:

	2016	2015
	(in million pesos)	
Within one year	10,911	10,318
After one year but not more than five years	5,376	5,485
More than five years	2,169	2,116
Total	18,456	17,919

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 Php133,810 million and Php133,081 million as at December 31, 2016 and 2015, respectively. See *Note 23 – Accounts Payable* and *Note 24 – Accrued Expenses and Other Current Liabilities*.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php6,788 million and Php46 million as at December 31, 2016 and 2015, respectively. These commitments will expire within one year. The amount in 2016 includes standby letters of credit issued in relation with PLDT's acquisition of VTI, Bow Arken and Brightshare as at December 31, 2016. 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, 2016 and 2015.

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 indebtedness and related interest expense, a substantial portion of our capital expenditures 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, 2016 and 2015:

	2016		2015	
	U.S. Dollar	Php ⁽¹⁾	U.S. Dollar	Php ⁽²⁾
	(in millions)			
Noncurrent Financial Assets				
Investment in debt securities and other long-term investments	7	348	26	1,206
Derivative financial assets – net of current portion	10	499	3	145
Advances and other noncurrent assets – net of current portion	–	18	–	16
Total noncurrent financial assets	17	865	29	1,367
Current Financial Assets				
Cash and cash equivalents	419	20,847	379	17,874
Short-term investments	55	2,720	24	1,156
Trade and other receivables – net	158	7,853	142	6,690
Current portion of derivative financial assets	5	242	1	26
Current portion of advances and other noncurrent assets	–	8	–	19
Total current financial assets	637	31,670	546	25,765
Total Financial Assets	654	32,535	575	27,132
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	680	33,831	1,104	52,040
Derivative financial liabilities – net of current portion	–	2	16	736
Other noncurrent liabilities	–	5	–	6
Total noncurrent financial liabilities	680	33,838	1,120	52,782
Current Financial Liabilities				
Accounts payable	191	9,477	99	4,685
Accrued expenses and other current liabilities	171	8,513	153	7,216
Current portion of interest-bearing financial liabilities	496	24,671	341	16,058
Current portion of derivative financial liabilities	5	225	7	306
Total current financial liabilities	863	42,886	600	28,265
Total Financial Liabilities	1,543	76,724	1,720	81,047

⁽¹⁾ 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.

⁽²⁾ The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php47.12 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2015.

As at April 25, 2017, the Philippine peso-U.S. dollar exchange rate was Php49.71 to US\$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have decreased in Philippine peso terms by Php53 million as at December 31, 2016.

Approximately 31% and 42% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at December 31, 2016 and 2015, respectively. Consolidated foreign currency-denominated debt decreased to Php58,192 million as at December 31, 2016 from Php67,620 million as at December 31, 2015. See Note 21 – *Interest-bearing Financial Liabilities*. The aggregate notional amount of our consolidated outstanding long-term principal only-currency swap contracts was US\$392 million as at December 31, 2016 and 2015. Consequently, the unhedged portion of our consolidated debt amounts was approximately 19% (or 8%, net of our consolidated U.S. dollar cash balances allocated for debt) and 30% (or 17%, net of our consolidated U.S. dollar cash balances) as at December 31, 2016 and 2015, respectively.

Approximately, 16% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the year ended December 31, 2016 as compared with approximately 18% for the year ended December 31, 2015. Approximately, 9% of our consolidated expenses were denominated in U.S. dollars and/or linked to the U.S. dollar in 2016 and 2015. 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 5.62% against the U.S. dollar to Php49.77 to US\$1.00 as at December 31, 2016 from Php47.12 to US\$1.00 as at December 31, 2015. As at December 31, 2015, the Philippine peso depreciated by 5.32% against the U.S. dollar to Php47.12 to US\$1.00 from Php44.74 to US\$1.00 as at December 31, 2014. 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 Php2,785 million, Php3,036 million and Php382 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Management conducted a survey among our banks to determine the outlook of the Philippine peso-U.S. dollar exchange rate until December 31, 2017. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 2.67% as compared to the exchange rate of Php49.77 to US\$1.00 as at December 31, 2016. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 2.67% as at December 31, 2016, with all other variables held constant, profit after tax for the year ended December 31, 2016 would have been approximately Php639 million lower/higher and our consolidated stockholders' equity as at December 31, 2016 would have been approximately Php555 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 and short-term borrowings 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, 2016 and 2015. Financial instruments that are not subject to interest rate risk were not included in the table.

As at December 31, 2016

	In U.S. Dollars					Total	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value		
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years				In U.S. Dollar	In Php	
(in millions)											
Assets:											
<i>Investment in Debt Securities and Other Long-term Investments</i>											
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%	-	-	-	-	-	-	-
<i>Cash in Bank</i>											
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%	-	-	-	-	-	-	-	-	-	-
<i>Temporary Cash Investments</i>											
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%	-	-	-	-	-	-	-	-	-	-
<i>Short-term Investments</i>											
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:											
<i>Long-term Debt</i>											
<i>Fixed Rate</i>											
U.S. Dollar Notes	228	-	-	-	-	228	11,366	4	11,362	233	11,606
Interest rate	8.3500%	-	-	-	-	-	-	-	-	-	-
U.S. Dollar	5	42	9	15	4	75	3,726	20	3,706	77	3,813
Fixed Loans											
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%	-	-	-	-	-	-
<i>Variable Rate</i>											
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

As at December 31, 2015

	In U.S. Dollars					Total	In Php	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years					In U.S. Dollar	In Php
(in millions)											
Assets:											
<i>Investment in Debt Securities and Other Long-term Investments</i>											
U.S. Dollar	-	11	2	-	-	13	596	-	596	13	605
Interest rate	-	4.0000% to 10.0000%	3.5000%	-	-	-	-	-	-	-	-
Philippine Peso	-	5	-	3	-	8	407	-	407	9	418
Interest rate	-	4.2500%	-	4.8400%	-	-	-	-	-	-	-
<i>Cash in Bank</i>											
U.S. Dollar	35	-	-	-	-	35	1,651	-	1,651	35	1,651
Interest rate	0.0100% to 1.0000%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	82	-	-	-	-	82	3,880	-	3,880	82	3,880
Interest rate	0.0010% to 2.0000%	-	-	-	-	-	-	-	-	-	-
Other Currencies	1	-	-	-	-	1	24	-	24	1	24
Interest rate	0.0100% to 0.5000%	-	-	-	-	-	-	-	-	-	-
<i>Temporary Cash Investments</i>											
U.S. Dollar	315	-	-	-	-	315	14,829	-	14,829	315	14,829
Interest rate	0.2500% to 4.7500%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	515	-	-	-	-	515	24,274	-	24,274	515	24,274
Interest rate	0.2500% to 4.6875%	-	-	-	-	-	-	-	-	-	-
<i>Short-term Investments</i>											
U.S. Dollar	24	-	-	-	-	24	1,156	-	1,156	24	1,156
Interest rate	2.1622% to 3.9940%	-	-	-	-	-	-	-	-	-	-
Philippine Peso	6	-	-	-	-	6	273	-	273	6	273
Interest rate	1.5000%	-	-	-	-	-	-	-	-	-	-
	978	16	2	3	-	999	47,090	-	47,090	1,000	47,110
Liabilities:											
<i>Long-term Debt</i>											
<i>Fixed Rate</i>											
U.S. Dollar Notes	-	228	-	-	-	228	10,761	29	10,732	247	11,617
Interest rate	-	8.3500%	-	-	-	-	-	-	-	-	-
U.S. Dollar	5	51	42	17	11	126	5,945	41	5,904	134	6,298
<i>Fixed Loans</i>											
Interest rate	1.9000%	1.4100% to 3.9550%	1.4100% to 3.9550%	1.4100% to 3.9550%	2.8850%	-	-	-	-	-	-
Philippine Peso	-	205	21	337	1,243	1,806	85,100	171	84,929	1,803	84,965
Interest rate	-	4.4850% to 6.2600%	4.4850% to 6.2600%	4.4850% to 6.2600%	4.5500% to 6.2600%	-	-	-	-	-	-
<i>Variable Rate</i>											
U.S. Dollar	25	542	217	273	34	1,091	51,397	413	50,984	1,091	51,396
Interest rate	0.8500% to 1.0000% over LIBOR	0.3000% to 1.8000% over LIBOR	0.7900% to 1.8000% over LIBOR	0.7900% to 1.4500% over LIBOR	0.9500% over LIBOR	-	-	-	-	-	-
Philippine Peso	-	4	2	102	70	178	8,365	22	8,343	177	8,365
Interest rate	-	BSP overnight rate - 0.3500% to BSP overnight rate	BSP overnight rate - 0.3500% to BSP overnight rate	BSP overnight rate - 0.3500% to BSP overnight rate	BSP overnight rate - 0.3500% to BSP overnight rate	-	-	-	-	-	-
	30	1,030	282	729	1,358	3,429	161,568	676	160,892	3,452	162,641

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 28% and 38% of our consolidated debts were variable rate debts as at December 31, 2016 and 2015, respectively. Consolidated variable rate debt decreased to Php51,690 million as at December 31, 2016 from Php62,117 million as at December 31, 2015. Considering the aggregate notional amount of our consolidated outstanding long-term interest rate swap contracts of US\$724 million and US\$875 million as at December 31, 2016 and 2015, respectively, approximately 92% and 87% of our consolidated debts were fixed as at December 31, 2016 and 2015, 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, 2017. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 35 basis points, or bps, and 10 bps higher/lower, respectively, as compared to levels as at December 31, 2016. If U.S. dollar interest rates had been 35 bps higher/lower as compared to market levels as at December 31, 2016, with all other variables held constant, profit after tax for the year 2016 and our consolidated stockholders' equity as at year end 2016 would have been approximately Php15 million and Php85 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 10 bps higher/lower as compared to market levels

as at December 31, 2016, with all other variables held constant, profit after tax for the year 2016 and our consolidated stockholders' equity as at year end 2016 would have been approximately Php3 million and Php4 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, 2016 and 2015:

	2016		
	Gross Maximum Exposure	Collateral and Other Credit Enhancements*	Net Maximum Exposure
	(in million pesos)		
<i>Cash and cash equivalents</i>	38,722	270	38,452
<i>Loans and receivables:</i>			
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
<i>HTM investments:</i>			
Investment in debt securities and other long-term investments	352	–	352
<i>Financial instruments at FVPL:</i>			
Forward foreign exchange contracts	54	–	54
Short-term currency swaps	12	–	12
Short-term investments	2	–	2
<i>Available-for-sale financial investments</i>	12,189	–	12,189
<i>Derivatives used for hedging:</i>			
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.

	2015		
	Gross Maximum Exposure	Collateral and Other Credit Enhancements*	Net Maximum Exposure
<i>Cash and cash equivalents</i>	46,455	272	46,183
<i>Loans and receivables:</i>			
Advances and other noncurrent assets	10,516	–	10,516
Short-term investments	744	–	744
Investment in debt securities and other long-term investments	595	–	595
Retail subscribers	10,210	46	10,164
Foreign administrations	5,199	–	5,199
Corporate subscribers	4,812	160	4,652
Domestic carriers	454	–	454
Dealers, agents and others	4,223	2	4,221
<i>HTM investments:</i>			
Investment in debt securities and other long-term investments	408	–	408
<i>Financial instruments at FVPL:</i>			
Short-term investments	685	–	685
Forward foreign exchange contracts	10	–	10
<i>Available-for-sale financial investments</i>	15,711	–	15,711
<i>Derivatives used for hedging:</i>			
Interest rate swap	90	–	90
Long-term currency swap	71	–	71
Total	100,183	480	99,703

* Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2015.

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, 2016 and 2015:

	Total	Neither past due nor impaired		Past due but not impaired	Impaired
		Class A ⁽¹⁾	Class B ⁽²⁾		
		(in million pesos)			
December 31, 2016					
<i>Cash and cash equivalents</i>	38,722	36,902	1,820	–	–
<i>Loans and receivables:</i>	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
<i>HTM investments:</i>	352	352	–	–	–
Investment in debt securities and other long-term investments	352	352	–	–	–
<i>Financial instruments at FVPL⁽³⁾:</i>	68	68	–	–	–
Forward exchange contracts	54	54	–	–	–
Short-term currency swaps	12	12	–	–	–
Short-term investments	2	2	–	–	–
<i>Available-for-sale financial investments</i>	12,189	10,197	1,992	–	–
<i>Derivatives used for hedging:</i>	675	675	–	–	–
Long-term currency swap	559	559	–	–	–
Interest rate swaps	116	116	–	–	–
Total	115,592	74,956	11,992	9,646	18,998
December 31, 2015					
<i>Cash and cash equivalents</i>	46,455	41,509	4,946	–	–
<i>Loans and receivables:</i>	52,875	15,962	7,087	13,704	16,122
Advances and other noncurrent assets	10,717	10,204	307	5	201
Short-term investments	744	744	–	–	–
Investment in debt securities and other long-term investments	595	595	–	–	–
Retail subscribers	19,750	1,549	3,449	5,212	9,540
Corporate subscribers	9,263	1,162	1,316	2,334	4,451
Foreign administrations	5,514	933	1,744	2,522	315
Domestic carriers	540	88	100	266	86
Dealers, agents and others	5,752	687	171	3,365	1,529
<i>HTM investments:</i>	408	408	–	–	–
Investment in debt securities and other long-term investments	408	408	–	–	–
<i>Available-for-sale financial investments</i>	15,711	14,721	990	–	–

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
			(in million pesos)			
<i>Financial instruments at FVPL:</i>	695	695				
Short-term investments	685	685				
Forward foreign exchange contracts	10	10				
<i>Derivatives used for hedging:</i>	161	161				
Interest rate swaps	90	90				
Long-term currency swap	71	71				
Total	116,305	86,479	5,436	1,306	6,962	16,122

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 on 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. 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 support 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% of 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, 2016, 2015 and 2014.

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:

- 1(a). Amended Articles of Incorporation (as amended on June 14, 2016)
- 1(b). Amended By-Laws (as amended on August 30, 2016)
- 2(a). Terms and Conditions of the Voting Preferred Stock of PLDT
- 2(b). 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. Material Contracts
- 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



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.

April 27, 2017

PLDT INC.

By:

A handwritten signature in black ink, appearing to read 'LRCA', written over a horizontal line.

MA. LOURDES C. RAUSA-CHAN
Senior Vice President, Corporate Affairs and Legal
Services Head and Corporate Secretary

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)
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)
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)
4(d)	The Cooperation Agreement, dated January 31, 2006, entered into by and among PLDT, First Pacific, Metro Pacific Corporation, Metro Pacific 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, Inc., and Vega Telecom, Inc.
4(k)	Sale and Purchase Agreement, dated May 30, 2016, by and among Grace Patricia W. Vilechez-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 Schutzensel 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
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

AMENDED
ARTICLES OF INCORPORATION
OF PLDT Inc.
(Formerly: Philippine Long Distance Telephone Company)

KNOW ALL MEN BY THESE PRESENTS:

That we, a majority of whom are residents of the Philippine Islands, have this day voluntarily associated ourselves together for the purpose of forming a corporation under the laws of the Philippine Islands.

And we hereby certify as follows:

First. That the name of said corporation shall be “**PLDT Inc**”.

(As amended on June 14, 2016)

Second. That the purposes for which said corporation is formed are to install, maintain, and operate plants, lines, instruments, cables, stations, exchanges, apparatus and any all kinds of equipment, or contrivances, for communications, and the transmission of messages, pictures, impressions, and signals, or any other means which may hereafter be used for communications in their stead; to install, maintain, operate, or lease, in whole, or in part, telephone lines and systems and all other systems and lines of communication, and to purchase, sell and deal in all kinds of apparatus and objects and products which may be advantageously combined with the building, installing and operation of those systems and lines and in general, to engage in any and all acts and business which may be necessary, or convenient, in the furtherance of such lines of communication and business.

Without limiting or restricting in any manner the general powers and all other rights and privileges now or hereafter granted by the laws of the Philippines or any country

or territory where said corporation does business or owns property, to corporations of the character of said corporation:

1. To invest and deal with the money and properties of said corporation and to sell, dispose of or transfer the business, properties and goodwill of said corporation or any part thereof for such consideration and under such terms and conditions as the Board of Directors may determine to be wise or expedient for the benefit or advancement of the interest of said corporation, subject to the requirements of applicable law.
2. To purchase, acquire, own lease, sell and convey real properties such as lands and appurtenant air rights, land improvements, buildings, warehouses and machineries, equipment and other personal properties as may be necessary or incidental to the conduct of its business or as the Board of Directors may determine to be wise or expedient for the benefit or advancement of the interest of said corporation, and to pay for any property purchased or acquired by or leased to said corporation, or receive payments for any property sold, conveyed or leased by said corporation, in cash, shares of capital stock, debentures and other evidences of indebtedness, or other securities;
3. To redevelop any and all properties owned or acquired by said corporation for purposes of preserving, enhancing or maximizing their value or as may be wise or expedient for the advancement of its interest, and in such manner and under such terms and conditions, as the Board of Directors may determine;
4. To borrow or raise money necessary to meet the financial requirements of the business of said corporation by the issuance of shares of its capital stock, bonds, promissory notes and other evidences of indebtedness, and to secure the repayment of any such bonds, promissory notes and other evidences of

indebtedness by mortgage, pledge, deed of trust or lien upon the properties of said corporation.

5. To guarantee the obligations of, and aid in any manner, any corporation, association, or trust estate, domestic or foreign, or any firm or individual, any shares of stock in which, or any bonds, debentures, notes securities, evidences of indebtedness, contracts or obligations of which, are held by or for said corporation, directly or indirectly or through other corporations or otherwise;
6. To enter into any lawful arrangement for sharing profits, reciprocal concession, cooperation or joint venture with any corporation, association, partnership, entity, person or governmental, municipal or public authority, domestic or foreign, in carrying out any business or transaction deemed necessary, convenient or incidental to accomplish the purposes of said corporation;
7. To acquire or obtain from any government or authority, national, provincial, municipal or otherwise, or any corporation, company or partnership or person, such charter, contracts, franchise, privileges, exemption, licenses and concessions as may be conducive to any of the purposes of said corporation;
8. To establish and operate one or more branch offices or agencies within or outside the Philippines and to carry out any or all its operations and businesses in or through such branch offices or agencies without any restrictions, except those provided in applicable laws;
9. To conduct and transact any and all lawful business, and to do or cause to be done any one or more of the acts and things herein set forth as its purposes, within or outside the Philippines, and everything necessary, desirable or incidental to the accomplishment of the purposes or the exercise of any one or more of the powers herein enumerated, or which shall at any time appear conducive to or expedient for the protection or benefit of said corporation.“

(As amended on June 14, 2016)

Third. That the place where the principal office of the corporation is to be established, or located, is Ramon Cojuangco Building, Makati Avenue, Makati City. (As amended on December 10, 1999 and June 10, 2014)

Fourth. That the term for which said corporation is to exist is fifty (50) years from and after the date of incorporation, and another term of fifty (50) years from and after November 28, 1978.

Fifth. That the names and residences of the incorporators of said corporation are as follows:

i) Name	ii) Residence
a. Barreto, Alberto	i. Manila
b. Dankwerth, George	i. “
c. Fernandez, Ramon J.	i. “
d. La’O, Gabriel	i. “
e. Lord, Montague	i. “
f. Rodriguez, Celestino	i. Cebu
g. Smith, W.Z.	i. Manila
h. Stevenot, J. E. H.	i. “
i.	i.

Sixth. That the number of directors of said corporation shall be thirteen (13), and the names and residences of the directors of the corporation who are to serve until their successors are elected and qualified, as provided by the By-laws, are as follows:

iii) Name	iv) Residence
a. Barreto, Alberto	i. Manila
b. Corcoran, John H.	i. San Francisco

- | | |
|-------------------------------------|------------------|
| c. Dankwerth, George | i. Manila |
| d. Fernandez, Ramon J. | i. Manila |
| e. Halsey, Theodore
Vail | i. San Francisco |
| f. Petty, George J. | i. “ |
| g. Powell, Thos. N. | i. Iloilo |
| h. Rama, Esteban de la | i. Iloilo |
| i. Rodriguez, Celestino | i. Cebu |
| j. Smith, W.Z. | i. Manila |
| k. Stevenot, J. E. H. | i. “ |
| l. | i. |

(As amended on December 10, 1999)

Seventh. That the capital stock of said corporation is Five Billion One Hundred Ninety Five Million Pesos (P5,195,000,000) and said capital stock is divided into two classes consisting of: (A) Preferred Capital Stock sub-classified into: One Hundred Fifty Million (150,000,000) shares of Voting Preferred Stock of the par value of One Peso (P1.00) each and Three Hundred Eighty Seven Million Five Hundred Thousand (387,500,000) shares of Non-Voting Serial Preferred Stock of the par value of Ten Pesos (P10.00) each, and (B) Two Hundred Thirty Four Million (234,000,000) shares of Common Capital Stock of the par value of Five Pesos (P5.00) each.

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 sixty percent (60%) of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least sixty percent (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 sixty percent (60%) of the funds accrue to the benefit of citizens of the Philippines.

(As amended on November 21, 1995, December 10, 1999, March 22, 2012 and June 14, 2013)

The Board of Directors shall have full power and authority to authorize (whether by adoption of amendments to the By-laws of said corporation or of resolutions, the promulgation of rules or regulations or otherwise) the taking by said corporation of all such action, and said corporation shall have full power and authority to take all such action, as the Board of Directors may deem necessary or appropriate to insure compliance by said corporation with any applicable provision of the Constitution of the Republic of the Philippines or any other applicable law, treaty, rule or regulation relating to the ownership of securities of said corporation by citizens of the Philippines, aliens or other persons or group of persons which action may include (but shall not be required to include or be limited to) (i) postponing for such period of time as shall be approved by the Board of Directors, or prohibiting, the recordation on the books of said corporation of any proposed transfer of any securities; (ii) purchasing outstanding securities of said corporation in the open market, in private transactions or otherwise at such price or prices as shall be approved by the Board of Directors; (iii) issuing and/or selling for such consideration as shall be approved by the Board of Directors (a) authorized but unissued securities of said corporation which have not been otherwise reserved or set aside for issuance or (b) authorized and previously issued securities of said corporation which have not been reacquired by, and deposited in the treasury of said corporation; (iv) identifying and/or classifying by means of a legend or otherwise certificates representing any securities of said corporation as “domestic” or “foreign”, or utilizing such other designation or legend as shall be approved by the Board of Directors; (v) maintaining separate transfer records for securities of said corporation held by citizens of the Philippines, aliens or such other persons or groups of persons as shall be approved by the Board of Directors; and (vi) requiring, as a condition to the recordation on the books of said corporation of any issuance or transfer or any of its securities, information satisfactory to the Board of Directors regarding the citizenship or residence of the person to whom it is proposed to issue or transfer its securities.

The following is a statement of the preferences, qualifications, limitations, restrictions and the relative or special rights in respect of each class of the capital stock of the corporation.

A. Preferred Capital Stock

1. Shares of each sub-class of Preferred Capital Stock may be issued from time to time in one or more series as the Board of Directors may determine, and authority is hereby expressly granted to the Board of Directors, subject to the provisions of this Article Seventh, to establish and designate series of each sub-class of Preferred Capital Stock and to fix the number of shares to be included in each such series and the relative rights, preferences and limitations of the shares of each such series. To the extent not set forth in this Article Seventh, the terms of each such series shall be specified in the resolution or resolutions adopted by the Board of Directors pursuant to the authority hereinbefore granted providing for the issuance of such shares, which resolution or resolutions shall be recorded with the Philippine Securities and Exchange Commission and thereupon be deemed a part of these Articles of Incorporation. Without limiting the generality of the foregoing, the authority of the Board of Directors shall include the determination, which respect to each series of Preferred Capital Stock, of the following:

(a) the number of shares to constitute such series and the distinctive designations thereof;

(b) the dividend rate, if any, on the shares of such series (which, if and to the extent the Board of Directors, in its sole discretion, shall deem appropriate under the circumstances, shall be fixed considering the rate of return on similar securities at the time of issuance of such shares), the terms and conditions upon which and the periods with respect to which dividends shall be payable, whether and upon what conditions such dividends shall be cumulative and, if cumulative, the date or dates from which dividends shall accumulate;

(c) whether or not the shares of such series shall be redeemable, the limitations with respect to such redemptions, the time or times when and the manner in which such shares shall be redeemable (including the manner of selecting shares of such series for redemption if less than all shares are to be redeemed) and the price or prices at which such shares shall be redeemable, which may not be less than (i) the par value thereof plus (ii) accrued and unpaid dividends thereon, nor more than (i) 110% of the par value thereof plus (ii) accrued and unpaid dividends thereon;

(d) whether or not the shares of such series shall be subject to the operation of a purchase, retirement or sinking fund, and, if so, whether and upon what conditions such purchase, retirement or sinking fund shall be cumulative or non-cumulative, the extent to which and the manner in which such fund shall be applied to the purchase or redemption of the shares of such

series for retirement or to other corporate purposes and the terms and provisions relative to the operation thereof;

(e) the rights to which the holders of shares of such series shall be entitled upon the voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the corporation, which rights may vary depending on whether such liquidation, dissolution, distribution or winding up is voluntary or involuntary, and if voluntary, may vary at different dates, provided, however, that the amount which the holders of shares of such series shall be entitled to receive in the event of any voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the corporation shall not be more than (i) 110% of the par value of such shares plus (ii) accrued and unpaid dividends thereon, nor less than (i) the par value thereof plus (ii) accrued and unpaid dividends thereon;

(f) whether or not the shares of such series shall be convertible into or exchangeable for shares of stock of any other class, or classes, or any other series of the same class, and, if so convertible or exchangeable, the price or prices or the rate or rates of conversion and exchange and the method, if any, of adjusting the same, and any other terms or conditions of such conversion or exchange;

(g) the status of shares of such series redeemed, purchased or otherwise reacquired, or surrendered to the corporation on conversion or exchange; and

(h) any other rights, preferences or limitations of such series, as the Board of Directors may deem advisable and as shall not be inconsistent with the provisions of these Articles of Incorporation.

2. All shares of Preferred Capital Stock shall be of equal rank, preference and priority and shall be identical in all respects regardless of series, except as to voting rights and other terms which may be specified by the Board of Directors pursuant to the provisions of subdivision 1 of this Paragraph A.

3. The Holders of shares of Preferred Capital Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefore, preferential cash dividends at the rate, under the terms and conditions, for the periods and on the dates fixed by the resolution or resolutions of the Board of Directors, pursuant to authority hereinbefore granted in this Paragraph A for each series, and no more, before any dividends on the Common

Capital Stock (other than dividends payable in Common Capital Stock) shall be paid or set apart for payment with respect to the same dividend period.

All shares of Preferred Capital Stock of all series shall be of equal rank, preference and priority as to dividends irrespective of whether or not the rates of dividends to which the same shall be entitled shall be the same and, when the stated dividends are not paid in full, the shares of all series of Preferred Capital Stock shall share ratably in the payment of dividends including accumulations, if any, in accordance with the sums which would be payable on such shares if all dividends were declared and paid in full, provided, however, that any two or more series of Preferred Capital Stock may differ from each other as to the existence and extent of the right to cumulative dividends as aforesaid.

4. In the event of any voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the corporation, the holders of the shares of each series of Preferred Capital Stock then outstanding shall be entitled to receive out of the net assets of the corporation the amount per share fixed by the resolution or resolutions of the Board of Directors to be received by the holders of shares of each such series on such voluntary or involuntary liquidation, dissolution, distribution of assets or winding up, as the case may be, together with all dividends (whether or not earned) accrued or in arrears, for every share of their holdings of Preferred Capital Stock, before any distribution or payment shall be made to the holders of the Common Capital Stock, and shall be entitled to no other or further distribution.

All shares of Preferred Capital Stock of all series shall be of equal rank, preference and priority as to the net assets of the corporation or proceeds thereof to which the same shall be entitled upon voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the corporation. If, upon any liquidation, dissolution, distribution of assets or winding up, as the case may be, the net assets of the corporation or proceeds thereof distributable among the holders of the shares of Preferred Capital Stock of all series shall be insufficient to pay in full the preferential amount aforesaid, then such assets, or the proceeds thereof, shall be distributed among such holders ratably in accordance with the respective amount which would be payable if all amounts payable thereon were paid in full.

For the purposes of this subdivision 4 neither the consolidation nor merger of the corporation with or into any other corporation, nor any sale, lease, exchange or conveyance of all or any part of the property, assets or business of the corporation shall be deemed to be a liquidation, dissolution, distribution of assets or winding up of the corporation within the meaning of the provisions of this Article Seventh, unless the Board of Directors of the corporation elects to treat such transaction as a liquidation, dissolution, distribution of assets or winding up of the corporation.

5. The holders of shares of Voting Preferred Stock shall have voting rights at any meeting of the stockholders of the corporation for the election of directors and for all other purposes, with one vote in respect of each share of Voting Preferred Stock. Except as otherwise provided by law or as otherwise specifically provided in this subdivision 5, the holders of shares of Non-Voting Serial Preferred Stock shall not be entitled to vote at any meeting of the stockholders for the election of directors or for any other purpose or otherwise to participate in any action taken by the corporation or its stockholders, or to receive notice of any meeting of stockholders.

The corporation shall not, by an amendment to the Articles of Incorporation, or by merger or consolidation or in any other manner, change the rights, designations, preferences or other special rights of any series of Preferred Capital Stock, or the qualifications, limitations and restrictions thereof, in any respect prejudicial to the holders of such series of Preferred Capital Stock without the affirmative vote of the holders of at least a majority of the outstanding shares of such series of Preferred Capital Stock; provided, however, that without such vote the corporation may (i) increase the authorized number of shares of Preferred Capital Stock or of any series thereof, or (ii) authorize classes of shares ranking on a parity with Preferred Capital Stock in right of payment of dividends or upon voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the corporation.

6. Shares of Preferred Capital Stock may be issued and sold by the corporation for such lawful consideration not less than the par value thereof as the Board of Directors shall determine. The ownership of shares of Preferred Capital Stock shall not entitle the owner thereof to any right (other than such right, if any, as the Board of Directors in its discretion may from time to time

grant) to subscribe for or to purchase or to have offered to him for subscription or purchase any shares of any class of stock or other securities of the corporation.

(As amended on March 22, 2012)

B. Common Capital Stock

1. After the requirements with respect to preferential dividends on the Preferred Capital Stock shall have been met and after the corporation shall have complied with all the requirements, if any, with respect to the setting aside of sums as purchase, retirement or sinking funds, then and not otherwise the holders of shares of Common Capital Stock shall be entitled to receive such dividends as may be declared from time to time by the Board of Directors out of funds legally available therefor.

2. After distribution in full of the preferential amounts to be distributed to the holders of shares of Preferred Capital Stock in the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the corporation, the holders of shares of Common Capital Stock shall be entitled to receive all the remaining assets of the corporation of whatever kind available for distribution to stockholders ratably in proportion to the number of shares of the Common Capital Stock held by them, respectively.

3. The holders of shares of Common Capital Stock shall have the right to vote for the election of directors and any and all matters voted upon by the stockholders. Each holder of shares of Common Capital Stock shall have one vote in respect of each share of such stock held by him.

4. The ownership of shares of Common Capital Stock shall not entitle the owner thereof to any right (other than such right, if any, as the Board of Directors in its discretion may from time to time grant) to subscribe for or to purchase or to have offered to him for subscription or purchase (a) any issue of shares of any class of preferred stock of the corporation, (b) any issue of up to 12,198,462 shares of common capital stock, for cash, to NTT Communications Corporation (or a subsidiary thereof) as a strategic investor in the Corporation, and (c) any issue of up to 1,289,745 shares of common capital stock pursuant to the Executive Stock Option Plan which was approved by the Board of Directors on April 27, 1999.

(As amended on December 10, 1999, March 22, 2012 and June 14, 2013)

Eight. That the amount of said capital stock which has been actually subscribed is Two Hundred Thousand Pesos (P200,000.00), and the following persons have subscribed for the number of shares and amount of capital stock set out after their respective names:

<u>Name</u>	<u>Residence</u>	<u>Number of Shares</u>	<u>Amount Subscribed</u>
Barreto, Alberto	Manila	1	P 100.00
Corcoran, John H.	San Francisco	400	40,000.00
Dankwerth, George	Manila	50	5,000.00
Fernandez, Ramon J.	“	100	10,000.00
Halsey, Theodore Vail	San Francisco	503	50,300.00
La’O, Gabriel	Manila	10	1,000.00
Lord, Montague	“	100	10,000.00
Petty, George J.	San Francisco	400	40,000.00
Powell, Thos. N.	Iloilo	10	1,000.00
Rama, Esteban dela	“	1	100.00
Rodriguez, Celestino	Cebu	25	2,500.00
Smith, W.Z.	Manila	100	10,000.00
Stevenot, J.E.H.	“	300	30,000.00
	Total	2,000	P 200,000.00

Ninth. That the following persons have paid on the shares of capital stock for which they have subscribed, the amount set out after their respective names:

v) vi) Names	vii) Residence	a. Amount Paid on <u>Subscription</u>
Barreto, Alberto	Manila	P 25.00
Corcoran, John H.	San Francisco	10,000.00
Dankwerth, George	Manila	1,250.00
Fernandez, Ramon J.	Manila	2,500.00
Halsey, Theodore Vail	San Francisco	12,575.00
La'O, Gabriel	Manila	250.00
Lord, Montague	Manila	2,500.00
Petty, George J.	San Francisco	10,000.00
Powell, Thos. N.	Iloilo	250.00
Rama, Esteban dela	Iloilo	25.00
Rodriguez, Celestino	Cebu	625.00
Smith, W.Z.	Manila	2,500.00
Stevenot, J.E.H.	Manila	<u>P 7,500.00</u>
		<u>P50,000.00</u> =====

Tenth. That Montague Lord has been elected by the subscribers as Treasurer of the corporation, to act as such until his successor is duly elected and qualified in accordance with the By-Laws, and as such Treasurer he has been authorized to receive for the corporation and to receipt in its name for all subscriptions paid in by said subscribers.

Eleventh. That the starting point of the telephone system of the Philippine Long Distance Telephone Company is to be at the Central Toll Office in the City of Manila. The lines will run

from the said City of Manila to the City of Baguio, thru the Provinces of Rizal, Bulacan, Pampanga, Tarlac, Pangasinan and Benguet, and from Manila to the Cities of Cebu and Iloilo and such lines and circuits are to be extended as the business so warrants to all of the progressive municipalities throughout the Philippine Islands and other countries. One terminus of the lines is to be established in the Toll Office, or local Exchange, and the other terminus is to be located in the various Toll Centers, Toll Stations, or subscribers' telephone station. The estimated length of the lines covered by the initial project is over three hundred (300) kilometers.

The construction materials to be used consist, in part, of open wire, lead covered aerial and underground cables, cable terminals, wood and reinforced concrete poles, porcelain and glass insulators, pins and crossarms, automatic, local and common battery telephones, local exchange and toll switchboards, and such other kinds and types of apparatus and equipment as may be convenient and necessary. Long distance telephone lines and circuits are to be built and operated between said provinces and municipalities and such other additional ones as the Public Service Commission, the public needs, and the convenience of the corporation may later require and approve.

In Witness Whereof, we have hereunto set our hands and seal this 19th day of November, A.D. 1928.

/s/ Alberto Barreto

/s/ Geo C. Dankwerth

/s/ R. J. Fernandez

/s/ Gabriel La'O

/s/ Montague Lord

/s/ Celestino Rodriguez

/s/ W. Z. Smith

/s/ J.E.H. Stevenot

(NOTARIAL SEAL)

Signed and sealed in the

Presence of:

/s/ Illegible
(Witness)

/s/ Canuto Ducusin
(Witness)

United States of America)
Philippine Islands) s.s.
City of Manila)

Before me, the undersigned, a Notary Public in and for the City of Manila, Philippine Islands, came the following persons, who are personally known to me to be the same persons who executed the foregoing instrument and they acknowledged to me that they executed the same as their free and voluntary act and deed and exhibited to me their cedula certificates as follows:

	Cedula No.		Issued at	
Barreto, Alberto	F-	9	Manila	January 14 th , 1928
Dankwerth, George	F-	5205	“	January 3 rd , 1928
Fernandez, Ramon J.	F-	600	“	January 3 rd , 1928

La'O, Gabriel	F-	26809	“	February 3 rd , 1928
Lord, Montague	F-	5116	“	January 3 rd , 1928
Rodriguez, Celestino	F-	1112770	Cebu	January 3 rd , 1928
Smith, W.Z.	F-	36	Manila	January 3 rd , 1928
Stevenot, J.E.H.	F-	1319542	Iloilo	January 4 th , 1928

/s/ Marcelo P. Karaan
Notary Public
My Commission expires December 31st, 1928

(NOTARIAL SEAL)

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Book No. IV

Series of 1928.

Adopted	January	10,	1938
Amended	April	26,	1939
Amended	January	5,	1940
Amended	April	16,	1947
Amended	April	15,	1953
Amended	July	26,	1955
Amended	May	8,	1962
Amended	January	27,	1964
Amended	July	25,	1966
Amended	January	10,	1968
Amended	January	30,	1968
Amended	June	25,	1968
Amended	July	11,	1969
Amended	April	18,	1979
Amended	January	25,	1983
Amended	March	29,	1983
Amended	February	24,	1998
Amended	February	29,	2000
Amended	March	29,	2001
Amended	February	26,	2003
Amended	January	25,	2005
	b June	28,	2005
	August	3,	2010
	December	2,	2014
	August	30,	2016

Amended
Amended
Amended

PLDT Inc.

(Amended on August 30, 2016)

AMENDED BY - LAWS

ARTICLE I

OFFICE

* Section 1. The principal office of the corporation shall be located at the place stated in the Amended Articles of Incorporation.

(* Amended on June 25, 1968, February 29, 2000 and December 2, 2014)

ARTICLE II

MEETINGS

* Section 1. The annual meeting of the stockholders shall be held at the principal office of the corporation or at such other place designated by the Board of Directors in the city or municipality where the principal office of the corporation is located on the second Tuesday in June of each year, at 3 o'clock P. M. The Board of Directors may, for good cause, postpone the annual meeting of stockholders to a reasonable date.

Written or printed notice of every annual stockholders' meeting, which notice shall state the date, time and place of the meeting and the purpose or purposes for which the meeting is called, shall be given by the Secretary or by the Assistant Secretary to each stockholder. Such notice may be delivered to the stockholders personally, or enclosed in an envelope with the postage thereon fully prepaid, addressed to each stockholder at his or her last known place of residence or business, and posted at a Post Office in the Philippines or in the United States of America. Such delivery or mailing of notice must be made at least fifteen (15) business days before the date fixed for the meeting. No publication of notice of any regular or special meeting of stockholders in the public newspapers shall be required.

(* Amended on July 26, 1955, February 24, 1998, March 29, 2001 and December 2, 2014)

* **Section 2. Special meetings of the stockholders may be called at any time by the Chairman of the Board or three (3) of the Directors or by any number of stockholders representing two-thirds (2/3) of the subscribed capital stock. Notice in writing of such meeting, stating the date, time and place thereof, and the purpose or purposes for which such meeting is called shall be given to each stockholder by the Secretary or Assistant Secretary or in case of his absence, inability, refusal or neglect to act, then by the President, Directors or stockholders calling the said meeting. Such notice may be delivered to the stockholders personally or enclosed in an envelope and addressed, with the postage thereon fully prepaid, to each stockholder at his or her last known place of residence or business and posted at a Post Office in the Philippines or the United States of America. Such delivery or mailing of notice must be made at least fifteen (15) business days before the date fixed for the meeting and the statement of service by such delivery or mailing shall be entered upon the minutes of meeting and the said minutes as certified correct by the secretary of the meeting and attested by the chairman of the meeting shall be conclusive on the question of service.**

(* Amended on July 26, 1955, February 24, 1998, March 29, 2001 and August 3, 2010)

* Section 3. Every meeting of the stockholders shall be presided by the Chairman of the Board or, in his absence, by the President or, in his absence, by a chairman to be chosen by the stockholders representing a majority of the shares of the corporation issued and outstanding and entitled to vote present or duly represented at said meeting. The Secretary or, in his absence, the Assistant Secretary, shall act as secretary of every meeting but if neither the Secretary nor the Assistant Secretary is present, the chairman of the meeting shall appoint a secretary of the meeting.

(*New provision adopted on March 29, 2001; Amended on August 3, 2010)

* Section 4. A meeting of the Board of Directors shall be held promptly after the adjournment of the annual meeting of the stockholders; subsequent regular meetings shall be held monthly on the last Tuesday of each month at 9:30 A. M., at the office of the corporation at the place stated in the Amended Articles of Incorporation or such other time and place in or outside the Philippines as the Board of Directors may from time to time determine. Special meetings may be called by the Chairman of the Board whenever he may think proper, and he shall forthwith call such meetings whenever requested in writing to do so by any three (3) Directors. Such meetings shall be called for a date not later than seven (7) days from the date of such request. Notice in writing of every special meeting of the Board of Directors, stating the date and place thereof and the purpose or purposes for which the meeting is called, shall be given to each Director by the Secretary or Assistant Secretary, or in case of his absence, inability, refusal or neglect to act, by any person appointed for that purpose by the Chairman of the Board or three (3) of the Directors. Such notice may be delivered to each Director personally, by telegraph, facsimile, e-mail, or other means of written or printed communication generally accepted and used by the business community as at present available or which become available through technical advances or innovations in the future, at least twenty-four (24) hours previous to the time fixed for the meeting, or may be given by enclosing a notice in an envelope, with the postage thereon fully prepaid, addressed to each Director at his last known place of residence or business and posted at least three (3) days before the date fixed for the meeting. Service of notice, by delivery, telegraph, facsimile, e-mail, or other means of written or printed communication generally accepted and used by the business community as at present available or which become available through technical advances or innovations in the future, shall be entered upon the minutes of the meeting, and said minutes, as certified correct by the secretary of the meeting and attested by the chairman of the meeting, shall be conclusive upon the question of service. Notice of regular meetings of the Board of Directors is hereby dispensed with.

(* Amended on January 5, 1940, May 8, 1962, January 30, 1968, July 11, 1969,

February 24, 1998, February 29, 2000, March 29, 2001, August 3, 2010 and
December 2, 2014)

* **Section 5. Every meeting of the Board of Directors shall be presided by the Chairman of the Board or, in his absence, the President or, in his absence, by any Director chosen by majority of the members of the Board present at such meeting at which there is a quorum. The Secretary or, in his absence, the Assistant Secretary, shall act as secretary of every meeting but if neither the Secretary nor the Assistant Secretary is present, the chairman of the meeting shall appoint a secretary of the meeting.**

(* New provision adopted on March 29, 2001)

* **Section 6. If any regular meeting of stockholders or Board of Directors provided for herein shall fall on a legal holiday, then such meeting shall be held on the next succeeding business day at the same hour; but special meetings of the stockholders or Board of Directors may be held on a holiday with the same force and effect as if held on a business day.**

(*Amended on March 29, 2001 and August 3, 2010)

* Section 7. Meetings of the stockholders shall be held at the principal office of the corporation or at such other place designated by the Board of Directors in the city or municipality where the principal office of the corporation is located. Meetings of the Board of Directors shall be held at the principal office of the corporation or at such other place in or outside the Philippines as the Board, from time to time, may determine.

(* Amended on May 8, 1962, July 11, 1969, February 29, 2000 and March 29, 2001)

ARTICLE III

QUORUM AND VOTING REQUIREMENTS

* Section 1. At any meeting of the stockholders, persons representing, in person or by proxy, a majority of the shares of the corporation issued and outstanding and entitled to vote at the said meeting shall constitute a quorum for the transaction of any business, except as otherwise provided by law. In the absence of a quorum, the Chairman of the Board or, in his absence, any person entitled to preside or act as secretary of the meeting shall have the power to adjourn the meeting from time to time until the requisite number of shares to constitute a quorum is present or represented. When a meeting of the stockholders is adjourned to another

time or place, it shall not be necessary to give notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment was taken. At the reconvened meeting, any business may be transacted that could have been transacted on the original date of the meeting.

(*Amended on March 29, 1983, March 29, 2001 and August 3, 2010)

* **Section 2. At any meeting of the stockholders at which there is quorum, all matters approved by the stockholders representing a majority of the issued and outstanding shares of the corporation entitled to vote present in person or by proxy at such meeting shall be valid as a corporate act, except for such matters which require the vote of the stockholders representing a higher percentage of the outstanding shares as prescribed by statute or these By-Laws.**

(* New provision adopted on March 29, 2001)

* Section 3. Each stockholder is entitled to one vote for each share of stock held by him, where such stock has voting rights on the matter under consideration, and such stock may be represented by the holder thereof or by his attorney duly authorized by proxy executed in writing on forms prescribed by the Board of Directors which shall be furnished to a stockholder upon his request. Unless otherwise provided in the proxy, it shall be valid only for the meeting in respect of which such proxy was issued. Proxies must be filed with the Secretary, Assistant Secretary or transfer agent of the corporation at least seven (7) days before the day of the meeting. Any proxy filed with the Secretary, Assistant Secretary or transfer agent of the corporation may be revoked by the stockholder concerned either in an instrument in writing duly presented to the Secretary, Assistant Secretary or transfer agent of the corporation at least three (3) days before the day of the meeting or by his personal presence at the meeting. Validation of proxies shall be done at least five (5) days before the day of the meeting by the Secretary or by a special committee of inspectors composed of the Secretary, Assistant Secretary and a representative of the transfer agent of the corporation. The decision of the Secretary or the special committee of inspectors, as the case may be, on the validity of proxies shall be final and binding until and unless set aside by a court of competent jurisdiction.

(* Amended on March 29, 1983, February 24, 1998, March 29, 2001 and August 3, 2010)

* Section 4. At every election of Directors, each holder of stock which has voting rights for the election of Directors is entitled to one vote for each share of such stock held by him and he may vote such number of shares for as many persons as there are Directors to be elected, or cumulate said shares and give one candidate as many votes as the number of Directors to be

elected multiplied by the number of his shares shall equal, or distribute such votes on the same principle among as many candidates as he shall think fit.

(* Amended on March 29, 1983, February 24, 1998, March 29, 2001 and August 3, 2010)

* **Section 5. The Board of Directors shall have the power to close the stock transfer books of the corporation for the following periods: (a) not exceeding sixty (60) days preceding the date of any meeting of stockholders or the date for the allotment of rights or the date when any change or conversion or exchange of capital stock shall go into effect or a date in connection with obtaining the consent of stockholders for any purpose; and (b) not exceeding forty five (45) days preceding the date of payment of any dividend; provided, however, that in lieu of closing the stock transfer books as aforesaid, the Board of Directors may fix in advance a date as follows: (a) not exceeding sixty (60) days preceding the date for any meeting of stockholders or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining such consent; and (b) not exceeding forty five (45) days preceding the date of payment of any dividend; as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, and any adjournment thereof, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, or to give such consent, or entitled to receive payment of any such dividend, and in such case, such stockholders, and only such stockholders as shall be stockholders of record on the date so fixed, shall be entitled to such notice of, and to vote at, such meeting, and any adjournment thereof, or to receive such allotment of rights, or to exercise such rights, or to give such consent, or to receive payment of such dividend, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid.**

(*Amended on July 26, 1955, February 24, 1998 and March 29, 2001)

* **Section 6. At any meeting of the Board of Directors, a majority of the number of the Directors as specified in the Articles of Incorporation shall constitute a quorum for the transaction of business. In the absence of a quorum, a majority of the Directors present may adjourn any meeting from time to time until a quorum be had. Notice of any adjourned meeting need not be given.**

*(*New provision adopted on March 29, 2001)*

* SECTION 7. AT ANY MEETING OF THE BOARD OF DIRECTORS AT WHICH THERE IS A QUORUM, ALL MATTERS APPROVED BY AT LEAST A MAJORITY OF THE DIRECTORS PRESENT AT SUCH MEETING SHALL BE VALID AS A CORPORATE ACT, EXCEPT FOR SUCH MATTERS WHICH REQUIRE THE VOTE OF MAJORITY OF ALL THE MEMBERS OF THE BOARD AS PRESCRIBED BY STATUTE OR THESE BY-LAWS.

(*NEW PROVISION ADOPTED ON MARCH 29, 2001)

ARTICLE IV CAPITAL STOCK

* Section 1. The certificate of stock shall be in such form and device as may be prescribed by the Board of Directors from time to time.

(* Amended on April 15, 1953)

* Section 2. The person, firm or corporation in whose name the stock stands on the books of the corporation, whether individually or as trustee, pledgee, or otherwise, may be recognized and treated by the corporation as the absolute owner of the stock, and the corporation shall in no event be obliged to deal with or to recognize the rights or interests of other persons in such stock or in any part thereof.

(*Amended on April 15, 1953)

* Section 3. Certificates shall be issued in the manner prescribed by law to each stockholder, showing the number of shares to which he is entitled; and said certificates, and the shares named therein shall be transferable only upon the books of the corporation by the shareholder named in the certificate, or his duly authorized attorney or representative. The Board of Directors shall appoint one or more registration agents of the corporation and no certificate for any share of stock shall be delivered to any stockholder until there is endorsed thereon a certificate of one of the registrars, showing such certificate to have been duly registered.

(* Amended on April 15, 1953)

* Section 4. No new certificates of any share shall be issued until the old certificate, representing the same, has been surrendered and cancelled; provided, however, that in case of lost, stolen or destroyed certificates of stock, the following procedure shall be followed for the issuance by the corporation of new certificates in lieu of those lost, stolen or destroyed:

(a) The registered owner of certificates of stock in this corporation or his legal representative shall file an affidavit, in triplicate, with this corporation setting forth, if possible, the circumstances as to how, when and where said certificates were lost, stolen or destroyed, the number of shares represented by each certificate and the serial number of the certificates. He shall submit such other information and evidence which he may deem necessary.

(b) After verifying the affidavit and other information and evidence with the books of this corporation, this corporation shall publish a notice, in a newspaper of general circulation in the Philippines published in the place where this corporation has its principal office, once a week for three (3) consecutive weeks, at the expense of the registered owner of the certificates of stock which have been lost, stolen or destroyed. The notice shall state the name of this corporation, the name of the registered owner and the serial number of said certificates, and the number of shares represented by each certificate, and that after the expiration of one (1) year from the date of the last publication, if no contest has been presented to this corporation regarding said certificates of stock, the right to make such contest shall be barred and this corporation shall cancel in its books the certificates of stock which have been lost, stolen or destroyed and issue in lieu thereof new certificates of stock, unless the registered owner files a bond or other security in lieu thereof as may be required running for a period of one (1) year for a sum and in such forms and with such sureties as may be satisfactory to the Board of Directors, in which case a new certificate may be issued even before the expiration of the one year period provided herein: Provided, That if a contest has been presented to this corporation or if an action is pending in court regarding the ownership of said certificates of stock which have been lost, stolen or destroyed, the issuance of the new certificates of stock in lieu thereof shall be suspended until final decision by the court regarding the ownership of said certificates of stock.

(* Amended on April 15, 1953 and January 25, 2005)

* Section 5. Certificates of stock shall be signed by the President or Vice President and the Secretary or an Assistant Secretary of the corporation and sealed with the corporate seal; provided, however, that where any such certificate is signed by a transfer agent and by a registrar, the signatures of any such President, Vice President, Secretary or Assistant Secretary and the seal of the corporation upon such certificate may be facsimiles, engraved or printed. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates shall cease to be such officer or officers of the corporation, whether because of death, resignation or otherwise, before such certificate or certificates have been delivered by the corporation, such certificate or certificates may nevertheless be adopted by the corporation and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the corporation. A

transfer agent of the corporation may sign certificates of stock by facsimile signature provided the use thereof is permitted by the stock exchange on which the corporation's stock is listed and by the corporation's other transfer agents.

(*Amended on April 15, 1953, July 26, 1955 and July 11, 1969)

* Section 6. The corporation shall not issue any stock certificate evidencing, either singly, or with other shares, any fractional part of a share, or any undivided interest in any share.

(* Amended on April 15, 1953)

ARTICLE V BOARD OF DIRECTORS

* **Section 1. The Board of Directors shall consist of thirteen (13) members or such number of members provided in the Articles of Incorporation of the corporation, as amended from time to time. Directors shall be elected from among the stockholders at their annual meeting or at any meeting held in lieu thereof for that purpose. Each Director shall hold office until the annual meeting of stockholders held next after his election and until his successor shall have been elected and qualified, except in case of death, resignation, disqualification or removal from office.**

(* Amended on August 3, 2010)

* **Section 2. The Board of Directors shall have such number of Independent Directors constituting at least twenty percent (20%) of its membership but which shall in no case be less than two (2). An "Independent Director" is a Director who: (a) is independent of management, (b) apart from his fees and shareholdings, is free from any business or other relationship with the corporation which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director of the corporation, and (c) meets all the independence criteria enumerated in the corporation's Manual on Corporate Governance and such other criteria provided under applicable laws, rules or regulations (including SRC Rule 38 as amended from time to time) or determined by the Board of Directors or the Governance and Nomination Committee of the Board of Directors (the "Governance and Nomination Committee").**

A person nominated for election as an Independent Director must possess all of the qualifications and have none of the disqualifications for directorship set forth in Sections 3, 4 and 5 of this Article V, and must meet all the independence criteria referred to above.

(* Amended on August 3, 2010)

* Section 3. Any person nominated for election as a Director must possess the following minimum qualifications and such additional qualifications provided under any amendments to the Corporation Code, Securities Regulation Code, the Code of Corporate Governance issued by the Securities and Exchange Commission (the "Commission") and other relevant laws, rules and regulations in effect at the relevant time:

- (a) must own at least one share of stock of the corporation standing in his name in the books of the corporation;***
- (b) must have a college education or equivalent academic degree;***
- (c) must be at least twenty-one (21) years old;***
- (d) must possess integrity and probity;***
- (e) must have a practical understanding of the business of the corporation or previous business experience; and***
- (f) must have attended a seminar on corporate governance conducted by a duly recognized private or government entity or must have issued an undertaking to attend such a seminar as soon as practicable.***

(* Amended on August 3, 2010)

* Section 4. No person shall qualify or be eligible for nomination or election as a Director if he is engaged in any business that competes with or is antagonistic to that of the corporation or its subsidiaries. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged:

- (a)** If he is an employee, officer, manager, director or controlling person, or the owner (either of record or beneficially) of ten per cent (10%) or more of any outstanding class of shares, of any corporation (other than one in which this corporation owns at least thirty per cent (30%) of the capital stock) or entity engaged in a business that the Board of Directors, by at least a majority vote, determines to be competitive or antagonistic to that of this corporation or any of its subsidiaries; or
- (b)** If he is an employee, officer, manager, director or controlling person, or the owner (either of record or beneficially) of ten per cent (10%) or more of any outstanding class of shares, of any corporation or entity engaged in any line of business of this corporation or any of its subsidiaries, when in the judgment of the Board of

Directors, by at least a majority vote, the laws against combinations and restraint of trade shall be violated by such person's membership in the Board of Directors; or

- (c) If the Board of Directors, in the exercise of its judgment in good faith, determines, by at least a majority vote, that he is a nominee of any person set forth in (a) and (b) above.

In determining whether or not a person is a controlling person, beneficial owner, or the nominee of another, the Board of Directors may take into account such factors as business and family relationships.

(* Amended on August 3, 2010)

* Section 5. No person suffering from any of the following grounds for disqualification shall qualify or be eligible for nomination or election as a Director:

- (a) Any person convicted or adjudged guilty of any of the offenses or crimes specified below in a final, non-appealable judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the Commission:
- (i) an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
 - (ii) any crime that (x) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (y) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (z) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
 - (iii) having willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or the Bangko Sentral ng Pilipinas (the "BSP"), or any rule, regulation or order of the Commission or BSP;
- (b) Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (i) acting as an underwriter, broker, dealer, investment

adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (ii) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; or (iii) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-clauses (i) and (ii) above.

The disqualification shall also apply if such person: (i) is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or under any rule or regulation issued by the Commission or BSP; or (ii) has otherwise been restrained to engage in any activity involving securities and banking; or (iii) is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the said organization;

- (c) Any person found guilty by final judgment or order of a foreign court or equivalent securities or banking regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in paragraphs (a) and (b) above;
- (d) Any person convicted by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment; or
- (e) Any person judicially declared as insolvent;

(* Amended on August 3, 2010)

* Section 6. Except as otherwise provided in the preceding Sections, the Governance and Nomination Committee shall have the power and authority to evaluate and determine whether any person nominated for election as a Director/Independent Director has all the qualifications and none of the disqualifications specified in the preceding Sections. The Governance and Nomination Committee shall also have the power and authority to consider and recommend to the Board of Directors such other qualifications and grounds for disqualification (including grounds for temporary disqualification) of Directors/Independent Directors or persons nominated for election as Directors/Independent Directors, taking into consideration the relevant laws, rules and regulations in effect at the relevant time.

With respect to the nomination and election of Independent Directors, the Governance and Nomination Committee shall ensure that the corporation observes the procedures and requirements contained in SRC Rule 38, as amended from time to time.

(* Amended on August 3, 2010)

* Section 7. For the proper implementation of the provisions of the foregoing Sections, all nominations for election of Directors by stockholders shall be submitted in writing to the Board of Directors through the Chairman of the Board and the Secretary at this corporation's principal place of business at least sixty (60) working days before the regular or special meeting of stockholders for the purpose of electing directors.

All nominations for appointment of a Director by the Board of Directors to fill a vacancy in the Board of Directors for any cause or reason whatsoever, other than removal by the stockholders or by expiration of term of office, shall be submitted in writing to the Board of Directors through the Chairman of the Board and the Secretary at the corporation's principal place of business at least thirty (30) working days before the meeting of the Board of Directors for the aforesated purpose.

(* Amended on May 8, 1962, February 29, 2000, March 29, 2001,

February 26, 2003, January 25, 2005 and August 3, 2010)

* **Section 8. In case of any vacancy in the Board of Directors for any cause or reason whatsoever, other than removal by the stockholders or by expiration of the term of office, the vacancy may be filled by the vote of at least a majority of the remaining Directors then in office, if still constituting a quorum. A Director so elected to fill a vacancy shall hold office for the unexpired term of his predecessor in office. Any vacancy in the Board of Directors resulting from the removal of a director by the stockholders in the manner provided by law may be filled by election at the same meeting at which the removal took place or at any annual or special meeting of stockholders called for the purpose after giving notice as prescribed in these By-Laws.**

(* Amended on May 8, 1962, January 10, 1968 and March 29, 2001)

* Section 9. Unless otherwise provided by law, the powers, business and property of the corporation shall be exercised, conducted and controlled by the Board of Directors. The Board

of Directors shall exercise its powers in consonance with the corporate governance principles instituted in the corporation's Manual on Corporate Governance.

Without prejudice to such general powers and such other powers as may be granted by law, the Board of Directors shall have the following express powers:

- (a) From time to time, to make and change policies, rules and regulations not inconsistent with these By-Laws for the governance of the corporation and the conduct of its business and affairs;
- (b) To purchase, receive, take, or otherwise acquire in any lawful manner, for and in the name of the corporation, any and all property, rights, interests or privileges, including securities and bonds of other corporations, as the transaction of the business of the corporation may reasonably or necessarily require, for such consideration and upon such terms and conditions as the Board of Directors may deem proper and convenient;
- (c) To invest the funds of the corporation in another corporation or business or for any other purposes other than those for which the corporation was organized, whenever in the judgment of the Board of Directors, the interests of the corporation would thereby be promoted, subject to such stockholders' approval as may be required by law;
- (d) To incur such indebtedness as the Board of Directors may deem necessary and, for such purpose, to make and issue evidence of such indebtedness including, without limitation, notes, deeds of trust, instruments, bonds, debentures or securities, and/or pledge, mortgage, or otherwise encumber all or part of the property and rights of the corporation, subject to such stockholders' approval as may be required by law;
- (e) To guarantee, for and in behalf of the corporation, obligations of other corporations or entities in which it has lawful interest;
- (f) To make provision for the discharge of the obligations of the corporation as they mature, including payment for any property or rights acquired by the corporation,

either wholly or partly in money, property, or in stocks, bonds, debentures, or other securities of the corporation lawfully issued for the purpose;

- (g) To impose conditions as the Board of Directors may deem convenient, subject to the limitations prescribed by law, regarding the transfer of shares issued in total or partial payment of debts contracted or property acquired by, or services rendered in behalf of the corporation;
- (h) To sell, lease, exchange, assign, transfer or otherwise dispose of any property, real or personal, belonging to the corporation whenever in the judgment of the Board of Directors, the corporation's interest would thereby be promoted;
- (i) Subject to such stockholders' approval as may be required by law, to establish pension, retirement, bonus, profit sharing plans, employees share purchase and stock option plans, or other types of incentives or compensation plans for the employees, including officers and directors of the corporation and to determine the persons to participate in any such plans and the amount of their respective participations;
- (j) To prosecute, maintain, defend, compromise or abandon any lawsuit in which the corporation or its officers are either plaintiffs or defendants in connection with the business of the corporation, and likewise, to approve the payment or settlement of whatsoever debts are payable to the corporation upon such terms as the Board of Directors may deem proper and convenient;
- (k) To delegate, from time to time, any of the powers of the Board of Directors which can be lawfully delegated in the course of the current business or businesses of the corporation to any standing or special committee or to any person who shall act as agents of the corporation with such powers (including the power to sub-delegate), and upon such terms, as the Board of Directors may deem appropriate;
- (l) To resolve doubts as to the meaning, interpretation and/or application of these By-Laws and supply the omissions thereof;

- (m) To authorize the issuance of shares out of the authorized but unissued capital stock of the corporation or the buyback or repurchase of the corporation's shares, upon such terms and conditions as the Board of Directors may deem proper and in the best interest of the corporation, subject to the requirements prescribed by law;
- (n) To determine whether any part of the unrestricted retained earnings of the corporation available for declaration as dividends shall be declared as dividends, subject to the provisions of law; and to provide that the dividends thus declared shall be applied in payment of new shares to be issued to the stockholders entitled to said dividends, which new shares shall be taken out of the authorized and unissued capital stock of the corporation;
- (o) To determine and prescribe the qualifications, duties, term of office, compensation, remuneration, incentives and other benefits of officers. Pursuant thereto, to appoint or elect or enter into contract with such officers, under such terms and conditions as the Board of Directors may determine to be in the best interest of the corporation; and
- (p) To enter into any transaction, obligation or contract and perform such acts and execute such deeds as it may deem essential for the proper administration of the corporation's property, business and affairs or the accomplishment of any of the purposes for which the corporation was organized.

(*NEW PROVISION ADOPTED ON AUGUST 3, 2010)

* Section 10. The Board of Directors may create an Executive Committee to be composed of not less than three (3) members of the Board of Directors to be appointed by the Board of Directors. Such committee shall, except as may otherwise be provided by law, have and exercise all the powers of the Board of Directors during the intervals between the meetings of the full Board. Such committee may prescribe rules for its governance; its meetings may be held at such place within the Philippines as it may determine or authorize, and majority of the members of said committee at any meeting shall constitute a quorum. In addition to taking action at a meeting, the Executive Committee may validly act upon the written consent of a majority of its members. At each meeting of the Board of Directors, the acts and proceedings of the Executive Committee since the preceding meeting of the Board of Directors shall be submitted for such action thereon as the Board may deem proper.

(* Amended on May 8, 1962, January 10, 1968 and March 29, 2001)

* Section 11. The Board of Directors may create committees and other bodies it may deem necessary or advisable in respect of the affairs of the corporation. The membership, powers, duties, functions and responsibilities of such committees and bodies shall be prescribed by the Board of Directors. The members of such committees and bodies shall be appointed by the Board of Directors for a term co-terminus with that of the Board of Directors that appoints them unless sooner terminated or removed.

(*New provision effective February 24, 1998)

* **Section 12. The corporation will not speculate in its own or constituent companies' securities, or permit similar speculations by any of its constituent companies.**

ARTICLE VI

OFFICERS

* **Section 1. The officers of the corporation shall be a President, a Senior Executive Vice President, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more First Vice Presidents, one or more Vice Presidents, a Treasurer, one or more Assistant Treasurers, a Secretary, one or more Assistant Secretaries, a Controller, and one or more Assistant Controllers, all of whom shall be elected or appointed by the Board of Directors.**

Immediately after the election of the Directors at the annual or special meeting of stockholders called for such purpose, the Board of Directors shall elect or appoint the officers of the corporation and the Chairman of the Board. Any two (2) or more positions may be held concurrently by the same person, except that no one shall act as Chairman or President and Treasurer or Secretary at the same time.

(* Amended on May 8, 1962, January 27, 1964, July 25, 1966, April 18, 1979, January 25, 1983, March 29, 2001, January 25, 2005 and August 3, 2010)

Section 2. The Board of Directors may appoint or elect such other officers as it shall deem advisable, who shall, respectively have such authority and perform such duties as may be prescribed from time to time by the Board of Directors.

* **Section 3. The term of office of all officers shall be coterminous with that of the Board of Directors that elects or appoints them except in case of death, resignation, disqualification or removal from office.**

(*New provision adopted on March 29, 2001)

* **Section 4. If any of the offices becomes vacant by reason of death, resignation, failure to qualify, disqualification, removal from office or for any other cause, the Board of Directors may elect a successor who shall hold office for the unexpired term of his predecessor in office.**

(*New provision adopted on March 29, 2001)

ARTICLE VII

CHAIRMAN OF THE BOARD, PRESIDENT, SENIOR EXECUTIVE VICE PRESIDENT,
EXECUTIVE VICE PRESIDENTS, SENIOR VICE PRESIDENTS,
FIRST VICE PRESIDENTS, AND VICE PRESIDENTS

* Section 1. Chairman of the Board. The Chairman of the Board (if there be one) shall preside at all meetings of the stockholders and Board of Directors. He shall also exercise such powers and perform such duties as the Board of Directors may assign to him.

(*Amended on April 26, 1939, April 16, 1947, March 29, 2001 and August 3, 2010)

* **Section 2. President. The President, who must be a director, shall be the chief executive officer of the corporation. He shall have general care, supervision and management of the business and affairs of the corporation, subject to the control of the Board of Directors. He shall exercise such functions and perform all duties incident to the office of the President and such other duties as may, from time to time, be assigned to him by the Board or as prescribed in these By-Laws. He shall see that all orders and resolutions of the Board are carried into effect, subject, however, to the right of the Board to delegate any specific powers, except such as may be by statute exclusively conferred on the President, to any other officer or officers of the corporation. In the absence of the Chairman the Board, he shall preside at the meetings of the stockholders and of the Board of Directors.**

(*Amended on April 26, 1939, April 16, 1947, April 15, 1953,
March 29, 2001 and August 3, 2010)

* Section 3. The Senior Executive Vice President, Executive Vice Presidents, Senior Vice Presidents, First Vice Presidents, and Vice Presidents. In the case of absence or disability of the

President, the Senior Executive Vice President shall act as President and in case of his absence or disability, the Board shall designate any of the Executive Vice Presidents to act as President, and perform the duties and exercise the powers of the President. The Senior Executive Vice President, Executive Vice Presidents, Senior Vice Presidents, First Vice Presidents and Vice Presidents shall perform such duties as the Board shall, from time to time, prescribe.

(*Amended on April 26, 1969, January 27, 1964,
April 18, 1979 and January 25, 1983)

ARTICLE VIII

SECRETARY AND ASSISTANT SECRETARY

* Section 1. The Secretary shall make full and faithful record of the proceedings of all meetings of the stockholders, Board of Directors and Executive Committee in books to be kept for that purpose. He shall give or cause to be given all necessary notice of and materials for all meetings, have custody of the corporate seal and affix it when authorized, preserve and keep all material contracts, papers and documents, and keep or cause to be kept a list of all stockholders. The Secretary shall act as inspector at the election of Directors and, as such, determine the number of shares of stock outstanding and entitled to vote, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and receive votes, ballots and consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate votes, ballots, consents, determine the results and do such acts as are proper to conduct the election or vote. The Secretary may assign the exercise or performance of any or all of the foregoing duties, powers and functions to any other person or persons, subject always to his supervision and control. The Secretary shall generally perform such services and duties as are incident to his office and as the Board of Directors or the President may, from time to time, prescribe or assign to him.

(*Amended on March 29, 2001)

* **Section 2. In the absence or disability of the Secretary, the Assistant Secretary shall act in his place and perform his duties. The Assistant Secretary shall also perform such other duties as may, from time to time, be delegated to him by the Secretary and as the Board of Directors or the President may prescribe or assign to him.**

(*New provision adopted on March 29, 2001)

ARTICLE IX
TREASURER AND ASSISTANT TREASURER

* Section 1. The Treasurer shall have chief custody of the corporation's funds. He shall be responsible for the placements of the corporation's funds, debt portfolio administration and management, planning and controlling the corporation's cash position, reviewing the corporation's capital structure and maintaining the corporation's relations with financial institutions and creditors. He shall also perform such other duties as the Board of Directors or the President may prescribe or assign to him.

(*Amended on March 29, 2001 and August 3, 2010)

* Section 2. In the absence or disability of the Treasurer, the Assistant Treasurer shall act in his place and perform his duties. The Assistant Treasurer shall also perform such other duties as may from time to time be delegated to him by the Treasurer and as the Board of Directors or the President may prescribe or assign to him.

(*New provision adopted on March 29, 2001)

* ARTICLE X
CONTROLLER AND ASSISTANT CONTROLLERS

* Section 1. The Controller shall serve as the chief financial reporting and accounting officer of the corporation who shall be responsible for the preparation and maintenance of the corporation's financial/accounting books and records, financial planning, revenue management and cash assurance, and management and control of disbursements. He shall also be responsible for the preparation and reporting of the corporation's financial statements on a stand-alone basis and/or in combination with consolidated subsidiaries, and for the corporation's financial regulatory compliance.

* Section 2. In the absence or disability of the Controller, the Assistant Controller shall act in his place and perform his duties. The Assistant Controller shall also perform such other duties as may, from time to time, be delegated to him by the Controller and as the Board of Directors or the President may prescribe or assign to him.

(*New provision adopted on August 3, 2010)

ARTICLE XI

INDEMNIFICATION OF DIRECTORS/OFFICERS

This corporation shall indemnify every director or officer, his heirs, executors and administrators against all costs and expenses reasonably incurred by such person in connection with any civil, criminal, administrative or investigative action, suit or proceeding (other than an action by this corporation) to which he may be, or is made, a party by reason of his being or having been a director or officer of this corporation, except in relation to matters as to which he shall be finally adjudged in such action, suit or proceeding, to be liable for gross negligence, misconduct, or breach of fiduciary duty.

In the event of a settlement or compromise, indemnification shall be provided only in connection with such matters covered by the settlement as to which this corporation is advised by counsel that the person to be indemnified did not commit a breach of duty as such director or officer.

The amount payable by way of indemnity shall be determined and paid only pursuant to a resolution adopted by a majority of all of the members of the Board of Directors.

The costs and expenses incurred in defending the aforementioned action, suit or proceeding may be paid by this corporation in advance of the final disposition of such action, suit or proceeding, as authorized in the manner provided for in the preceding paragraph, upon receipt of an undertaking by or on behalf of the director or officer to repay such amount, unless it shall ultimately be determined that he is entitled to be indemnified by this corporation as authorized in this Article.

(*New provision adopted on March 29, 2001)

* ARTICLE XII

(ii) *INDEPENDENT AUDITOR*

*** Section 1. The Audit Committee constituted by the Board of Directors shall be directly responsible for the appointment, compensation, retention, removal or termination of engagement and oversight of the Independent Auditor, including resolving disagreements between management and the Independent Auditor regarding financial reporting and approving all audit engagement fees and terms.**

(Amended on June 28, 2005)

*** Section 2. At the regular meeting of the Audit Committee immediately preceding the annual meeting of the stockholders of the corporation, the Audit Committee shall appoint the Independent Auditor. In case of resignation, removal or termination of engagement of the Independent Auditor, the Audit Committee shall, as soon as practicable, select and appoint a replacement.**

(*New provision adopted on June 28, 2005)

*** Section 3. The Independent Auditor or the lead, engagement or coordinating audit partner having the primary responsibility for the audit or reviewing the audit of the corporation's financial accounts shall be rotated after five (5) years of service (with time of service counted from January 1, 2003) for a time out period of at least five (5) years.**

(*New provision adopted on June 28, 2005)

*** Section 4. The Independent Auditor shall report directly to the Audit Committee.**

(*New provision adopted on June 28, 2005)

* ARTICLE XIII

BANKING AND CONTRACTS

*** Section 1. All moneys belonging to the corporation shall be deposited in such bank or banks as may be, from time to time, designated by the Board of Directors and shall be withdrawn only on checks of the corporation signed by such officer/officers of the corporation or by such person/persons as may be, from time to time, designated by the Board of Directors. Promissory notes, bills of exchange, trade acceptances, drafts and other negotiable instruments shall be signed and/or drawn in the name of the corporation by such officer/officers of the corporation or by such person/persons as may be, from time to time, designated by the Board of Directors.**

(* Amended on January 25, 2005)

*** Section 2. All contracts, instruments or documents pertaining to transactions or corporate actions authorized by the Board of Directors shall be signed in the name of the corporation by such officer/officers of the corporation or by such person/persons as may be, from time to time,**

designated by the Board of Directors. In the absence of any specific designation by the Board of Directors, such contracts, instruments or documents shall be signed in the name of the corporation by the President, or by any officer/officers or executive/executives of the corporation or any person/persons duly authorized by the President. Contracts, instruments or documents to be entered into in the ordinary course of business of the corporation which do not require the approval of the Board of Directors may be signed by the President or by any officer/officers or executive/executives of the corporation or any person/persons duly designated by the President, or by such officer/officers or executive/executives of the corporation or any person/persons duly authorized for such purpose under administrative orders approved by the President and in effect at the relevant time.

(*Amended on March 29, 2001 and January 25, 2005)

* ARTICLE XIV
FISCAL YEAR

Section 1. The fiscal year in the business of the corporation shall be the calendar year, extending from January first to December thirty-first inclusive, in each year.

* Section 2. The corporation shall submit to the stockholders at least fifteen (15) business days prior to the annual meeting, a financial report of the operations of the corporation for the preceding year, which shall include financial statements, duly signed and certified by the corporation's Independent Auditor.

(*Amended on February 24, 1998, March 29, 2001, July 16, 2002 and January 25, 2005)

* ARTICLE XV
SEAL

Section 1. The corporate seal of this corporation shall bear upon its face, in a circle, the words "**PLDT Inc.**", and within the circle **the logo of the corporation** and the words and figures, "INCORPORATED 1928".

(*Amended on March 29, 2001 and **August 30, 2016**)

* ARTICLE XVI
AMENDMENTS

* Section 1. The owners of the majority of the subscribed capital stock may, at a regular or special meeting duly called for the purpose, amend or repeal these By-Laws, or adopt new By-laws. The owners of two-thirds of the subscribed capital stock may delegate to the Board of Directors the power to amend or repeal these By-Laws or to adopt new By-Laws; provided, however, that any such power so delegated to the Board of Directors shall be considered as revoked whenever a majority of the stockholders shall so vote at a regular or special meeting called for the purpose.

(* Amended on April 15, 1953)

* Section 2. All By-Laws and amendments thereto adopted shall be certified by a majority of the Directors and by the Secretary or Assistant Secretary, and entered in the book of By-Laws. Whenever any amendment or new By-Law is adopted, it shall be entered in the book of By-Laws with the original By-Laws. If any By-Law is repealed, the fact of repeal with the date of the meeting at which the repeal was enacted, or written assent was filed, shall be stated in said book.

(*Amended on March 29, 2001)

The following notation is FOR GUIDANCE ONLY and does not constitute a part of the By-Laws of PLDT Inc..

NOTE: Under the provisions of Section 1 of ARTICLE XVI (formerly Article XV) of the By-Laws of PLDT Inc., the owners of two-thirds of the subscribed capital stock may delegate to the Board of Directors the power to amend, repeal or adopt new By-Laws. Under the authority given by said section of the By-Laws, the stockholders under date of April 15, 1953 delegated to the Board the power to amend, repeal or adopt new By-Laws.

SAN MIGUEL CORPORATION
(Seller)

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
GLOBE TELECOM, INC.
(Purchasers)

and

VEGA TELECOM, INC.
(Company)

SALE AND PURCHASE AGREEMENT

RELATING TO THE SALE AND PURCHASE OF 100.00%
EQUITY INTEREST IN VEGA TELECOM, INC.

30 May 2016

This **SALE AND PURCHASE AGREEMENT** (the “**Agreement**”) is dated May 30, 2016 (the “**Signing Date**”), by and among:

SAN MIGUEL CORPORATION, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at 40 San Miguel Avenue, Mandaluyong City, 1550 Metro Manila, Philippines, represented herein by its President and Chief Executive Officer, Mr. Ramon S. Ang (hereinafter, “**SMC**” or the “**Seller**”);

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Ramon Cojuangco Building, Makati Avenue, Makati City, represented herein by its Chairman and President, Mr. Manuel V. Pangilinan (hereinafter, “**PLDT**”);

GLOBE TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig City, represented herein by its President and Chief Executive Officer, Mr. Ernest L. Cu (hereinafter, “**GLOBE**” and together with PLDT, the “**Purchasers**”);

- and -

VEGA TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at 40 San Miguel Avenue, Mandaluyong City, 1550 Metro Manila, Philippines, represented herein by its Chairman and President, Mr. Ramon S. Ang (“**VTI**” or the “**Company**”).

(SMC, PLDT, GLOBE and VTI are at times individually referred to as a “**Party**” and collectively, as the “**Parties**”).

WHEREAS:

- (A) SMC is the registered and beneficial owner of 13,500,000 common shares of stock and 13,500,000 preferred shares of stock, which comprise in the aggregate one hundred percent (100%) of the entire issued and outstanding capital stock of VTI on a fully-diluted basis as set out in **Schedule 1** (the “**Sale Shares**”);
- (B) VTI, through its subsidiaries listed in **Schedule 2** (the “**VTI Subsidiaries**”), owns and possesses the Franchises to operate and maintain telecommunications service in the Philippines as set out in **Schedule 3(A)** (the “**Franchises**”), and the VTI Subsidiaries have been assigned the frequencies listed in **Schedule 3(B)** (the “**Frequencies**”) pursuant to the Franchises (the Franchises and the Frequencies are collectively referred to as the “**Telco Assets**”);
- (C) SMC has extended various shareholder advances and other advances to VTI and VTI Subsidiaries, in the aggregate amount of Twenty Two Billion Seventy Six Million Seven Hundred Forty Eight Thousand One Hundred Thirty Seven Pesos (PHP22,076,748,137.00) as of the Signing Date, details of which are set out in **Schedule 4** (the “**Outstanding Advances**”);
- (D) The Seller has agreed to sell, transfer and convey the Sale Shares in favor of the Purchasers, and the Purchasers have agreed to purchase and acquire from the Seller such Sale Shares on a 50-50 basis, on the underlying consideration that the purchase of the Sale Shares will result in the Purchasers acquiring and owning VTI which in turn owns, directly or indirectly, all the rights, title and interests in and to the Telco Assets through the VTI Subsidiaries;

- (E) The Purchasers have agreed to purchase from SMC on a 50-50 basis, and SMC has agreed to sell to the Purchasers, the Outstanding Advances under the terms and conditions set forth in this Agreement;
- (F) VTI as the issuer of the Sale Shares, desires to assist the Seller and the Purchasers to implement the transactions contemplated herein, and for such purpose have agreed to perform certain obligations as set forth in this Agreement; and
- (G) The Seller has agreed that, concurrent with the purchase by the Purchasers of the Sale Shares, the Seller will procure that the Other Sellers will sell, transfer and convey to the Purchasers, and the Purchasers will also acquire from the Other Sellers the shares and outstanding shareholder advances and other advances described in **Schedule 5** (collectively, the “**Concurrent Transactions**”).

NOW, THEREFORE, in consideration of the premises and the mutual agreements and covenants hereinafter set forth, the Parties hereby agree as follows:

ARTICLE I
DEFINITIONS AND INTERPRETATION

1.1 Definitions. When used in this Agreement, unless the contrary intention appears or a different meaning is called for in the context of another provision in this Agreement, the capitalized terms shall have the meanings assigned to them in **Schedule 6** unless the context otherwise requires or they are expressly assigned a different meaning.

1.2 References. References to Sections, Recitals and Schedules are, unless otherwise stated, to sections, clauses and recitals of and schedules to this Agreement. Section headings are for convenience only and shall not affect the construction of this Agreement. The terms and conditions set out in the Recitals and Schedules are incorporated into and form part of this Agreement. References to this Agreement shall include the Recitals and Schedules. In construing this Agreement, the singular shall include the plural and vice versa. Reference to any statute or statutory provision shall include any statute or statutory provision which amends or replaces, or has amended or replaced, it and shall include any subordinate legislation made under the relevant statute.

1.3 Date or Time. Any reference to a date or a time of day is a reference to Philippine Standard time.

1.4 Schedules and Annexes. The following schedules and annexes attached to this Agreement shall form integral parts hereof:

Schedule 1	Sale Shares
Schedule 2	List of VTI Subsidiaries
Schedule 3(A)	List of Franchises
Schedule 3(B)	List of Frequencies
Schedule 4	Details of Outstanding Advances
Schedule 5	Concurrent Transactions
Schedule 6	Definitions
Schedule 7	Returned Frequencies
Schedule 8	Co-Used Frequencies
Schedule 9(A)	Seller Warranties
Schedule 9(B)	Purchaser Warranties

Schedule 10	List of Resigning Directors
Schedule 11	List of Excluded Employees/Consultants
Annex A	Form of Deed of Absolute Sale of Shares
Annex B	Form of Deed of Assignment of Outstanding Advances
Annex C	Form of First Payment Certificate
Annex D	Form of Irrevocable Proxy
Annex E	Form of Notice to PCC
Annex F	Form of Second Payment SBLC and Final Payment SBLC

ARTICLE II
SALE AND PURCHASE OF SALE SHARES AND OUTSTANDING ADVANCES;
ASSUMPTION OF TOTAL LIABILITIES

- 2.1. Sale and Purchase of Sale Shares. Subject to the First Payment Milestone referred to in Section 3.3, and without prejudice to and in accordance with the Terms and Manner of Payment under Article III hereof:
- (a) The Seller hereby sells, transfers, assigns and conveys in favor of the Purchasers, and the Purchasers hereby purchase, acquire and accept from the Seller on a 50-50 basis, free and clear of any Encumbrance, the Sale Shares as set out in **Schedule 1** hereof, and all of the Seller's rights and interests therein, including full voting rights and the rights to any dividend or other distribution declared, made or payable after the First Payment Date;
 - (b) The Seller hereby sells, transfers, assigns and conveys in favor of the Purchasers, and the Purchasers hereby purchase, acquire and accept from the Seller on a 50-50 basis, free and clear of any Encumbrance, the Outstanding Advances and all of the Seller's rights and interests therein; and
 - (c) The sale and purchase contemplated herein shall be for all of the Sale Shares and the Outstanding Advances. Unless expressly agreed otherwise in writing by the Purchasers, the First Payment Milestone shall not occur unless the sale and purchase transaction among the Parties is for all, and not only some, of the Sale Shares and the Outstanding Advances.
- 2.2. Assumption of Total Liabilities. Subject to the First Payment Milestone referred to in Section 3.3, and without prejudice to and in accordance with the Terms and Manner of Payment under Article III hereof, the Purchasers, through VTI and the relevant VTI Subsidiaries (as may be appropriate), shall assume the Total Liabilities from and after the First Payment Date.
- 2.3. Purchase Price. The aggregate purchase price payable to the Seller shall be **Fifty Two Billion Eighty Million Seven Hundred Sixty Four Thousand Nine Hundred Eighty Two Pesos (PHP52,080,764,982.00)** (the "**Purchase Price**"), consisting of the following:
- (a) **Thirty Billion Four Million Sixteen Thousand Eight Hundred Forty Five Pesos (PHP30,004,016,845.00)** as purchase price for the Sale Shares (the "**Sale Shares Purchase Price**"); and
 - (b) **Twenty Two Billion Seventy Six Million Seven Hundred Forty Eight Thousand One Hundred Thirty Seven Pesos (PHP22,076,748,137.00)** as purchase price for the Outstanding Advances (the "**Outstanding Advances Purchase Price**").

ARTICLE III
TERMS AND MANNER OF PAYMENT

3.1 Terms of Payment. Subject to the First Payment Milestone referred to in Section 3.3 below, the Purchase Price shall be payable to the Seller on a deferred basis on the payment dates and in the amounts set forth below, unless otherwise agreed by the Parties in writing:

- (a) On the First Payment Date referred to in Section 3.3 below, the amount of Twenty Six Billion Forty Million Three Hundred Eighty Two Thousand Four Hundred Ninety Pesos (PHP26,040,382,490.00), representing fifty percent (50%) of the Purchase Price (the “**First Payment**”);
- (b) On December 1, 2016 (the “**Second Payment Date**”), the amount of Thirteen Billion Twenty Million One Hundred Ninety One Thousand Two Hundred Forty Six Pesos (PHP13,020,191,246.00), representing twenty five percent (25%) of the Purchase Price (the “**Second Payment**”); and
- (c) On May 30, 2017 (the “**Final Payment Date**”), the amount of Thirteen Billion Twenty Million One Hundred Ninety One Thousand Two Hundred Forty Six Pesos (PHP13,020,191,246.00), representing twenty five percent (25%) of the Purchase Price (the “**Final Payment**”).

3.2 Manner of Payment. Subject to the First Payment Milestone referred to in Section 3.3 below, the Purchase Price shall be payable to the Seller as follows:

- (a) On the First Payment Date:
 - (1) the First Payment shall be paid not later than 11:00 a.m. by wire transfer of immediately available funds to the Designated Account; and
 - (2) the Purchasers shall deliver to the Seller, as security for the Second Payment and the Final Payment, an irrevocable standby letter(s) of credit from an issuing bank, and under terms and conditions, acceptable to the Seller covering the amount of the Second Payment (the “**Second Payment SBLC**”) and the Final Payment (the “**Final Payment SBLC**”), in the form of **Annex F**.
- (b) On the Second Payment Date, the Second Payment shall be paid by wire transfer of immediately available funds to the Designated Account. If the Purchasers fail to have the full amount of the Second Payment credited to the Designated Account by 11:00 a.m. of the Second Payment Date, such failure shall be deemed as non-performance of the Purchasers’ obligations to pay the Second Payment in full on such date. The Seller shall have the right to immediately and unconditionally draw any unpaid portion of the Second Payment under the Second Payment SBLC.
- (c) On the Final Payment Date, the Final Payment shall be paid by wire transfer of immediately available funds to the Designated Account. If the Purchasers fail to have the full amount of the Final Payment credited to the Designated Account by 11:00 a.m. of the Final Payment Date, such failure shall be deemed as non-performance of the Purchasers’ obligations to pay the Final Payment in full on such date. The Seller shall have the right to immediately and unconditionally draw any unpaid portion of the Final Payment under the Final Payment SBLC.
- (d) For the avoidance of doubt, the Seller hereby agrees that the remittance to the Designated Account of the First Payment, the Second Payment, and the Final Payment, including any

amount drawn from the Second Payment SBLC and/or the Final Payment SBLC, if appropriate, shall be deemed full compliance by the Purchasers with their obligation to pay the Purchase Price, without prejudice to the obligation to make additional payments to the Seller (if any) pursuant to Article VI of this Agreement.

- 3.3 First Payment Milestone. The full payment of the Purchase Price and the performance by each of the Parties of their respective obligations under this Agreement from and after the Signing Date, shall be subject to the fulfillment and satisfaction of each of the First Payment Deliverables set out in Section 3.4 below (the “**First Payment Milestone**”).

The date on which the First Payment Milestone shall have occurred is referred to in this Agreement as the “**First Payment Date**”.

- 3.4 Deliverables. The obligations of each of the Seller and the Purchasers to complete and consummate the transactions contemplated by this Agreement shall be subject to the satisfaction on or prior to the First Payment Date of each of the following conditions and deliverables (the “**First Payment Deliverables**”), any one or more of which may be waived in writing, in whole or in part, by the Purchasers:

(a) As to the obligations of both the Seller and the Purchasers:

- (1) The National Telecommunications Commission (“**NTC**”) shall have issued an order (the “**NTC Approval**”) approving the following:

- (i) the return or relinquishment by Belltel of the Frequencies specified in **Schedule 7**; and
- (ii) the co-use arrangement or agreement among the Co-Use Parties in respect of the Frequencies to be retained by Belltel and co-used by the Co-Use Parties, as set out in **Schedule 8**;

provided, that in both (i) and (ii) the NTC does not require the Purchasers to return to the Government through the NTC (or such other appropriate Governmental Authority) additional Frequencies other than as specified in **Schedule 7**;

- (2) The Parties shall have filed the relevant notice with the Philippine Competition Commission (“**PCC**”) in accordance with the relevant PCC memorandum circular, substantially in the form of **Annex E**;
- (3) No Law, or other legally binding resolution or order, writ, injunction, restraining order or decree of any Governmental Authority, shall be in effect which would restrain or prohibit the Parties from executing the Definitive Agreements, or making the First Payment as contemplated in this Agreement; and
- (4) No Material Adverse Change shall have occurred.

(b) Seller Deliverables as to the obligations of the Purchasers:

- (1) **The Sale Shares sold by the Seller to the Purchasers constitute one hundred percent (100%) of the total issued and outstanding capital stock of VTI;**
- (2) **At or prior to the First Payment Date, all corporate actions, approvals and other proceedings required for the consummation and implementation by the Seller**

and VTI of the transactions contemplated in the Definitive Agreements (including specifically the sale, transfer, assignment and conveyance of the Sale Shares and the Outstanding Advances in favor of the Purchasers), shall have been obtained by the Seller and VTI, and shall be in full force and effect, evidence of such authorizations or approvals satisfactory to the Purchasers shall have been submitted by the Seller and VTI to each of the Purchasers;

- (3) At or prior to the First Payment Date, all (a) filings, permits, authorizations (other than the Tax Clearance/CAR), (b) Third Party Consents (other than Third Party Consents disclosed to the Purchasers in writing), and (c) other approvals and waivers, for the consummation and implementation by the Seller and VTI of the transactions contemplated in the Definitive Agreements (including specifically the sale, transfer, assignment and conveyance of the Sale Shares and the Outstanding Advances in favor of the Purchasers) required under applicable Law to be obtained by the Seller and/or under agreements entered into by the Seller, VTI, or any of the VTI Subsidiaries (including the terms of any shareholders' agreements and/or loan agreements entered into by any of the Seller, VTI, or any of the VTI Subsidiaries), shall have been obtained by the Seller and VTI, and shall be in full force and effect, evidence of such authorizations or approvals satisfactory to the Purchasers shall have been submitted by the Seller and VTI to each of the Purchasers;
- (4) **All of the payment milestones and deliverables under the separate definitive agreements covering the Concurrent Transactions shall have been fulfilled, and the implementation of the transactions as contemplated under the said agreements shall have occurred or, in the sole reasonable determination of the Purchasers, will occur simultaneously with the First Payment Milestone;**
- (5) **The covenants and agreements required to be complied with by the Seller and VTI as provided in this Agreement shall have been complied with prior to or as of the First Payment Date, and generally no event of default or any other event which, with the giving of notice or lapse of time or both, would be an event of default under this Agreement, has occurred and is continuing;**
- (6) **All the representations and warranties of the Seller and VTI contained in Schedule 9(A) hereof shall have been true and correct when made, and shall be true and correct as of the First Payment Date, with the same force and effect as if made on the First Payment Date; and**
- (7) **The Resigning Directors shall have submitted their letters of resignation to VTI, effective as of the First Payment Date.**

(c) Purchasers Deliverables as to the obligations of the Seller:

- (1) At or prior to the First Payment Date, all corporate actions, approvals and other proceedings required for the consummation and implementation by the Purchasers of the transactions contemplated in the Definitive Agreements (including specifically the purchase, acquisition and acceptance of the Sale Shares and Outstanding Advances from the Seller), shall have been obtained by each of the Purchasers, and shall be in full force and effect, evidence of such authorizations or approvals satisfactory to the Seller shall have been submitted by each of the Purchasers to the Seller;
- (2) The covenants and agreements required to be complied with by the Purchasers as provided in this Agreement shall have been complied with prior or as of the First

Payment Date, and generally no event of default or any other event which, with the giving of notice or lapse of time or both, would be an event of default under this Agreement, has occurred and is continuing; and

- (3) All the representations and warranties of the Purchasers contained in **Schedule 9(B)** hereof shall have been true and correct when made, and shall be true and correct as of the First Payment Date, with the same force and effect as if made on the First Payment Date.

3.5 Reasonable Endeavors. The Parties shall use their reasonable endeavors to obtain the fulfillment and satisfaction of the First Payment Deliverables set out in Section 3.4 above. For this purpose, the Parties agree to jointly file and submit: (i) the application for the securing of the NTC Approval, together with such other documentary requirements as may be required by the NTC; (ii) the relevant notice with the PCC in accordance with the relevant PCC memorandum circular, and (iii) the required disclosure to the SEC and PSE, pursuant to the SRC. The Parties agree to cooperate with each for the purpose of securing the NTC Approval without delay. They shall also keep each other promptly informed of any circumstances that may result in any other First Payment Deliverable not being satisfied in accordance with its terms.

3.6 Activities Prior to First Payment Milestone.

For the orderly conduct of the First Payment Milestone, no later than one (1) day prior to the First Payment Date, the Seller shall provide each of the Purchasers with (i) a copy of the DST return signed and ready to be filed by the Seller with the BIR in respect of its sale of the Sale Shares, and (ii) the name of the particular BIR revenue district office or the proper BIR payee of the manager's check covering the DST payment on the Sale Shares.

3.7 First Payment Acts. Subject to the fulfillment (or waiver by the relevant Party) of the First Payment Deliverables set forth in Section 3.4, the First Payment Milestone will take place at 10:00 a.m. on the First Payment Date at the offices of the Seller (or at such other time or location as the Parties may agree in writing). On the First Payment Date, provided that all the First Payment Deliverables have been fulfilled or otherwise waived in writing by the relevant Party, the Parties shall implement each of the following actions (the "**First Payment Acts**"):

(a) Acts Required of each of the Seller and VTI. The Seller (and VTI as the case may be) shall deliver each of the following to each of the Purchasers:

- (1) Duly executed Deeds of Absolute Sale of Shares of all the Sale Shares belonging to the Seller in favor of the Purchasers (substantially in the form attached as **Annex A**), evidencing the sale, assignment, transfer, and conveyance by the Seller of the Sale Shares in favor of the Purchasers (the "**Deeds of Sale**");
- (2) Evidence of the annotation of the execution of the Deeds of Sale in the stock and transfer book of VTI;
- (3) Duly executed Deeds of Assignment of all the Outstanding Advances in favor of the Purchasers (substantially in the form attached as **Annex B**), evidencing the sale, assignment, transfer, and conveyance by the Seller of the Outstanding Advances in favor of the Purchasers (the "**Deeds of Assignment**");
- (4) All original stock certificates evidencing the Sale Shares duly endorsed in blank by the registered owners, including the original of the stock certificates for shares of stock in VTI beneficially owned by the Seller and registered in the names of its nominee directors who hold such shares as nominees of the Seller, duly endorsed

in blank by such nominee directors;

- (5) Copy of the CGT return signed and ready to be filed by the Seller with the BIR in respect of the sale of the Sale Shares;
 - (6) Duly signed deeds of assignment or deeds of trust or nominee agreements from each of the Resigning Directors listed in **Schedule 10** dated as of the First Payment Date, transferring legal or beneficial ownership over the qualifying shares to the replacement directors to be identified and nominated by the Purchasers prior to the First Payment Date;
 - (7) Duly executed letters of resignation of each of the directors listed in **Schedule 10** dated as of the First Payment Date;
 - (8) An original sworn certificate of the Seller's Corporate Secretary or equivalent officer containing the resolution/s or approval/s of the Board of Directors (or equivalent governing body) and shareholders, if applicable, approving the sale of its Sale Shares, and the execution, delivery, and performance by the Seller of this Agreement and each of the Definitive Agreements and, designating in each case, the Person or Persons authorized to sign this Agreement and each of the Definitive Agreements, on behalf of the Seller, including the specimen signature/s of such authorized signatory/ies;
 - (9) The First Payment Certificate from the Seller, in the form attached hereto as **Annex C**, certifying and confirming that (A) the First Payment Deliverables of the Seller under Section 3.4(b) have been satisfied, (B) the Seller Warranties set forth in **Schedule 9(A)** are true and correct when made and on the First Payment Date with the same force and effect as though such representations and warranties had been made on and as of and the First Payment Date, and (C) the Seller has performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement which the Seller is required to perform or comply with, in all respects;
 - (10) Irrevocable proxies (substantially in the form attached as **Annex D**) executed by the Seller, constituting each of the Purchasers as its attorney-in-fact, with full power and authority to vote the Sale Shares on a 50-50 basis at any meeting of the shareholders of VTI that may be convened from and after the First Payment Date, and to do any and all acts related to their exercise of its rights as a stockholder in the VTI from and after the First Payment Date; and
 - (11) VTI's stock and transfer book, stock certificate book, minutes book, corporate dry seal, original Articles of Incorporation and By-Laws and all amendments thereto.
- (b) Acts Required of each of the Purchasers. Each of the Purchasers shall deliver each of the following to the Seller:
- (1) An original sworn certificate of the each of the Purchasers' Corporate Secretary or equivalent officer containing the resolution/s or approval/s of the Board of Directors (or equivalent governing body) approving the execution, delivery, and performance by the each of the Purchasers of this Agreement and each of the Definitive Agreements and, designating the Person or Persons authorized to sign this Agreement and each of the Definitive Agreements on its behalf, including the specimen signature/s of such authorized signatory/ies;

- (2) Payment of the First Payment via real time gross settlement of clear and immediately available funds, which must be credited to the Designated Account;
 - (3) Second Payment SBLC;
 - (4) Final Payment SBLC;
 - (5) Manager's checks for the Seller issued in the name of the particular BIR revenue district office or the proper BIR payee, in the amount equal to the payment required for the DST for the transfer of Sale Shares;
 - (6) Duly executed Deeds of Sale; and
 - (7) Duly executed Deeds of Assignment.
- (c) Resignation of Directors. On the First Payment Date, VTI shall cause the holding of a special shareholders' meeting for the purpose of accepting the resignation of the Resigning Directors, and electing the Incoming Directors to the Board of Directors of VTI.

3.8 Payment of Fees, Expenses and Taxes.

- (a) Income or Capital Gains Tax
- (i) The Seller shall pay the income or CGT, if any, and file the corresponding returns covering the income tax or CGT, within the reglementary period for filing and paying the same, and provide proof of payment of the taxes arising from the sale of the Sale Shares, or provide proof of tax exemption therefrom. The Seller shall furnish a copy of the relevant tax return or tax-exempt ruling to each of the Purchasers.
 - (ii) The Seller shall file the CGT returns and pay the CGT due on the sale of the Sale Shares within the reglementary period for filing and paying the same, and, within three (3) days from filing and payment thereof, provide each of the Purchasers with a copy of the CGT return duly filed and evidencing that CGT have been paid with the authorized agent bank of the appropriate BIR Revenue District. Immediately thereafter, the Seller shall procure the issuance of the Tax Clearance/CAR.
- (b) Documentary Stamp Tax.
- (i) The DST on the transfer of the Sale Shares shall be for the account of the Purchasers. The Seller shall arrange the payment thereof upon receipt of separate manager's checks from each of the Purchasers in the amounts of the DST on the Sale Shares of each of the Purchasers.
 - (ii) Within the reglementary period for filing and paying the same, the Seller shall file with an authorized agent bank of the appropriate BIR Revenue District the DST return and pay the DST due on the sale of the Sale Shares. The Seller shall provide each of the Purchasers proof of payment of the DST on the transfer of their Sale Shares within three (3) Business Days from payment thereof.
- (c) Other Fees, Costs and Expenses. All other fees, costs and expenses incurred in connection with the negotiation, preparation, and execution of this Agreement and the Definitive Agreements, as well as those arising out of or in connection with this Agreement shall be

borne and paid by the Party incurring such fees, costs and expenses. The fees in respect of the Second Payment SBLC and Final Payment SBLC shall be for the account of the Purchasers.

- (d) Tax Clearance/CAR. The Seller shall be responsible for obtaining from the BIR the Tax Clearance/CAR for the Sale Shares. The Seller shall secure the Tax Clearance/CAR as soon as practicable after the First Payment Date, and in any event not later than six (6) months from such date or such longer period as the Parties may agree.

ARTICLE IV COVENANTS and UNDERTAKINGS

4.1 Mutual Covenants.

- (a) Each Party shall cooperate and use best efforts to prepare and file as soon as practicable all necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and to use best efforts to obtain any necessary Governmental Authorizations, which it is required to obtain under this Agreement. The Parties further agree to use best efforts to perform any act, comply with any requirement, make any undertaking or obtain any clearance or approval required by any Governmental Authority or applicable Law.
- (b) The Parties also agree to cooperate with each other and in good faith in defending against any and all claims, demands, suits or proceedings (commenced by any Person or Governmental Authority) asserted against any of the Parties relating to, resulting from or arising out of the transactions contemplated by this Agreement.

4.2 Non-Compete.

- (a) The Seller undertakes that the Seller and its Affiliates shall not, within a period of five (5) consecutive years after the First Payment Date, engage, directly or indirectly, in any business, undertaking or enterprise that is competitive with or antagonistic to the telecommunications services of the Purchasers and their Affiliates (the “**Restricted Business**”). For the avoidance of doubt, the Parties agree that restriction in this Section 4.2 shall not apply to: (1) any joint venture or similar agreement entered into by the Seller pursuant to Section 8.2(a); and (2) any acquisition by the Seller or its Affiliates of shares or any equity interest in any of the Purchasers or their Affiliates, VTI and/or any of the VTI Subsidiaries in case of any future divestment by the respective shareholders of the foregoing companies.
- (b) For purposes of this Section 4.2, the expression “competitive with” the Restricted Business shall include directly or indirectly carrying on (whether alone or in partnership or joint venture with anyone else) or otherwise being concerned with or interested in (whether as trustee, principal, agent, shareholder, unit holder or in any other capacity) any business similar to or competitive with the Restricted Business, except to the extent the Seller or its Affiliates shall take merely a trading position as a passive investor in shares representing no more than five percent (5%) of the issued and outstanding capital stock of any listed corporation engaged in the Restricted Business.
- (c) The Seller undertakes that except as otherwise agreed in writing, the Seller and its Affiliates shall not, at any time, directly or indirectly induce or attempt to induce, any Person who is at the Signing Date an employee (or thereafter becomes an employee) or consultant of VTI, any of the VTI Subsidiaries, any of the Purchasers and their Affiliates,

to terminate his/her employment or engagement with such companies, except for employees and consultants identified in **Schedule 11**.

4.3 Personnel.

- (a) The Parties recognize, as between them, that the change in ownership of VTI and the VTI Subsidiaries shall not release VTI and the VTI Subsidiaries, as the case may be, from any of its obligations in relation to the continued employment of its employees on their current terms and conditions.
- (b) The Purchasers undertake to ensure that all employees of VTI and the VTI Subsidiaries will be treated in a professional and fair manner and that the employment terms and conditions of all employees of VTI and the VTI Subsidiaries will be no less favorable than their current employment terms and conditions for a period of at least twelve (12) months from the First Payment Date. Notwithstanding the foregoing, if during this period the Purchasers will implement a rightsizing program, employees of VTI and the VTI Subsidiaries will be given an equal opportunity in respect of their retention as employees based on applicable qualifications established by the Purchasers.

4.4 Use of San Miguel Brand. Not later than one hundred twenty (120) days after the First Payment Date, the Purchasers shall:

- (a) cause the amendment of the articles of incorporation, by-laws, and other relevant corporate documents of the VTI Subsidiaries that carry or use the “San Miguel” name in their corporate or business names or marks, including San Miguel Equity Securities Inc., to delete or remove the “San Miguel” name in their corporate or business names or marks; and
- (b) ensure that the use or display in any manner whatsoever of the “San Miguel” name, marks or logos ceases in any of the goods and services of VTI and the VTI Subsidiaries.

ARTICLE V
REPRESENTATIONS AND WARRANTIES

5.1 Warranties of the Seller and VTI. Each of the Seller and VTI hereby represents and warrants to each of the Purchasers that the statements set out in **Schedule 9(A)** (the “**Seller Warranties**”) are true, complete, and accurate and not misleading, and are deemed repeated as of the Signing Date and the First Payment Date, by reference to facts and circumstances on or immediately prior to the said dates; provided, however, that the indemnity obligation of the Seller for any breach of said Seller Warranties shall be governed by the provisions of Article VII on Indemnification and Limitations to Indemnity.

5.2 Warranties of the Purchasers. Each of the Purchasers hereby represents and warrants to the Seller and VTI that the statements set out in **Schedule 9(B)** (the “**Purchaser Warranties**”) are true, complete, and accurate and not misleading, and are deemed repeated as of the Signing Date and the First Payment Date, by reference to facts and circumstances on or immediately prior to the said dates.

5.3 Breach of a Warranty Prior to First Payment Milestone. If, prior to the First Payment Milestone, the Purchasers become aware of a breach of any of the Seller Warranties (other than a breach of the Seller Warranties on ownership of Sale Shares and Telco Assets), the Purchasers shall still proceed with the First Payment Milestone and may seek indemnification for damages suffered as a result of such breach; provided, that the Purchasers’ right to seek indemnification shall be subject to

Article VII (Indemnification and Limitations to Indemnity) of this Agreement.

- 5.4 Separate Warranty. Each Warranty is to be treated as a separate representation and warranty. The interpretation of any statement made may not be restricted by reference to or inference from any other statement, save as expressly otherwise provided.

ARTICLE VI DUE DILIGENCE AND PRICE ADJUSTMENT MECHANISM

- 6.1 Confirmatory Due Diligence. After the First Payment Date, the Purchasers shall have the right to conduct a corporate, financial, tax, legal, business and technical due diligence and review on the Sale Shares, VTI, the VTI Subsidiaries and the Telco Assets (the “**Confirmatory Due Diligence**”) for a period not exceeding sixty (60) days from the First Payment Date (the “**Confirmatory Due Diligence Period**”); provided, however, that all documents, materials and information requested, and which may be in the possession of the Seller, shall have been complete and promptly provided to the Purchasers to determine whether any claim for adjustment or indemnification may be brought under terms to be agreed upon in this Agreement. For this purpose, the Seller shall give the Purchasers and their representatives such information relating to the Sale Shares, VTI, the VTI Subsidiaries and the Telco Assets, which may be in the possession of the Seller and as may be reasonably requested by the Purchasers to complete the Confirmatory Due Diligence.
- 6.2 Validation Period and Adjustments. Within thirty (30) days after the end of the Confirmatory Due Diligence Period (“**Validation Period**”), the parties shall validate and agree on the amount of the Total Liabilities as of the First Payment Date.
- (a) If the Total Liabilities as of the First Payment Date are less than the Total Liabilities as of April 30, 2016, the Purchasers shall pay the variance to the Seller within thirty (30) days from the end of the Validation Period through the delivery of a manager’s check covering the amount of the variance.
 - (b) If the Total Liabilities as of the First Payment Date are more than the Total Liabilities as of April 30, 2016, the Seller shall pay the variance to the Purchasers within thirty (30) days from the end of the Validation Period through the delivery of manager’s checks covering the amount of the variance.
 - (c) In addition to (a) and (b), any excess cash in ETPI over the amount of all of ETPI’s liabilities, net of reasonable operating cash requirements, as of the First Payment Date shall be an adjustment in favor of the Seller to the extent of its *pro rata* ownership in ETPI.

The Purchasers undertake to provide the representative/s of the Seller reasonable access to the relevant financial records, documents, and people to determine and confirm the Total Liabilities as of the First Payment Date.

ARTICLE VII INDEMNIFICATION AND LIMITATIONS TO INDEMNITY

- 7.1 Seller’s Liability for Indemnification. Subject to the limitations and qualifications provided for in this Article VII, the Seller shall indemnify, defend and hold harmless each of the Purchasers from and against any and all Losses in the event that:

- (a) any of the Seller Warranties given by the Seller and/or VTI herein or in **Schedule 9(A)** is

not true and correct in any material respect of the date made and said breach is not remediable or, if remediable, remains unremedied after forty five (45) days from the Seller's receipt of written notice from the Purchasers; or

- (b) the Seller and/or VTI fails to perform or comply in any material respect with any covenant or undertaking under this Agreement or any of the Definitive Agreements.

7.2 Limitations on the Seller's Liability

- (a) Notwithstanding anything in this Agreement, the provisions in this Article VII shall operate to limit all liabilities of the Seller whatsoever under any and all claims (including Third Party Claims) for indemnification by the Purchasers under this Agreement (the "**Indemnity Claims**").
- (b) No Indemnity Claims shall arise in respect of any Loss as contemplated above to the extent that liability for such breach occurs or is increased wholly or partly as a result of the passing of, or any change in, any Law, regulation or administrative practice not in effect at the First Payment Date whether with or without retrospective effect.
- (c) The Seller Warranties and the liability of the Seller under this Agreement shall be subject to and qualified by:
 - (i) any matter or thing hereafter done or omitted to be done at the request in writing or with the approval in writing of the Purchasers or in accordance with the terms of this Agreement;
 - (ii) any provisions on the limitation of the Seller's liability as may at any time be agreed in writing by the Purchasers; and
 - (iii) written disclosures made by the Seller on or before the Signing Date and accepted by the Purchasers.
- (d) The rights and remedies of the Purchasers under this Article VII are exclusive and in lieu of any and all other rights and remedies that the Purchasers may have under this Agreement or otherwise for monetary relief with respect to any breach of or failure by the Seller to perform any representation, warranty, or covenant set forth in this Agreement.

7.3 De Minimis and De Maximis Claims. Notwithstanding anything to the contrary, the liability of the Seller in respect of Indemnity Claims shall be subject to the following limitations:

- (a) the Seller shall not be liable under this Agreement in respect of any individual Indemnity Claim (or a series of Indemnity Claims arising from substantially identical facts or circumstances) where the total Loss agreed or determined in respect of any such claim or series of claims does not exceed Five Million Pesos (PHP5,000,000);
- (b) the Seller shall not be liable under this Agreement in respect of any Indemnity Claim in Section 7.3(a) unless the aggregate amount of Losses for which the Seller would otherwise be liable under this Agreement exceeds Fifty Million Pesos (PHP50,000,000.00), in which case, the Seller shall be liable for the full amount of the Indemnity Claims subject to the maximum aggregate liability under Section 7.3(c);
- (c) the maximum aggregate liability of the Seller shall be as follows:
 - (i) the maximum aggregate liability of the Seller for Indemnity Claims relating to

breach of Seller Warranties on ownership of the Sale Shares, the Outstanding Advances, or the Telco Assets, shall not exceed Sixty Nine Billion One Hundred Two Million Three Hundred Thousand Nine Hundred Thirty Pesos (PHP69,102,300,930.00);

- (ii) the maximum aggregate liability of the Seller for Indemnity Claims relating to breach of Seller Warranties by reason of fraud or non-disclosure of material contracts with suppliers for the supply and provisioning of goods and services relating to the rollout, maintenance and operation, and network infrastructure and facilities and the operation and provision of services shall not exceed Twenty Six Billion Forty Million Three Hundred Eighty Two Thousand Four Hundred Ninety One Pesos (PHP26,040,382,491.00); and
- (iii) the maximum aggregate liability of the Seller for all other Indemnity Claims relating to breach of Seller Warranties not covered in Sections 7.3(c)(i) and 7.3(c)(ii) above, shall not exceed One Billion Nine Hundred Seventy Four Million Three Hundred Fifty One Thousand Four Hundred Fifty Five Pesos (PHP1,974,351,455.00).

7.4 Time Limits. No Indemnity Claim shall be brought by the Purchasers against the Seller unless notice in writing of any such Indemnity Claim (specifying in reasonable detail the nature of the breach and the amount claimed in respect thereof and all matters relied upon together with supporting evidence) has been given to the Seller before the expiry of a period of: (i) five (5) years from the end of the Confirmatory Due Diligence Period in respect of Indemnity Claims relating to breach of Seller Warranties on the ownership of and the title to the Sale Shares, the Outstanding Advances, or the Telco Assets; (ii) three (3) years from the end of the Confirmatory Due Diligence Period in respect of Indemnity Claims relating to breach of Seller Warranties on Taxes; and (iii) two (2) years from the end of the Confirmatory Due Diligence Period in respect of all other Indemnity Claims (the “**Claim Period**”, and the date of serving of notice of the Indemnity Claim, the “**Claim Date**”).

7.5 Conduct of Claims. In the event that any of the Purchasers becomes aware of any matter, which it has determined has given or could give rise to an Indemnity Claim:

- (a) The Purchasers shall immediately, and in any event within thirty (30) days from the time that either of the Purchasers learns of or discovers such an Indemnity Claim (the “**Notice Period**”), send a written notice to the Seller of the events, circumstances, claims and actions that have occurred and have become known to the Purchasers that comprise the Indemnity Claim (stating the amount of the Loss, if known) and that may bring about the application of Section 7.1 of this Agreement (the “**Claim Notice**”).
- (b) The Seller shall have thirty (30) days from its receipt of the Claim Notice (the “**Reply Period**”), to notify the Purchasers that it objects or disputes the Claim Notice or the amount or any aspect of the Indemnity Claim subject of the Claim Notice (the “**Claim Objection**”), or otherwise notify the Purchasers that it does not dispute the Claim Notice and accepts liability for the Indemnity Claim (the “**Claim Acceptance**”).
- (c) If the Seller fails to respond to the Claim Notice within the Reply Period, or sends a written notice of a Claim Acceptance within such period, then the Indemnity Claim shall be deemed accepted. The Purchasers may recover the amount of the Loss subject of the Indemnity Claim, and the Seller shall pay the amount thereof to the Purchasers in cash within thirty (30) days from the end of the Reply Period.
- (d) If within the Reply Period the Seller sends a written notice to the Purchasers of a Claim

Objection, such notice shall state in detail the reasons why it does not accept liability for the Indemnity Claim.

- (e) If no agreement is reached by the Parties within thirty (30) days from the end of the Reply Period, notwithstanding earnest efforts to settle the Indemnity Claim, the matter shall be referred to the Claims Dispute Resolution procedure in Section 7.7 below.

7.6 Third Party Claim. If any of the Purchasers receives written notice of the assertion of any claim or demand by any Person who is not a Party or Affiliate of any Party (a “**Third Party Claim**”) against any of the Purchasers with respect to which an Indemnity Claim is to be sought or which may be sought by any such Purchaser from the Seller:

- (a) The Purchasers will give the Seller written notice thereof within a reasonable time from receipt of notice of the assertion of such claim or of the commencement of any claim, action or proceeding. Such notice shall describe the nature of the Third Party Claim in reasonable detail (including a copy of the Third Party Claim) and shall indicate the estimated amount, if practicable, of the Loss that has been or may be sustained by the Purchasers.
- (b) If the Seller notifies the Purchasers that it accepts liability for such claim, the Purchasers, in consultation with the Seller, shall enter into a settlement agreement with the third party claimant, and all costs and expenses for such settlement shall be for the account of the Seller.
- (c) If the Seller notifies the Purchasers that it does not accept liability for said claim, then the Purchasers and the Seller shall, at the expense of the Seller, cooperate with each other in good faith in defending against the claim or taking such other action as may be appropriate under the circumstances, taking into account the best interests of VTI (or the VTI Subsidiaries, as appropriate) and advice of legal counsel.
- (d) In the event that the Purchasers and the Seller disagree on the course of action to be taken, the matter shall be referred to the Claims Dispute Resolution process under Section 7.7 but in the meantime, the Purchasers shall have the right to handle the claim in a way they deem appropriate taking into account the best interests of VTI (or the VTI Subsidiaries, as appropriate) and advice of legal counsel.

7.7 Claims Dispute Resolution.

- (a) If the Seller disputes its liability to the Purchasers with respect to any Indemnity Claim or Third Party Claim brought under Section 7.5 or 7.6, the Seller and the Purchasers shall refer the matter for resolution to the Presidents and Chief Executive Officers of the Seller and each the Purchasers. If the dispute is so resolved by the Presidents and Chief Executive Officers of the Seller and each of the Purchasers, such resolution shall be final and binding on the Parties for all purposes.
- (b) If the Presidents and Chief Executive Officers of the Seller and each of the Purchasers fail to reach an agreement with respect to the dispute within thirty (30) days from referral, then each of the Purchasers and the Seller shall jointly refer the matter to their respective Chairman of the Board. If the dispute remains unresolved despite referral to the Chairman of the Board of the Seller and each of the Purchasers within thirty (30) days from referral, then the matter will be settled through arbitration under Section 11.13.
- (c) In the event, and from the time an arbitral award is made holding the Seller liable to the Purchasers for any Indemnity Claim or Third Party Claim brought under Section 7.5 or

7.6, then the Purchasers may recover from the Seller the amount of the Loss subject of the Indemnity Claim or Third Party Claim, subject to the limitations provided in this Article VII.

ARTICLE VIII TERMINATION

8.1 Causes for Termination. This Agreement may be terminated by the mutual written agreement of the Seller and the Purchasers.

8.2 Break Fee

A break fee ("**Break Fee**") shall be payable to the Seller as follows:

- (a) If, notwithstanding the fulfillment and satisfaction of all the First Payment Deliverables, any one of the Purchasers (the "**Defaulting Purchaser**") shall refuse or otherwise fail to pay its share in the First Payment for any reason whatsoever, the Defaulting Purchaser shall pay to the Seller as penalty an amount equal to Five Billion One Hundred Eighty Two Million Six Hundred Seventy Two Thousand Five Hundred Seventy Pesos (PHP5,182,672,570.00). To the fullest extent permitted under applicable Laws and regulations, the non-Defaulting Purchaser and the Seller shall, in good faith, discuss, negotiate, and conclude a joint venture agreement or other mutually acceptable commercial arrangement with respect to each of VTI and the VTI Subsidiaries.
- (b) If, notwithstanding the fulfillment and satisfaction of all the First Payment Deliverables, both Purchasers shall each refuse or otherwise fail to pay each of its share in the First Payment for any reason whatsoever, the Purchasers shall pay to the Seller as penalty an aggregate amount equal to Ten Billion Three Hundred Sixty Five Million Three Hundred Forty Five Thousand One Hundred Forty Pesos (PHP10,365,345,140.00).
- (c) The Break Fee under this Section 8.2 shall be payable within thirty (30) days from receipt of written demand therefor.
- (d) In addition to the payment of the Break Fee, the Seller shall have the absolute and unconditional right to terminate the co-use agreement and cause the revocation of the NTC approval thereof.

8.3 Effectivity and Consequences of Termination.

The termination of this Agreement shall be effective on the date set by the Parties as the effective date of such termination.

8.4 Survival. The following clauses shall survive the termination of this Agreement: (i) Article VIII (Termination); and (ii) Article X (Confidentiality).

ARTICLE IX NON-SOLICITATION; EXCLUSIVITY

9.1 No Solicitation. From and after the Signing Date until the First Payment Date (or termination of this Agreement prior to the First Payment Date), without the prior written consent of the Purchasers, the Seller, VTI and the VTI Subsidiaries (and the respective senior officers with a rank of at least Vice President and directors of the above companies) shall not directly or indirectly

solicit, initiate or participate in any way in discussions or negotiations with, or provide information or assistance to, or enter into any agreement with any Person or group of Persons concerning any acquisition, merger, consolidation, liquidation, dissolution, disposition of assets (including by way of lease or similar transaction), joint operating transaction, or assist or participate in, facilitate or encourage any effort or attempt by any other Person to do or seek to do any of the foregoing. In the event any communication occurs which violates or proposes to violate the terms of this Article IX, the Seller, VTI or the VTI Subsidiaries shall, within twenty four (24) hours of such communication, notify each of the Purchasers of the communication and all details thereof.

- 9.2 Exclusivity. From the Signing Date until the First Payment Date, the Seller, VTI and any of the VTI Subsidiaries, shall not enter into any discussion or agreement or transaction involving the sale, transfer, assignment, or creation of any Encumbrance, on the Sale Shares, the Outstanding Advances, VTI, the VTI Subsidiaries, and the Telco Assets.

ARTICLE X CONFIDENTIALITY

- 10.1 Confidential Information. No Confidential Information may be disclosed by the Party receiving such information (the “**Receiving Party**”) to any Person except:
- (a) to directors, senior officers, advisors, counsels, and authorized representatives of the Receiving Party reasonably requiring access to such Confidential Information solely for the purposes of this Agreement and who are obliged to treat the Confidential Information, this Agreement, and the discussions among the Parties as confidential in the same manner and to the same extent as is provided under this Agreement; or
 - (b) with the consent of the Party that owns such Confidential Information (the “**Disclosing Party**”); or
 - (c) if the Receiving Party is required to do so by Law, a stock exchange or any Governmental Authority; provided, that the Receiving Party will promptly give the Disclosing Party written notice of such required disclosure to enable the Disclosing Party to seek legal relief to prevent the disclosure of the Confidential Information; provided further, that if the Disclosing Party fails to obtain legal relief, the Receiving Party will disclose only that portion of the Confidential Information reasonably determined by its counsel as legally required to be disclosed; or
 - (d) if the Receiving Party is required to do so in connection with legal proceedings relating to this Agreement.
- 10.2 Disclosure of Confidential Information. If the Receiving Party discloses Confidential Information under Section 10.1 above, the Receiving Party shall use its reasonable endeavors to ensure that recipients of the Confidential Information do not disclose the Confidential Information except in the circumstances permitted in Section 10.1, or keep the same confidential as may be allowed.
- 10.3 Use of Confidential Information. The Receiving Party shall not use any Confidential Information, except for the purpose of determining whether to exercise its rights, or in performing its obligations under this Agreement or as otherwise required by Law. The Receiving Party shall not make any use of the Confidential Information or any part of it to the competitive disadvantage of the Disclosing Party.
- 10.4 Delivery of Materials. In the event of termination of this Agreement, at any time after such

termination becomes effective, the defaulting Party shall, on the request of the non-defaulting Party(ies), immediately deliver to the non-defaulting Party or otherwise destroy all documents or other materials containing or referring to Confidential Information which are:

- (a) in the defaulting Party's possession, power or control; or
- (b) in the possession, power or control of Persons who have received Confidential Information under this Agreement.

The defaulting Party shall, if requested by the non-defaulting Party(ies) provide to the non-defaulting Party(ies) a certification under oath from a duly authorized officer of the defaulting Party that all such documents or other materials containing or referring to Confidential Information have been returned, erased or destroyed.

This Section 10.4 shall not apply to Confidential Information which the defaulting Party must retain because of any Law or any legally binding order or rule of any court, tribunal, authority, administrative body, judicial body, regulator or stock exchange; provided, that such Confidential Information retained by the defaulting Party remains subject to this Article X.

10.5 Confidentiality of the Transaction. Prior to the First Payment Date, no Party shall disclose the negotiations leading to, the making of this Agreement and its terms (or any other agreement referred to in this Agreement) and the transactions and matters which are the subject of this Agreement to any third party without the prior approval of the other Parties of the form and manner of the disclosure, and each Party shall procure that each of its directors, employees, advisers, or agents shall not make any such disclosure without the prior approval of the other Parties, unless and to the extent that disclosure is:

- (a) to its professional advisers; or
- (b) required by Law or the rules of any stock exchange or other regulatory body, and provided that in relation to any announcement, the disclosing party shall immediately notify the other Parties of the requirement to make any such announcement and shall disclose its contents to the other Parties prior to such announcement and shall give the other Parties an opportunity to comment on the contents.

This Section 10.5 shall not apply to disclosure of such information to or at the written request of or with the written consent of the non-disclosing Party, or such information, which is in the public domain other than by the disclosing Party's breach of this Article X.

10.6 Confidentiality. The Seller must not, and must procure that its Affiliates and the Other Sellers shall not, at any time, directly or indirectly use or disclose to any third party any confidential information of the business of VTI, the VTI Subsidiaries, or any of the Purchasers or their respective Affiliates, which is not generally known or available in the market place or which but for a violation of this Article X would not be generally known or available to the public.

10.7 Remedies. The Receiving Party acknowledges that any unauthorized use or disclosure of the Confidential Information or any part of it in breach of this Agreement may cause material damage to the Disclosing Party and that the Disclosing Party has the right, in addition to any other remedies available at Law or in equity, to seek injunctive relief against the Receiving Party and any representative of the Receiving Party in respect of any such breach of this Article X.

ARTICLE XI **GENERAL PROVISIONS**

11.1 Successors and Assignment. This Agreement shall be binding on and inure for the benefit of the successors of each of the Parties but shall not be assignable or otherwise transferable without the prior written consent of the other Party or Parties.

11.2 Severability.

(a) If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, such provision or part shall to that extent be deemed not to form part of this Agreement but the legality, validity or enforceability of the remainder of this Agreement shall not be affected.

(b) If any illegal, invalid or unenforceable provision would be legal, valid and enforceable if some part of it were deleted or modified, the provision shall apply with whatever deletion or modification is necessary to give effect to the commercial intention of the Parties.

(c) Upon the determination that any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner in order for the transactions contemplated hereby to be consummated as originally contemplated to the greatest extent possible.

11.3 Relationship of the Purchasers. The liabilities of the Purchasers hereunder shall be joint and not solidary (as this is used under Philippine Civil Code) with each other, and nothing in this Agreement shall be deemed to create a partnership or joint venture between or among any of them. Thus, any representation, warranty, obligation, or liability of a Purchaser or of the Purchasers shall not be enforceable, in whole or in part, against the other Purchaser, and such other Purchaser shall not be liable for the representation, warranty, obligations, or liability of any of the other Purchaser. Each of the Purchasers shall be entitled, at its option, to take independent measures with respect to its rights and obligations under this Agreement, and it shall not be necessary for any of the Purchasers to be joined as a party in any judicial or other proceeding for such purpose.

11.4 Costs. Unless otherwise stated in this Agreement, each Party shall bear all its own costs incurred in connection with the preparation, negotiation and execution of this Agreement (including any valuations and audits).

11.5 Notices. Any notice required or permitted to be given by or under this Agreement may be given by delivering the same to the Party in question by delivering it, or by sending it in a prepaid envelope by registered mail or courier, to its address shown in this Agreement or by fax transmission or email as follows:

To SMC: SAN MIGUEL CORPORATION

Address : 40 San Miguel Avenue, Mandaluyong City
1550 Metro Manila, Philippines

Facsimile No. : +632-6323866

Attention: The President and Chief Operating Officer

To VTI: VEGA TELECOM, INC.

Address : 40 San Miguel Avenue, Mandaluyong City
1550 Metro Manila, Philippines

Facsimile No. : +632-6323866

Attention: The Chairman and President

To *PLDT*: PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
Address : Ramon Cojuangco Building
Makati Avenue, Makati City
Facsimile No. : +632-8880686; +632-8107138
Attention: The Chairman and President

To *GLOBE*: GLOBE TELECOM, INC.
Address : The Globe Tower
32nd Street corner 7th Avenue
Bonifacio Global City, Taguig City
Email Address : elcu@globe.com.ph
Attention: The Chief Executive Officer

or to such other address, fax number or email as the Party concerned may have notified to the others in accordance with this Section 11.5. Any such notice shall be deemed to be served upon receipt and shall be deemed to have been received:

- (a) at the time of delivery, if delivered by hand;
- (b) at the time of posting, if delivered by registered mail or courier; or
- (c) at the time of transmission in legible form, if delivered by fax or email.

11.6 Waiver. Any Party to this Agreement may waive compliance with any of the agreements or conditions of the other Parties contained herein. Any such waiver or extension shall only be valid if set forth in an instrument in writing signed by the Party waiving compliance. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition, of this Agreement. The failure of any Party to assert any of its rights hereunder shall not constitute a waiver of any of such rights.

11.7 Amendment. This Agreement may not be amended or modified except by an instrument in writing signed by or on behalf of the Seller and the Purchasers.

11.8 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.9 Entire Agreement.

- (a) This Agreement forms the entire agreement between the Parties relating to the matters referred to in this Agreement. This Agreement replaces and supersedes any previous representations, warranties, undertakings, proposal, correspondence, understanding or other communication, whether written or oral, between the Parties. None of the Parties shall be liable to the other, in equity or otherwise, for any warranty or representation that is not set out in this Agreement. Each Party acknowledges that it has not relied on or been induced to enter into this Agreement by any warranty or representation other than those expressly set out in this Agreement.
- (b) To the extent permitted by Law and except in the case of fraud, each of the Parties agrees and acknowledges that its only right and remedy in relation to any representation, warranty or undertaking made or given in connection with this Agreement shall be for breach of the terms of this Agreement to the exclusion of all other rights and remedies

(including those in tort or arising under statute).

- 11.10 Further Action and Assurances. Each of the Parties shall use all reasonable efforts to take or cause to be taken all appropriate action, do or cause to be done all things necessary, proper or advisable, and execute and deliver such documents and other papers as may be required to carry out the provisions of this Agreement and consummate and make effective the transactions contemplated by this Agreement, including the transfer of management and operation of VTI and VTI Subsidiaries and the election of new VTI nominee directors in the VTI Subsidiaries following the First Payment Date. From and after the First Payment Date, it is understood that the management and operation of VTI and the VTI Subsidiaries shall be the sole responsibility of the Purchasers.
- 11.11 Disclaimer. Nothing in this Agreement shall entitle any Person other than the Seller or the Purchasers (or their respective successors and permitted assignees) to any claim, cause of action, remedy, or right of any kind.
- 11.12 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Republic of the Philippines, unless the principles or rules of conflict of laws to the extent such principles or rules would require or permit the application of the laws of another jurisdiction.
- 11.13 Arbitration. Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity, or termination shall be exclusively referred to and finally settled by arbitration in Singapore in accordance with the Arbitration Rules of the Singapore International Arbitration Center ("SIAC Rules") for the time being in force, which rules are deemed to be incorporated by reference in this clause. The arbitration tribunal shall consist of three arbitrators. The arbitral proceedings shall be conducted in the English language. The arbitration proceedings shall be strictly confidential. Any party to this Agreement may initiate arbitration proceedings against one or more other Parties to this Agreement by sending a request for arbitration to all other Parties to this Agreement.

The Parties agree that an arbitral tribunal appointed hereunder may exercise jurisdiction with respect to this Agreement.

The arbitral award shall be final and binding upon the Parties and enforceable by any court having jurisdiction for this purpose.

The Parties agree that the provisions of this Section 11.13 constitute a separate and independent agreement among them and no claim that this Agreement is void, unenforceable or ineffective shall preclude the submission of any dispute, controversy or claim to arbitration. The Parties recognize that: (a) the panel of arbitrators has jurisdiction to settle the issue of whether this Agreement (or any provision thereof) is void, unenforceable or ineffective; and (b) except to the extent allowed under Sections 28 and 29 of Republic Act No. 9285 (2004), no Party has the right to ask a court to restrain or enjoin the conduct of arbitration proceedings for the settlement of any dispute, controversy or claim under this Agreement. The Parties also agree that the filing of any judicial complaint or suit against any Party and any of such Party's officers, directors, employees or agents in relation to any matter arising out of, or relating to, or in connection with this Agreement, shall not preclude the submission of any dispute, controversy or claim to arbitration.

- 11.14 Supervening Legislation. Any present or future legislation which operates to vary the obligations of a Party in connection with this Agreement with the result that another Party's rights, powers or remedies are adversely affected (including, by way of delay or postponement) is excluded except to the extent that its exclusion is prohibited or rendered ineffective by Law.

- SIGNATURE PAGE FOLLOWS -

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date of this Agreement.

The Seller:

SAN MIGUEL CORPORATION

By:

/s/ Ramon S. Ang
RAMON S. ANG
President and Chief Operating Officer

The Purchasers:

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

By:

/s/ Manuel V. Pangilinan
MANUEL V. PANGILINAN
Chairman and President

GLOBE TELECOM, INC.

By:

/s/ Ernest L. Cu
ERNEST L. CU
President and Chief Executive Officer

The Company:

VEGA TELECOM, INC.

By:

/s/ Ramon S. Ang
RAMON S. ANG
Chairman and President

SCHEDULE 6
DEFINITIONS

“Action”	Means an action, dispute, claim, demand, investigation, inquiry, prosecution, litigation, proceeding, arbitration, mediation, suit, or dispute resolution, whether at law, in equity, under statute or otherwise and whether actual or contingent.
“Affiliate”	Means, with respect to any specified Person, any other Person that directly, or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under direct or indirect common Control with, such specified Person.
“Bank Debt”	Means all the current and long-term liabilities of VTI and the VTI Subsidiaries owed to banks or other financial institutions.
“Belltel”	Means Bell Telecommunications Philippines, Inc.
“BIR”	Means the Philippine Bureau of Internal Revenue.
“Books and Records”	Means the records, documents, evidence of title, and other papers relating to a company, its business and assets, including the minute books, stock and transfer book, stock records, and other corporate and accounting records, ledgers, and journals.
“Break Fee”	Has the meaning given to it in Section 8.2.
“Business Day”	Means a day on which banks are open for general business in the Cities of Mandaluyong, Taguig, and Makati, Philippines.
“CGT”	Means the capital gains tax as provided in Republic Act No. 8424 or the National Internal Revenue Code of 1997, as amended.
“Claim Acceptance”	Has the meaning given to it in Section 7.5(b).
“Claim Date”	Has the meaning given to it in Section 7.4.
“Claim Notice”	Has the meaning given to it in Section 7.5(a).
“Claim Objection”	Has the meaning given to it in Section 7.5(b).
“Claim Period”	Has the meaning given to it in Section 7.4.
“Concurrent Transactions”	Has the meaning given to it in Whereas Clause (G).
“Confidential Information”	Means, with respect to a Party, all financial, operational, technical, trade and other information pertaining to the business, operations and affairs of the Party, whether such information be printed, written or verbally furnished by one Party to another, or the latter’s directors, officers, employees, agents or representatives, excluding the following: (i) information which, at the relevant time is in the public domain, or becomes generally known in the industry or to

the public, other than as a result of a breach of this Agreement; (ii) information which the recipient can establish to have been known to it at the relevant time, and not acquired directly or indirectly from another Party; or (iii) information which becomes available to the recipient from any third person, the disclosure of which does not constitute a breach of any agreement or legal obligation which such third person has with any Party.

“Confirmatory Due Diligence”	Has the meaning given to it in Section 6.1.
“Confirmatory Due Diligence Period”	Has the meaning given to it in Section 6.1.
“Contract”	Means any written contract, agreements, commitment, understanding, lease, license, franchise, warranty, guaranty, mortgage, note, bond, or other instrument or consensual obligation that is legally binding.
“Control”	(including, with its correlative meanings, the terms “Controlled by” and “under common Control with”), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, as trustee or executor, by contract or otherwise; provided, that in any event, any Person which owns, directly or indirectly, more than fifty percent (50%) of the outstanding capital stock or equity interest having ordinary voting power to elect the board of directors or other governing body of a corporation or any other Person will be deemed control of such corporation or other Person.
“Co-Use Parties”	Means Belltel, GLOBE, and SMART.
“CPCN”	Means each certificate of public convenience and necessity issued by the NTC to the VTI Subsidiaries as identified in Schedule 3(A) .
“Deeds of Assignment”	Means the Deeds of Assignment in substantially the same form as Annex B covering the sale and assignment of the Outstanding Advances.
“Deeds of Sale”	Means the Deeds of Absolute Sale of Shares in substantially the same form as Annex A covering the sale and purchase of the Sale Shares.
“Defaulting Purchaser”	Has the meaning given to it in Section 8.2(a).
“Definitive Agreements”	Means (i) this Agreement; (ii) the Deeds of Sale; (iii) the Deeds of Assignment; (iv) the Second Payment SBLC; and (v) the Final Payment SBLC.
“Designated Account”	Means the following bank accounts of the Seller: (i) for the remittance of PLDT, to:

San Miguel Corporation
Savings Account # 3-035-51015-0
Metrobank Julia Vargas Branch

(ii) for the remittance of GLOBE, to:

San Miguel Corporation
Current Account # 0273-017991-001
Security Bank East Tektite Tower 1 Branch

“Disclosing Party”	Has the meaning given to it in Section 10.1(b).
“DST”	Means the documentary stamp taxes as provided in Republic Act No. 8424 or the National Internal Revenue Code of 1997, as amended.
“Encumbrance”	Means, with respect to any property or asset, any lien (statutory or other), claim, charge, adverse interest, option, mortgage, pledge, assessment, security interest, assignment, deposit arrangement, lease, levy, other encumbrance, or other preferential arrangement of any kind in respect of such property or asset; or any preference, priority or other agreement or preferential arrangement of any kind or nature whatsoever including, without limitation, any conditional sale, capital lease, or other title retention agreement relating to such property or asset, and any other right of or arrangement with any creditor to have its claims satisfied out of any assets, or the proceeds therefrom, prior to any general creditor of the owner thereof.
“Eastern Telecommunications Philippines, Inc.”	Means Eastern Telecommunications Philippines, Inc.
“Final Payment”	Has the meaning given to it in Section 3.1(c).
“Final Payment Date”	Has the meaning given to it in Section 3.1(c).
“Final Payment SBLC”	Has the meaning given to it in Section 3.2(a)(2).
“First Payment”	Has the meaning given to it in Section 3.1(a).
“First Payment Acts”	Has the meaning given to it in Section 3.7.
“First Payment Certificate”	Means the certificate to be delivered by the Seller to each of the Purchasers on the First Payment Date in substantially the form provided in Annex C hereof as referred to in Section 3.7(a)(9).
“First Payment Date”	Has the meaning given to it in Section 3.3.
“First Payment Deliverables”	Means each of the conditions and deliverables of the Seller and the Purchasers set out in Section 3.4.
“First Payment Milestone”	Has the meaning given to it in Section 3.3.
“Franchises”	Means all the franchises, provisional authorities, certificates of convenience and necessity, and material licenses, permits,

registrations, and approvals necessary to operate and maintain telecommunications systems in the Philippines.

“Frequencies”	Means all of the frequencies assigned to the VTI Subsidiaries as each listed in Schedule 3(B) .
“GLOBE”	Means Globe Telecom, Inc.
“Governmental Authorization”	Means any consent, license, permit or registration issued, granted, given, or otherwise made available by or under the authority of any Governmental Authority or pursuant to any Law including the Franchises.
“Governmental Authority”	Means any government office, branch, department, or agency having jurisdiction over any of the Parties, or any Person exercising or entitled to exercise executive, legislative, judicial, regulatory or administrative functions of or pertaining to a government having jurisdiction over any of the Parties, or any political subdivision thereof, including those responsible for tax, wherever situated.
“Governing Document”	Means any charter, articles, by-laws, certificates, or similar document adopted, filed or registered with any Governmental Authority in connection with the creation, formation or organization of an entity, and any Contract among shareholders, partners or members of an entity.
“HB Holdco”	Means Brightshare Holdings Corporation.
“HB Holdco Shares”	Means the shares of stock constituting one hundred percent (100%) of the total issued and outstanding of HB Holdco.
“Incoming Directors”	Means the Persons nominated by the Purchasers to be directors of VTI on the First Payment Date.
“Indemnity Claims”	Has the meaning given to it in Section 7.2(a).
“Key Executives”	Means senior officers and executives of VTI and the VTI Subsidiaries with rank of at least Vice President.
“Law”	Includes any law, statute, constitution, proclamation, ordinance, by-law, regulation, rule, authorization, concession, grant, franchise, license, directive, guideline, policy, requirement, ruling, judgment, order or decree or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority whether in the Philippines or in any other jurisdiction where a relevant Party has been established, with force and effect of law.
“LB Holdco”	Means Bow Arken Holding Company, Inc.
“LB Holdco Shares”	Means the shares of stock constituting one hundred percent (100%) of the total issued and outstanding of LB Holdco.

“Loss”	Means any and all losses, liabilities, damages, claims, awards, judgments, costs and expenses actually suffered or incurred by such Party.
“Material Adverse Change”	Means (1) any change in law or in the regulatory environment that will make it unlawful for the Parties to make the First Payment; or (2) any significant change in the political conditions of the Philippines that will prevent the Parties from making the First Payment, such as but not limited to war, or widespread rebellion or civil strife.
“Material Adverse Effect”	Means any circumstance, condition, incident, situation, change in, or effect that, individually or in the aggregate with any other circumstances, conditions, incidents, situations, changes in, or effects that will prevent the Company and the Sellers to perform their obligations and undertakings under this Agreement, except for any such changes or effects resulting from changes in general economic, regulatory or political conditions or changes that affect the telecommunications industry in general.
“Notice Period”	Has the meaning given to it in Section 7.5(a).
“NTC”	Means the National Telecommunications Commission.
“NTC Approval”	Has the meaning given to it in Section 3.4(a)(1).
“Order”	Means any order, injunction, judgment, decree, ruling, assessment or arbitration award of any Governmental Authority or arbitrator.
“Ordinary and Regular Course”	Means in respect of the business of VTI and the VTI Subsidiaries the ordinary, regular and usual course of normal day-to-day operations.
“Other Sellers”	Means the owners or holders of the LB Holdco Shares and the HB Holdco Shares.
“Outstanding Advances”	Means the shareholder advances and other advances made by the Seller in VTI and the VTI Subsidiaries in the aggregate principal amount of Twenty Two Billion Seventy Six Million Seven Hundred Forty Eight Thousand One Hundred Thirty Seven Pesos (PHP22,076,748,137.00), as set out in Schedule 4 .
“Outstanding Advances Purchase Price”	Means the purchase price for the Outstanding Advances as provided in Section 2.3(b).
“PA”	Means each of the provisional authorities issued by the NTC to VTI and the VTI Subsidiaries as identified in Schedule 3(A) .
“Party”	Means any of the Seller, Purchasers, or VTI, and “Parties” are all of the Seller, Purchasers, and VTI.
“PCC”	Means the Philippine Competition Commission.
“Person”	Means any individual, partnership, firm, corporation, limited

	liability company, joint venture, association, trust, unincorporated organization, or other entity, committee, department, Governmental Authority, or any body, incorporated or unincorporated, whether having distinct legal personality or not, as well as any syndicate or group that would be deemed to be a person under Philippine Law.
"PFRS"	Means the Philippine Financial Reporting Standards applied on a consistent basis.
"PHP"	Means Philippine Pesos, the lawful currency of the Philippines.
"PLDT"	Means Philippine Long Distance Telephone Company.
"PSE"	Means the Philippine Stock Exchange, Inc.
"Purchase Price"	Has the meaning given to it in Section 2.3.
"Purchasers"	Means PLDT and GLOBE.
"Purchaser Warranties"	Means the representations and warranties of the Purchasers as set forth in Schedule 9(B) of this Agreement.
"Receiving Party"	Has the meaning given to it in Section 10.1.
"Reply Period"	Has the meaning given to it in Section 7.5(b).
"Restricted Business"	Has the meaning given to it in Section 4.2(a).
"Resigning Directors"	Means the directors of VTI and VTI Subsidiaries enumerated in Schedule 10 , who will resign as of the First Payment Date.
"Returns"	Means all returns, reports and declarations of every nature required to be filed with respect to any Tax.
"Sale Shares"	Means the 13,500,000 common shares and 13,500,000 preferred shares of VTI, held by the Seller and its nominee directors constituting 100.00% of the total issued and outstanding capital stock of VTI as set out in Schedule 1 of this Agreement.
"Sale Shares Purchase Price"	Has the meaning given to it in Section 2.3(a).
"SEC"	Means the Philippine Securities and Exchange Commission.
"Second Payment"	Has the meaning given to it in Section 3.1(b).
"Second Payment Date"	Has the meaning given to it in Section 3.1(b).
"Second Payment SBLC"	Has the meaning given to it in Section 3.2(a)(2).
"Seller Acquisition Date"	Means, in respect of VTI, the date of incorporation of VTI or, in respect of the relevant VTI Subsidiary, the date on which the Seller or its Affiliates acquired or gained Control over such VTI Subsidiary.

“Seller Warranties”	Means the representations and warranties of the Seller and VTI as set forth in Schedule 9(A) of this Agreement.
“SMART”	Means Smart Communications, Inc.
“SMC” or the “Seller”	Means San Miguel Corporation.
“SRC”	Means the Securities Regulations Code of the Philippines (Republic Act No. 8799).
“Tax”	means (a) any net income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental or windfall profit tax, custom, duty or other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest, penalty, addition to tax or additional amount imposed by any Law or Government Authority, whether disputed or not, (b) any liability for the payment of any amounts of any of the foregoing as a result of being a member of an affiliated, consolidated, combined, unitary or similar group, or being a party to any agreement or arrangement whereby liability for payment of such amounts was determined or taken into account with reference to the liability of any other Person, (c) any liability for the payment of any amounts as a result of being a party to any tax sharing agreements or arrangements (whether or not written) or with respect to the payment of any amounts of any of the foregoing as a result of any express or implied obligation to indemnify any other Person, and (d) any liability for the payment of any of the foregoing types as a successor or transferee.
“Tax Clearance/CAR”	Means the certificate authorizing registration issued by the BIR authorizing the registration in the books of the Company of the transfer of the Sale Shares to the name of the Purchasers.
“Telco Assets”	Means the Franchises, the Frequencies, and other assets held by VTI and the VTI Subsidiaries.
“Third Party Claim”	Has the meaning given to it in Section 7.6.
“Third Party Consents”	Means the consents by creditors or any other Person which are required to complete or consummate or otherwise carry out the sale and purchase of the Sale Shares or any other transaction contemplated herein.
“Total Liabilities”	Means liabilities of each of VTI and the VTI Subsidiaries, which shall include: (i) trade payables comprising of outstanding or unpaid accounts to suppliers, unserved balances on contracts and/or purchase orders already issued, and additional contracts that may be entered into or purchase orders that may be issued and which are critical to the ongoing operations of VTI and the VTI Subsidiaries; (ii) all current and long term liabilities owed to banks or other financial institutions; and (iii) operating payables comprising of other accounts payable, taxes payable, accrued

liabilities, total lease obligations, employee wages, employee severance payment resulting from the transactions contemplated in this Agreement and the Definitive Agreements, deferred taxes, contingent liabilities, and all other short-term and long-term liabilities.

“Validation Period”

Has the meaning given to it in Section 6.2.

“VTI” or the “Company”

Means Vega Telecom, Inc.

“VTI Subsidiaries”

Means all of the subsidiaries and affiliates of VTI as listed in **Schedule 2**.

“Warranties”

Means the Seller Warranties and the Purchaser Warranties.

SCHEDULE 9(A)
REPRESENTATIONS AND WARRANTIES OF THE SELLER AND VTI

REPRESENTATIONS AND WARRANTIES OF THE SELLER:

1. Authority; No Conflicts

- (a) The Seller is a corporation duly organized and validly existing under the Laws of the place of its incorporation 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) The Seller has the requisite legal capacity to enter into, deliver and perform this Agreement and perform the respective Deeds of Sale and Deeds of Assignment. All acts and other proceedings required to be taken by the Seller to authorize the execution, delivery and performance of this Agreement, the Deeds of Sale and the Deeds of Assignment and the consummation of the transactions contemplated hereby and thereby, have been or will have been at or prior to the First Payment Date duly and properly taken.
- (c) This Agreement has been duly executed and delivered by the Seller and the Deeds of Sale and the Deeds of Assignment will be, as of the First Payment Date, duly executed and delivered by the Seller. This Agreement constitutes valid and binding obligations of the Seller and the deeds of sale of share and deeds of assignment of advances will constitute, as of the First Payment Date, valid and binding obligations of the Seller, enforceable against it in accordance with their respective terms.
- (d) No Third Party Consents are required.
- (e) All Governmental Authorizations that the Seller is required to obtain have been obtained, and all notices (other than the PCC Notice and the relevant disclosures to the SEC and the PSE) that the Seller is required to give to any Person in connection with the execution, delivery and performance of this Agreement have been given.
- (f) Neither the execution and delivery of this Agreement nor the consummation or performance of any of the transactions contemplated under this Agreement will directly or indirectly (with or without notice or lapse of time) (i) breach any provision of the Governing Documents of the Seller, VTI or the VTI Subsidiaries, as applicable, or any resolution adopted by the shareholders or board of directors of the Seller, VTI and the VTI Subsidiaries as applicable, (ii) breach any Contract to which the Seller, VTI or a VTI Subsidiary is a party or to which it may be bound, (iii) violate or conflict with any Governmental Authorization or Law to which the Seller, VTI or the VTI Subsidiaries or any of the assets owned, used or held for use by the Seller, VTI and the VTI Subsidiaries may be subject, (iv) breach any Order to which the Seller, VTI and VTI Subsidiaries or any of the assets owned, used or held for use by the Seller, VTI or the VTI Subsidiaries may be subject, (v) result in the imposition or creation of any Encumbrance upon or with respect to any of the Telco Assets, (vi) violate or conflict with any Governmental Authorization or Law, or breach any Order, to which the Sale Shares may be subject or result in the imposition or creation of any Encumbrances upon or with respect to any of the Sale Shares, other than, in the cases of clauses (iii), (iv) and (v) above.

REPRESENTATIONS AND WARRANTIES OF THE SELLER AND VTI:

2. VTI, VTI Subsidiaries and the Sale Shares

- (a) Each of VTI and the VTI Subsidiaries is an entity duly organized and validly existing under the Laws of the place of its jurisdiction, with full corporate or company power (as the case may be) and authority to conduct its business as it is now being conducted, to own or use the Telco Assets that it purports to own or use, and to perform all its obligations under all Contracts to which it is a party. Each of VTI and the VTI Subsidiaries is duly qualified to do business in each jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it, requires such qualification.
- (b) The authorized and issued and outstanding capital stock of each of VTI and the VTI Subsidiaries are set forth in Schedules 1 and 2. The names of the shareholders of each of VTI and the VTI Subsidiaries and the types and numbers of shares of stock beneficially and of record owned by them as of the date hereof are set forth in Schedules 1 and 2.
- (c) The Sale Shares represent one hundred percent (100.00%) of the total issued and outstanding share capital of VTI. The Seller is and will be on the First Payment Date the sole owner of record and beneficial owner and holder of the Sale Shares, free and clear of all Encumbrances.
- (d) All of the outstanding shares of VTI and the VTI Subsidiaries have been duly authorized and validly issued, are fully paid and non-assessable and have not been issued in violation of any preemptive or subscription rights.
- (e) None of the Sale Shares or other outstanding securities of VTI and the VTI Subsidiaries was issued in violation of any Law. None of VTI or the VTI Subsidiaries own or has any Contract to acquire, any equity securities or other securities of any Person or any direct or indirect equity or ownership interest in any other business.
- (f) There are no outstanding warrants, options, stock rights, agreements, convertible or exchangeable securities or other commitments (other than this Agreement) pursuant to which any of VTI and any of the VTI Subsidiaries, is or may become obligated to issue, sell, purchase, return or redeem, or otherwise acquire any shares of its capital stock and none of the equity securities of VTI and the VTI Subsidiaries are reserved for sale or issuance for any purpose.
- (g) There is no voting trust, standstill, stockholder or other agreement to which VTI or any VTI Subsidiary is a party or is bound with respect to the voting of the capital stock of VTI or any VTI Subsidiary.
- (h) Except for the VTI Subsidiaries set forth in Schedule 2, VTI does not have any other subsidiaries and affiliates.
- (i) VTI owns legally and/or beneficially the outstanding capital stock of the VTI Subsidiaries as set forth in **Schedule 2**.
- (j) The shareholdings in each of VTI and the VTI Subsidiaries as of the First Payment Date complies in all material respects and is not in violation of applicable Laws imposing nationality restrictions or limits on foreign ownership of VTI and the VTI Subsidiaries.

- (k) Since the Seller Acquisition Date, Liberty Telecoms Holdings, Inc. has been in compliance with all requirements relating to the listing and registration of its securities imposed by the SEC or PSE.

3. Financial Statements

- (a) Each of the Financial Statements (including the related notes) fairly presents, in all material respects, the financial position, results of operations and cash flow of VTI and the VTI Subsidiaries as of the respective dates thereof, and each of the other related statements (including the related notes) included in the Financial Statements fairly presents, in all material respects, the results of operations, the changes in financial position and cash flow of VTI and the VTI Subsidiaries for the respective periods or as of the respective dates set forth therein, all in conformity with PFRS consistently used therein. None of the entries in the Financial Statements is based on any material extraordinary item or transaction or otherwise based on any transaction not entered into in the Ordinary and Regular Course of business, other than as disclosed in the Financial Statements or to the extent the inclusion of any such entries therein would not prevent the Financial Statements from being a fair presentation, in all material respects, of the financial position, results of operations and cash flow of VTI and VTI Subsidiaries as of the respective dates thereof.

“Financial Statements” shall mean the audited financial statements of VTI and the VTI Subsidiaries for the past two (2) fiscal years.

- (b) Since the date of the Financial Statements, there has been no material change in the manner of keeping books, accounts, records or in the accounting practice reflected therein of each of VTI and the VTI Subsidiaries.
- (c) To the best knowledge of the Seller after reasonable and diligent inquiry, neither each of VTI nor the VTI Subsidiaries has outstanding liabilities or claims (including contingent liabilities) of such nature as would have a Material Adverse Effect on VTI or the VTI Subsidiaries, except as liabilities disclosed in the Financial Statements and the unaudited financial statements of VTI and the VTI Subsidiaries as of the end of the month immediately preceding the First Payment Date.
- (d) VTI and the VTI Subsidiaries have no outstanding Bank Debts as of the First Payment Date.
- (e) The total liabilities of VTI and the VTI Subsidiaries as at April 30, 2016 is PHP17,021,535,948.00.

4. Accounts Receivables

All accounts receivable reflected in the Financial Statements or the accounting records of VTI and the VTI Subsidiaries as of the First Payment Date represent or will represent valid obligations arising from sales actually made or services actually performed in the Ordinary and Regular Course of business. Reserves with respect to such accounts receivable have been calculated consistent with past practice. To the best knowledge of the Seller after reasonable and diligent inquiry, there is no contest, claim, defense or right of setoff, in the Ordinary and Regular Course of business, under any Contract with any obligor of an account receivable relating to the amount or validity of such account receivable.

5. No Undisclosed Liabilities

To the best knowledge of the Seller after reasonable and diligent inquiry, none of VTI or the VTI Subsidiaries have any liabilities (including without limitation, tax liabilities, accrued liabilities, total lease obligations, deferred taxes, contingent liabilities, off-balance sheet liabilities and other short term and long term liabilities, due and whether incurred in respect of or measured by any income for any period prior to such date arising out of transactions entered into or any state of facts existing prior thereto) that would have been required to be reflected in, reserved against or otherwise described in the Financial Statements or in the notes thereto in accordance with PFRS, except for (a) liabilities reflected in, reserved against or otherwise described in the Financial Statements or in the notes thereto, and (b) liabilities incurred in the Ordinary and Regular Course of business since the date of the Financial Statements as expressly reflected in the statement of liabilities of VTI and the VTI Subsidiaries for the first quarter of 2016.

6. No Material Adverse Effect

- (a) Since the date of the Financial Statements, there has not been any event or circumstance that may have a Material Adverse Effect.*
- (b) Since the Seller Acquisition Date, none of the following events has occurred or is continuing:*
 - (i) cancellation, suspension, termination, shortening of the term or coverage or forfeiture of, any of the Franchises of the relevant VTI Subsidiaries;*
 - (ii) default or change or amendment or revisions in, any of the Franchises of the relevant VTI Subsidiaries that has a Material Adverse Effect;*
 - (iii) cancellation, suspension, termination, shortening of the term or coverage or forfeiture of, any of the Frequencies of the relevant VTI Subsidiaries; and*
 - (iv) default or change in the assignment of Frequencies of any of the VTI Subsidiaries that has a Material Adverse Effect.*
- (c) Since the date of the Financial Statements, none of the following events has occurred or is continuing:*
 - (i) default in any of the financial obligations that has a Material Adverse Effect; and*
 - (ii) dispute by any of VTI and the VTI Subsidiaries with any of its major suppliers that will have a Material Adverse Effect.*

7. Books and Records

Since the Seller Acquisition Date:

- (a) the Books and Records of each of VTI and the VTI Subsidiaries are complete and correct in all material respects;*
- (b) the minute books of VTI and the VTI Subsidiaries contain accurate and complete records of all meetings held and corporate action, and no such meeting has been held for which minutes have not been prepared and are not contained in such minute books; and*
- (c) each material transaction of each of VTI and the VTI Subsidiaries is properly and accurately recorded on the Books and Records of VTI and the VTI Subsidiaries, and each document (including any Contract, invoice, or receipt) on which entries in the Books and Records of VTI and the VTI Subsidiaries are based is complete and accurate in all material respects.*

On the First Payment Date, all of the Books and Records will be in the possession of each of VTI and the VTI Subsidiaries.

8. Absence of Certain Changes and Events

Except as contemplated by this Agreement, since December 31, 2015, the business of each of VTI and VTI Subsidiaries has been conducted only in the Ordinary and Regular Course of business and there has not been any:

- (a) change in the authorized or issued shares of any of VTI and the VTI Subsidiaries or issuance of any shares of its capital stock, grant of any equity option or right to purchase shares of any of VTI and the VTI Subsidiaries, issuance of security convertible into such equity, grant of any registration rights, purchase, redemption, retirement, or other acquisition by any of VTI and the VTI Subsidiaries of any of its shares, or declaration or payment of any dividend or other distribution or payment with respect to any of its shares or equity;*
- (b) prepayment or acceleration of the payment of any debt of any of VTI and the VTI Subsidiaries;*
- (c) amendment to the Governing Documents of any of VTI and the VTI Subsidiaries;*
- (d) payment or increase (in either case, except in the Ordinary and Regular Course of business) by any of VTI and the VTI Subsidiaries of any bonuses, salaries, or other compensation to any shareholder, director or employee, or entry into any employment, severance, or similar Contract with any shareholder, director or employee, other than as prescribed under applicable Law or existing contracts;*
- (e) damage to or destruction or loss of any asset or property of any of VTI and the VTI Subsidiaries, whether or not covered by insurance, which may have a Material Adverse Effect on such company;*
- (f) except in the Ordinary and Regular Course of business, entry into, modification or termination, or receipt of written notice of termination of any Contract of any of VTI and the VTI Subsidiaries or any transaction involving a total remaining commitment by or to any of VTI and the VTI Subsidiaries of at least Twenty Million Pesos (P20,000,000.00);*
- (g) sale, lease, or other disposition of any asset or property of any of VTI and the VTI Subsidiaries (except for intra-group sales, leases or other dispositions), or the creation of any Encumbrance on any material asset or on any material asset or property of any of VTI and the VTI Subsidiaries;*
- (h) cancellation or waiver of any claims or rights with a value to any of VTI and the VTI Subsidiaries in excess of Twenty Million Pesos (P20,000,000.00);*
- (i) material change in the accounting methods used in respect of any of VTI and the VTI Subsidiaries; or*
- (j) contract or agreement by the Seller or any of VTI and the VTI Subsidiaries to do any of the foregoing.*

9. Title to Assets

Each of VTI and the VTI Subsidiaries has good and valid title to all the assets material to the business of VTI and the VTI Subsidiaries, listed, referenced or included in the balance sheet portion of the Financial Statements free and clear of all Encumbrances of any nature whatsoever.

10. Intellectual Property

- (a) Each of VTI and the VTI Subsidiaries owns, or is licensed or otherwise has the full right to use, all patents, trademarks, trade names, copyrights, technology, know-how, processes and licenses, used in or necessary for the conduct of its business as heretofore conducted free of any liens.
- (b) No activities of each of VTI and the VTI Subsidiaries will infringe any intellectual property rights of any Person and no actions or proceedings have been initiated and are pending against any of VTI or the VTI Subsidiaries in respect of such infringement.
- (c) None of VTI or the VTI Subsidiaries is in breach of any agreement relating to intellectual property rights to which any of VTI or the VTI Subsidiaries is a party (whether as licensor or licensee) or which relate to intellectual property rights of third parties for which the Seller has received written notice. All intellectual property rights required to operate the respective businesses of each of VTI and the VTI Subsidiaries are valid and subsisting and nothing has been done or omitted to be done by VTI or any of the VTI Subsidiaries which would have a Material Adverse Effect on the validity or subsistence of any such intellectual property rights. Each of VTI and the VTI Subsidiaries have the ability to use all intellectual property rights required to use its assets or to carry on its business as currently conducted and such ability to use will not be affected materially and adversely by the acquisition of the Sale Shares by the Purchasers.

11. Contracts; No Defaults

- (a) *All Contracts entered into by each of VTI and the VTI Subsidiaries are in full force and effect and valid and enforceable against VTI or any of the VTI Subsidiaries, as applicable, which is party to it in accordance with its terms. None of VTI or the VTI Subsidiaries has breached and is currently in breach of any of the applicable terms and requirements of any of the Contracts for which VTI or any VTI Subsidiaries may be liable, which breach shall have a Material Adverse Effect. None of VTI or any of the VTI Subsidiaries has received written notice or other written communication regarding any actual or alleged breach of the Contracts, and the Seller has no knowledge of any breach of any Contract by the other party or parties to it that has a Material Adverse Effect.*
- (b) *All Contracts entered into by VTI and the VTI Subsidiaries have been: (i) duly and validly executed and delivered pursuant to due authority; and (ii) entered into on arms-length terms.*
- (c) *None of VTI and the VTI Subsidiaries is a party to any Contract which restricts its ability to engage in its primary business.*
- (d) *None of VTI and the VTI Subsidiaries is party to any Contract under which any third party is entitled, as a result of change in ownership of the Subject Shares:*
 - (i) *to terminate the Contract;*
 - (ii) *to accelerate payment or require the payment of damages or indemnity from, or create any financial obligation on the part of, VTI and the VTI Subsidiaries;*
 - (iii) *to call any of VTI and the VTI Subsidiaries in default of the Contract; or*
 - (iv) *to require the adoption of terms which are less favorable to VTI and the VTI Subsidiaries than the current terms.*

- (e) *All Contracts, including contracts with suppliers for the supply and provisioning of goods and services relating to the rollout, maintenance and operation, and network infrastructure and facilities, and the operation and provision of services have been and will be disclosed to the Purchasers during the Confirmatory Due Diligence.*
- (f) *No principal contractor or supplier of VTI and the VTI Subsidiaries is in default (or, to the best knowledge of the Seller after reasonable and diligent inquiry, would be in default, but for the requirements of notice or lapse of time, or both) under any of the Contracts with VTI and the VTI Subsidiaries.*

12. Taxes

- (a) *Since the Seller Acquisition Date, all Returns required to be filed with any taxing authority, including all Returns required to be filed by or on behalf of each of VTI and the VTI Subsidiaries, to the extent required to be filed on or before the First Payment Date, have been filed when due in accordance with all applicable Laws.*
- (b) *None of VTI and the VTI Subsidiaries has any Tax liability (whether due or to become due) with respect to the income, property and operations of VTI and the VTI Subsidiaries, except for Tax liabilities reflected on the Financial Statements or that have arisen after the date of the Financial Statements in the Ordinary and Regular Course of business.*
- (c) *For the previous three (3) fiscal years, all Taxes shown as due and payable on any Return previously filed by or on behalf of VTI and the VTI Subsidiaries have been timely paid or withheld and remitted to the appropriate taxing authority.*
- (d) *Neither VTI and the VTI Subsidiaries has granted or had granted on its behalf any extension or waiver of the statute of limitations period applicable to any Return, which period (after giving effect to such extension or waiver) has not yet expired.*
- (e) *There is no Action now pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened against or with respect to any of VTI and the VTI Subsidiaries in respect of any Tax of which the Seller or any of VTI and the VTI Subsidiaries has received written notice.*
- (f) *There are no liens for Taxes upon the assets or properties of any of VTI and the VTI Subsidiaries, except for statutory liens for current Taxes, assessments or other governmental charges not yet delinquent or the amount or validity of which is being contested in good faith by appropriate proceedings.*
- (g) *Since the Seller Acquisition Date, none of VTI and the VTI Subsidiaries has received written notice of any claim by a Governmental Authority in a jurisdiction where VTI and the VTI Subsidiaries do not file Returns that it is or may be subject to taxation by that Governmental Authority.*

- (h) *Since the Seller Acquisition Date, each of VTI and the VTI Subsidiaries has withheld and paid all Taxes required to have been withheld and paid by applicable Law in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other Person.*
- (i) *None of VTI and the VTI Subsidiaries is party to any Tax allocation or sharing agreement.*
- (j) *During the three (3) years prior to the date of this Agreement, none of VTI and the VTI Subsidiaries has distributed the stock of another Person, or have had its stock distributed by another Person, in a transaction that was purported or intended to qualify for tax-free treatment.*
- (k) *There are no outstanding rulings of, or requests for rulings with, any taxing authority expressly addressed to, or from, either VTI and the VTI Subsidiaries or the Seller.*

13. Employee Benefits and Labor Standards

- (a) To the best knowledge of the Seller after reasonable and diligent inquiry, no Key Executive and no group of employees or independent contractors of VTI and the VTI Subsidiaries has any plans to terminate his, her or their employment or relationship with VTI and the VTI Subsidiaries for which VTI and the VTI Subsidiaries have received written notice, and none of VTI and the VTI Subsidiaries is in breach of any Contract with any of its employees.
- (b) Since the Seller Acquisition Date, each of VTI and the VTI Subsidiaries has complied in all material respects with all Laws relating to labor and employment, including any Laws pertaining to employee relations, employment practices, wages and hours, civil rights, employment discrimination, immigration, occupational safety and health, employee privacy, mass layoffs, labor or arbitration, collective bargaining, or other labor Law or ordinance. None of VTI and the VTI Subsidiaries is liable for the payment of any claims, damages, fines, penalties, or other amounts, however designated, for failure to comply with any of the foregoing Laws.
- (c) There are no Actions against any of VTI and the VTI Subsidiaries pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened based on any Laws pertaining to employee relations, employment practices, wages and hours, civil rights, employment discrimination, immigration, occupational safety and health, employee privacy, plant closings or mass layoffs, labor or arbitration, collective bargaining, or other violation of any labor or employment Law or ordinance; and, to the best knowledge of the Seller after reasonable and diligent inquiry, there are no facts or circumstances which could form the basis for any of the foregoing.
- (d) None of VTI and the VTI Subsidiaries is party to any settlement agreement, consent decree or other Contract containing continuing compliance or reporting obligations entered into to resolve any labor or employment matter.
- (e) No group of employees of VTI and the VTI Subsidiaries has a pending demand for recognition or filed a petition for recognition or representation rights with any Governmental Authority.
- (f) There are no negotiations pending between any of VTI and the VTI Subsidiaries and any labor organization or group of employees regarding terms for a collective bargaining agreement or other labor agreement.

- (g) None of VTI and the VTI Subsidiaries is a party to or bound by any collective bargaining agreement or any other contract or agreement with any labor organization or group of employees.
- (h) There are no ongoing or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened labor disputes, including but not limited to strikes, slow downs, sit downs, work stoppages, interruptions of work, picketing or lockouts with respect to employees of any of VTI and the VTI Subsidiaries; and, to the best knowledge of the Seller after reasonable and diligent inquiry, there are no facts or circumstances which could form the basis for any of the foregoing.
- (i) There have not been any strikes, slow downs, sit downs, work stoppages, interruptions of work, picketing, lockouts, unfair labor practice charges or other material labor disputes pending or involving any employees of VTI and the VTI Subsidiaries or any Subsidiary for the last three (3) years.
- (j) There are no agreements or arrangements for the payment of additional benefits or compensation to any director, officer, employee or consultants rendering services to any of VTI or Subsidiaries or otherwise the grant of golden parachutes (or other similar arrangements) in case of severance of employment from or termination of service or employment contract with any of VTI or the VTI Subsidiaries upon a change in controlling interest of VTI or the VTI Subsidiaries.

14. Employee Restrictions

To the best knowledge of the Seller after reasonable and diligent inquiry, no director or Key Executive of VTI and VTI Subsidiaries is a party to, or is otherwise bound by, any Contract, including any confidentiality, noncompetition, or proprietary rights agreement, between such employee or director and any other Person that in any way adversely affects or adversely will affect (a) the performance of his duties as an employee or director of any of VTI and the VTI Subsidiaries, or (b) the ability of any of VTI and the VTI Subsidiaries to conduct its business.

15. Compliance with Legal Requirements; Governmental Authorizations; Frequencies

- (a) Since the Seller Acquisition Date, each of VTI and VTI Subsidiaries is and at all times, has been, in material compliance with each Law that is or was applicable to it or to the conduct or operation of its business or the ownership or use of any of its assets. To the best knowledge of the Seller after reasonable and diligent inquiry, no event has occurred or circumstance exists that (with or without notice or lapse of time) is likely to cause any of VTI and the VTI Subsidiaries to materially violate any Law. The VTI and the VTI Subsidiaries have not received, any written notice or other written communication from any Governmental Authority regarding any actual or alleged violation of any Law.
- (b) Since the Seller Acquisition Date, each of VTI and VTI Subsidiaries has timely filed all material reports and statements required to be filed by it with all relevant Government Authorities, including but not limited to, the SEC, PSE, NTC and Congress of the Philippines, and none of the reports, as its respective date, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein so as to ensure that such statements, in light of the circumstances under which they were made, were not misleading.
- (c) All Governmental Authorizations held by VTI and each VTI Subsidiary, are valid and in full force and effect and not the subject of any Action, other than any routine review, by any Governmental Authority. Since the Seller Acquisition Date, each of VTI and VTI

Subsidiaries is, and at all times has been, in compliance with all of the terms and requirements of each such Governmental Authorization and has not received any written notice or other written communication within the past two (2) years, from any Governmental Authority regarding any actual or alleged material violation of any Governmental Authorization. No Governmental Authorization granted to the relevant VTI Subsidiaries has been terminated, revoked or cancelled or allowed to lapse. There are no pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened action or claim for the revocation of cancellation of any Governmental Authorization. All applications required to have been filed for the renewal of such material Governmental Authorizations have been duly filed on a timely basis with the appropriate Governmental Authorities.

- (d) Each of VTI and the VTI Subsidiaries has Franchises necessary to allow it to conduct and operate its businesses lawfully in the manner in which it currently conducts and operates its businesses and allow it to own and use its assets in the manner in which it currently owns and uses such assets. The complete list of all Franchises held by the VTI Subsidiaries, are set forth in **Schedule 3(A)**.
- (e) Since Seller Acquisition Date, all regulatory fees payable by or due from any of VTI or the VTI Subsidiaries have been paid in full. There are no pending assessments for such regulatory fees issued to any of the VTI or the VTI Subsidiaries.
- (f) The complete and accurate list of all Frequencies are set forth in **Schedule 3(B)**. The Frequencies of the relevant VTI Subsidiaries and the corresponding Franchises for such Frequencies are valid, in full force and effect, and not the subject of any Action, other than any routine review, by any Governmental Authority.
- (g) All Frequencies assigned to the relevant VTI Subsidiaries are evidenced by applicable frequency assignment sheets. Except for the requirement to obtain the NTC Approvals, there are no restrictions or conditions attached to the Frequencies which would prevent or restrict the Parties from achieving the First Payment Milestone.
- (h) There is no interference on the Frequencies that will restrict or prevent the Purchasers from using the Frequencies.

16. Insurance

All insurance policies of each of VTI and the VTI Subsidiaries are in full force and effect. Since the Seller Acquisition Date, none of VTI and the VTI Subsidiaries has received any notice of cancellation or non-renewal with respect to any such policies. Since the Seller Acquisition Date, all premiums due and payable thereon have been paid, and each of VTI and the VTI Subsidiaries has complied with the provisions of such policies.

17. Legal Proceedings; Orders

There are no pending, or to the best knowledge of the Seller after reasonable and diligent inquiry, threatened claims, legal actions, regulatory or other proceedings, arbitrations, prosecutions, or lawsuits against any of VTI and the VTI Subsidiaries or involving the Telco Assets, Governmental Authorizations, or any of their material properties of which any of VTI and the VTI Subsidiaries has received notice or is otherwise aware. There are no actions, suits or proceedings pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened against any of VTI and the VTI Subsidiaries which, if adversely decided against VTI and the VTI Subsidiaries or any of the Subsidiaries, as the case may be, may impair the ownership of, marketable title to, possession or use of the Telco Assets or the performance of this Agreement by VTI and the VTI

Subsidiaries. To the best knowledge of the Seller after reasonable and diligent inquiry, there are no circumstances which are likely to give rise to any such action, suit or proceedings.

18. All Information

- (a) All material information about VTI and the VTI Subsidiaries and contained in any written document or communication (including e-mails and documents or communications transmitted electronically) which has been or will be given to the Purchasers, or the Purchasers' advisers or employees, in the course of the Confirmatory Due Diligence and negotiations relating to this Agreement, is true and accurate in all material respects and is not misleading.
- (b) The copies of all contracts and agreements in respect of VTI and the VTI Subsidiaries supplied to or made available for review by the Purchasers or any of its advisers, agents or employees, are true and complete.
- (c) No representation or warranty made by each of VTI and the VTI Subsidiaries herein or any statement, document or certificate furnished or to be furnished in behalf of VTI and the VTI Subsidiaries to the Purchasers in connection with the transactions contemplated hereby, contains or will contain on the First Payment Date any untrue statement of material fact, or omit or will omit to state a material fact necessary in order to make the statement of fact contained herein or therein not misleading.

19. No Transactions with Affiliates and Related Parties

VTI has not entered into any transaction with or has any indebtedness to any of its directors or officers or any of its shareholders, or any of such shareholders' affiliates or other related parties, except in the Ordinary and Regular Course of business.

20. Outstanding Advances

- (a) The aggregate principal amount of the Outstanding Advances is PHP22,076,748,137.00 as of April 30, 2016. The Outstanding Advances are legal, valid and binding obligations due to the Seller from VTI and the VTI Subsidiaries, and enforceable against them, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar Law affecting creditors' rights generally and to general principles of equity.
- (b) The Seller has no outstanding liabilities to VTI that may give rise to a right of set-off in favor of VTI.
- (c) The Seller has the legal right and authority to assign the Outstanding Advances absolutely and free from all Encumbrances.
- (d) The Outstanding Advances have not been sold, offered for sale or legally or equitably assigned or otherwise encumbered by the Seller.
- (e) There are no Orders, garnishment, attachments or liens outstanding affecting the Outstanding Advances in any way.

21. Environmental Liability

Since the Seller Acquisition Date, each of VTI and the Subsidiaries (i) is not in violation of any statute, rule, regulation, decision or order of any Governmental Authority relating to the use, disposal or release of hazardous or toxic substances, electromagnetic or radio frequency, wave or current or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substance, (ii) does not own or operate any real property contaminated with any substance that is subject to environmental Laws, or (iii) is not subject to any claim relating to environmental Laws or any pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened investigation which might lead to such a claim.

SCHEDULE 9(B)
REPRESENTATIONS AND WARRANTIES OF EACH PURCHASER

1. Corporate Existence; Authority; No Conflict

- (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 corporate 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 of directors, and no other corporate action or corporate proceeding is necessary to authorize this Agreement or the transactions contemplated hereby.
- (c) 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.
- (d) The execution and delivery of this Agreement, and the performance of its obligations hereunder, do not and will not violate any Law and will not conflict with or result in a breach of its Governing Documents, or of any Contract 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.

FIRST AMENDMENT TO THE SALE AND PURCHASE AGREEMENT

This **FIRST AMENDMENT TO THE SALE AND PURCHASE AGREEMENT** (the "**Amendment**") is dated _____, 2016 by and among:

SAN MIGUEL CORPORATION, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at 40 San Miguel Avenue, Mandaluyong City, 1550 Metro Manila, Philippines, represented herein by its President and Chief Executive Officer, Mr. Ramon S. Ang (hereinafter, "**SMC**" or the "**Seller**");

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Ramon Cojuangco Building, Makati Avenue, Makati City, represented herein by its Chairman and President, Mr. Manuel V. Pangilinan (hereinafter, "**PLDT**");

GLOBE TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig City, represented herein by its President and Chief Executive Officer, Mr. Ernest L. Cu (hereinafter, "**GLOBE**" and together with PLDT, the "**Purchasers**");

- and -

VEGA TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at 40 San Miguel Avenue, Mandaluyong City, 1550 Metro Manila, Philippines, represented herein by its authorized signatories, Messrs. Ray C. Espinosa and Gil B. Genio ("**VTI**" or the "**Company**").

(SMC, PLDT, GLOBE and VTI are at times individually referred to as a "**Party**" and collectively, as the "**Parties**".)

WHEREAS:

- (A) The Parties entered into a Sale and Purchase Agreement on 30 May 2016 (the "**Agreement**") for the sale and purchase of the Sale Shares and Outstanding Advances; and
- (B) The Parties have agreed to amend the Agreement to extend the Confirmatory Due Diligence Period, Validation Period, and payment date of the variance of the Total Liabilities provided in the Agreement.

NOW, THEREFORE, for and in consideration of the foregoing premises, and for other good and valuable consideration, the Parties hereby agree as follows:

1. Unless otherwise specifically defined herein, each term used herein that is defined in the Agreement shall have the meaning assigned to such term in the Agreement.
2. Section 6.1, Article VI of the Agreement is hereby amended to read as follows:

"Confirmatory Due Diligence. After the First Payment Date, the Purchasers shall have the right to conduct a corporate, financial, tax, legal, business and technical due diligence and review on the Sale Shares, VTI, the VTI Subsidiaries and the Telco Assets (the **"Confirmatory Due Diligence"**) until August 31, 2016 (the **"Confirmatory Due Diligence Period"**); provided, however, that all documents, materials and information requested, and which may be in the possession of the Seller, shall have been complete and promptly provided to the Purchasers to determine whether any claim for adjustment or indemnification may be brought under terms to be agreed upon in this Agreement. For this purpose, the Seller shall give the Purchasers and their representatives such information relating to the Sale Shares, VTI, the VTI Subsidiaries and the Telco Assets, which may be in the possession of the Seller and as may be reasonably requested by the Purchasers to complete the Confirmatory Due Diligence."
3. Section 6.2, Article VI of the Agreement is hereby amended to read as follows:

"Validation Period and Adjustments. Within thirty (30) days after the end of the Confirmatory Due Diligence Period or until September 30, 2016 (**"Validation Period"**), the Parties shall validate and agree on the amount of the Total Liabilities as of the First Payment Date.

 - (a) If the Total Liabilities as of the First Payment Date are less than the Total Liabilities as of April 30, 2016, the Purchasers shall pay the variance to the Seller within thirty (30) days from the end of the Validation Period but in no case later than October 17, 2016 through the delivery of a manager's check covering the amount of the variance.
 - (b) If the Total Liabilities as of the First Payment Date are more than the Total Liabilities as of April 30, 2016, the Seller shall pay the variance to the Purchasers within thirty (30) days from the end of the Validation Period through the delivery of manager's checks covering the amount of the variance.
 - (c) In addition to the payments of the relevant amounts specified in (a) and (b), any excess cash in ETPI over the amount of all of ETPI's liabilities, net of reasonable operating cash requirements, as of the First Payment Date shall be an adjustment in favor of the Seller to the extent of its *pro rata* ownership in ETPI.

The Purchasers undertake to provide the representatives/s of the Seller reasonable access to the relevant financial records, documents, and people to determine and confirm the Total Liabilities as of the First Payment Date."
4. Except as provided in Sections 2 and 3 above, no other provisions of the Agreement have been amended or otherwise modified and the Agreement shall remain in full force and effect against the Parties.
5. From and after the date hereof, all references in any other agreement among the Parties shall be deemed to be references to the Agreement after giving effect to this Amendment, and each reference to "hereof", "hereunder," "herein" or "hereby" and each other similar reference and

each reference to "this Agreement" and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement as amended hereby.

6. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have caused this Amendment to be signed on the date and at the place first above written.

The Seller:

SAN MIGUEL CORPORATION

By:

/s/ Ramon S. Ang
RAMON S. ANG
President and Chief Operating Officer

The Purchasers:

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

By:

/s/ Manuel V. Pangilinan
MANUEL V. PANGILINAN
Chairman and President

GLOBE TELECOM, INC.

By:

/s/ Ernest L. Cu
ERNEST L. CU
President and Chief Executive Officer

The Company:

VEGA TELECOM, INC.

By:

/s/ Ray C. Espinosa
RAY C. ESPINOSA
Co-Chairman and Co-President

/s/ Gil B. Genio

GIL B. GENIO
Co-Chairman and Co-President

SIGNED IN THE PRESENCE OF:

FIRST AMENDMENT TO THE SALE AND PURCHASE AGREEMENT

This **FIRST AMENDMENT TO THE SALE AND PURCHASE AGREEMENT** (the “**Amendment**”) is dated _____, 2016 by and among:

SAN MIGUEL CORPORATION, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at 40 San Miguel Avenue, Mandaluyong City, 1550 Metro Manila, Philippines, represented herein by its President and Chief Executive Officer, Mr. Ramon S. Ang (hereinafter, “**SMC**” or the “**Seller**”);

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Ramon Cojuangco Building, Makati Avenue, Makati City, represented herein by its Chairman and President, Mr. Manuel V. Pangilinan (hereinafter, “**PLDT**”);

GLOBE TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig City, represented herein by its President and Chief Executive Officer, Mr. Ernest L. Cu (hereinafter, “**GLOBE**” and together with PLDT, the “**Purchasers**”);

- and -

VEGA TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at 40 San Miguel Avenue, Mandaluyong City, 1550 Metro Manila, Philippines, represented herein by its authorized signatories, Messrs. Ray C. Espinosa and Gil B. Genio (“**VTI**” or the “**Company**”).

(SMC, PLDT, GLOBE and VTI are at times individually referred to as a “**Party**” and collectively, as the “**Parties**”).

WHEREAS:

- (C) The Parties entered into a Sale and Purchase Agreement on 30 May 2016 (the “**Agreement**”) for the sale and purchase of the Sale Shares and Outstanding Advances; and
- (D) The Parties have agreed to amend the Agreement to extend the Confirmatory Due Diligence Period, Validation Period, and payment date of the variance of the Total Liabilities provided in the Agreement.

NOW, THEREFORE, for and in consideration of the foregoing premises, and for other good and valuable consideration, the Parties hereby agree as follows:

2. Unless otherwise specifically defined herein, each term used herein that is defined in the Agreement shall have the meaning assigned to such term in the Agreement.

2. Section 6.1, Article VI of the Agreement is hereby amended to read as follows:

"Confirmatory Due Diligence. After the First Payment Date, the Purchasers shall have the right to conduct a corporate, financial, tax, legal, business and technical due diligence and review on the Sale Shares, VTI, the VTI Subsidiaries and the Telco Assets (the **"Confirmatory Due Diligence"**) until August 31, 2016 (the **"Confirmatory Due Diligence Period"**); provided, however, that all documents, materials and information requested, and which may be in the possession of the Seller, shall have been complete and promptly provided to the Purchasers to determine whether any claim for adjustment or indemnification may be brought under terms to be agreed upon in this Agreement. For this purpose, the Seller shall give the Purchasers and their representatives such information relating to the Sale Shares, VTI, the VTI Subsidiaries and the Telco Assets, which may be in the possession of the Seller and as may be reasonably requested by the Purchasers to complete the Confirmatory Due Diligence."

3. Section 6.2, Article VI of the Agreement is hereby amended to read as follows:

"Validation Period and Adjustments. Within thirty (30) days after the end of the Confirmatory Due Diligence Period or until September 30, 2016 (**"Validation Period"**), the Parties shall validate and agree on the amount of the Total Liabilities as of the First Payment Date.

 - (a) If the Total Liabilities as of the First Payment Date are less than the Total Liabilities as of April 30, 2016, the Purchasers shall pay the variance to the Seller within thirty (30) days from the end of the Validation Period but in no case later than October 17, 2016 through the delivery of a manager's check covering the amount of the variance.
 - (b) If the Total Liabilities as of the First Payment Date are more than the Total Liabilities as of April 30, 2016, the Seller shall pay the variance to the Purchasers within thirty (30) days from the end of the Validation Period through the delivery of manager's checks covering the amount of the variance.
 - (c) In addition to the payments of the relevant amounts specified in (a) and (b), any excess cash in ETPI over the amount of all of ETPI's liabilities, net of reasonable operating cash requirements, as of the First Payment Date shall be an adjustment in favor of the Seller to the extent of its *pro rata* ownership in ETPI.

The Purchasers undertake to provide the representatives/s of the Seller reasonable access to the relevant financial records, documents, and people to determine and confirm the Total Liabilities as of the First Payment Date."

4. Except as provided in Sections 2 and 3 above, no other provisions of the Agreement have been amended or otherwise modified and the Agreement shall remain in full force and effect against the Parties.

5. From and after the date hereof, all references in any other agreement among the Parties shall be deemed to be references to the Agreement after giving effect to this Amendment, and each reference to "hereof", "hereunder," "herein" or "hereby" and each other similar reference and

each reference to "this Agreement" and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement as amended hereby.

6. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have caused this Amendment to be signed on the date and at the place first above written.

The Seller:

SAN MIGUEL CORPORATION

By:

/s/ Ramon S. Ang
RAMON S. ANG
President and Chief Operating Officer

The Purchasers:

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

By:

/s/ Manuel V. Pangilinan
MANUEL V. PANGILINAN
Chairman and President

GLOBE TELECOM, INC.

By:

/s/ Ernest L. Cu
ERNEST L. CU
President and Chief Executive Officer

The Company:

VEGA TELECOM, INC.

By:

/s/ Ray C. Espinosa
RAY C. ESPINOSA
Co-Chairman and Co-President

/s/ Gil B. Genio

GIL B. GENIO
Co-Chairman and Co-President

SIGNED IN THE PRESENCE OF:

FIRST AMENDMENT TO THE SALE AND PURCHASE AGREEMENT

This **FIRST AMENDMENT TO THE SALE AND PURCHASE AGREEMENT** (the “**Amendment**”) is dated _____, 2016 by and among:

GRACE PATRICIA W. VILCHEZ-CUSTODIO, Filipino, married, of legal age, with office address at 2 Birmingham Street, Victoria Place, Pasig City, (hereinafter, the “**Seller**”);

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Ramon Cojuangco Building, Makati Avenue, Makati City, represented herein by its Chairman and President, Mr. Manuel V. Pangilinan (hereinafter, “**PLDT**”);

GLOBE TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig City, represented herein by its President and Chief Executive Officer, Mr. Ernest L. Cu (hereinafter, “**GLOBE**” and together with PLDT, the “**Purchasers**”);

- and -

BRIGHTSHARE HOLDINGS CORPORATION, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Unit 701 Emerald Building, No. 24 F. Ortigas, Jr. Road, Pasig City, 1550 Metro Manila, Philippines, represented herein by its authorized signatories, Messrs. Ray C. Espinosa and Gil B. Genio (“**HB Holdco**” or the “**Company**”).

(The Seller, PLDT, GLOBE and HB Holdco are at times individually referred to as a “**Party**” and collectively, as the “**Parties**”.)

WHEREAS:

- (E) The Parties entered into a Sale and Purchase Agreement on 30 May 2016 (the “**Agreement**”) for the sale and purchase of the Sale Shares and Outstanding Advances; and
- (F) The Parties have agreed to amend the Agreement to extend the Confirmatory Due Diligence Period, Validation Period, and payment date of the variance of the Total Liabilities provided in the Agreement.

NOW, THEREFORE, for and in consideration of the foregoing premises, and for other good and valuable consideration, the Parties hereby agree as follows:

3. Unless otherwise specifically defined herein, each term used herein that is defined in the Agreement shall have the meaning assigned to such term in the Agreement.

2. Section 6.1, Article VI of the Agreement is hereby amended to read as follows:

"Confirmatory Due Diligence. After the First Payment Date, the Purchasers shall have the right to conduct a corporate, financial, tax, legal, business and technical due diligence and review on the Sale Shares, HB Holdco, the HB Holdco Subsidiary and the Telco Assets (the **"Confirmatory Due Diligence"**) until August 31, 2016 (the **"Confirmatory Due Diligence Period"**); provided, however, that all documents, materials and information requested, and which may be in the possession of the Seller, shall have been complete and promptly provided to the Purchasers to determine whether any claim for adjustment or indemnification may be brought under terms to be agreed upon in this Agreement. For this purpose, the Seller shall give the Purchasers and their representatives such information relating to the Sale Shares, HB Holdco, the HB Holdco Subsidiary and the Telco Assets, which may be in the possession of the Seller and as may be reasonably requested by the Purchasers to complete the Confirmatory Due Diligence."

3. Section 6.2, Article VI of the Agreement is hereby amended to read as follows:

"Validation Period and Adjustments. Within thirty (30) days after the end of the Confirmatory Due Diligence Period or until September 30, 2016 (**"Validation Period"**), the Parties shall validate and agree on the amount of the Total Liabilities as of the First Payment Date.

 - (a) If the Total Liabilities as of the First Payment Date are less than the Total Liabilities as of April 30, 2016, the Purchasers shall pay the variance to the Seller within thirty (30) days from the end of the Validation Period but in no case later than October 17, 2016 through the delivery of a manager's check covering the amount of the variance.
 - (b) If the Total Liabilities as of the First Payment Date are more than the Total Liabilities as of April 30, 2016, the Seller shall pay the variance to the Purchasers within thirty (30) days from the end of the Validation Period through the delivery of manager's checks covering the amount of the variance.

The Purchasers undertake to provide the representatives/s of the Seller reasonable access to the relevant financial records, documents, and people to determine and confirm the Total Liabilities as of the First Payment Date."

4. Except as provided in Sections 2 and 3 above, no other provisions of the Agreement have been amended or otherwise modified and the Agreement shall remain in full force and effect against the Parties.

5. From and after the date hereof, all references in any other agreement among the Parties shall be deemed to be references to the Agreement after giving effect to this Amendment, and each reference to "hereof", "hereunder," "herein" or "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement as amended hereby.

6. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have caused this Amendment to be signed on the date and at the place first above written.

The Seller:

/s/ Grace Patricia W. Vilchez-Custodio
GRACE PATRICIA W. VILCHEZ-CUSTODIO

With my marital consent:

/s/ Zeus Earl Roy D. Custodio
ZEUS EARL ROY D. CUSTODIO

The Purchasers:

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

By:

/s/ Manuel V. Pangilinan
MANUEL V. PANGILINAN
Chairman and President

GLOBE TELECOM, INC.

By:

/s/ Ernest L. Cu
ERNEST L. CU
President and Chief Executive Officer

The Company:

BRIGHTSHARE HOLDINGS CORPORATION

By:

/s/ Ray C. Espinosa
RAY C. ESPINOSA
Co-Chairman and Co-President

/s/ Gil B. Genio
GIL B. GENIO
Co-Chairman and Co-President

SIGNED IN THE PRESENCE OF:

FIRST AMENDMENT TO THE SALE AND PURCHASE AGREEMENT

This **FIRST AMENDMENT TO THE SALE AND PURCHASE AGREEMENT** (the “**Amendment**”) is dated _____, 2016 by and among:

SCHUTZENGEL TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Central Avenue, New Era, Quezon City, represented herein by its Director, Mr. Jose A. Ramos, Jr. (hereinafter, the “**Seller**”);

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Ramon Cojuangco Building, Makati Avenue, Makati City, represented herein by its Chairman and President, Mr. Manuel V. Pangilinan (hereinafter, “**PLDT**”);

GLOBE TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig City, represented herein by its President and Chief Executive Officer, Mr. Ernest L. Cu (hereinafter, “**GLOBE**” and together with PLDT, the “**Purchasers**”);

- and -

BOW ARKEN HOLDING COMPANY, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Unit 701 Emerald Building, No. 24 F. Ortigas, Jr. Road, Pasig City, 1550 Metro Manila, Philippines, represented herein by its authorized signatories, Messrs. Ray C. Espinosa and Gil B. Genio (“**LB Holdco**” or the “**Company**”).

(The Seller, PLDT, GLOBE and LB Holdco are at times individually referred to as a “**Party**” and collectively, as the “**Parties**”.)

WHEREAS:

- (G) The Parties entered into a Sale and Purchase Agreement on 30 May 2016 (the “**Agreement**”) for the sale and purchase of the Sale Shares and Outstanding Advances; and
- (H) The Parties have agreed to amend the Agreement to extend the Confirmatory Due Diligence Period, Validation Period, and payment date of the variance of the Total Liabilities provided in the Agreement.

NOW, THEREFORE, for and in consideration of the foregoing premises, and for other good and valuable consideration, the Parties hereby agree as follows:

4. Unless otherwise specifically defined herein, each term used herein that is defined in the Agreement shall have the meaning assigned to such term in the Agreement.

2. Section 6.1, Article VI of the Agreement is hereby amended to read as follows:

"Confirmatory Due Diligence. After the First Payment Date, the Purchasers shall have the right to conduct a corporate, financial, tax, legal, business and technical due diligence and review on the Sale Shares, LB Holdco, the LB Holdco Subsidiary and the Telco Assets (the **"Confirmatory Due Diligence"**) until August 31, 2016 (the **"Confirmatory Due Diligence Period"**); provided, however, that all documents, materials and information requested, and which may be in the possession of the Seller, shall have been complete and promptly provided to the Purchasers to determine whether any claim for adjustment or indemnification may be brought under terms to be agreed upon in this Agreement. For this purpose, the Seller shall give the Purchasers and their representatives such information relating to the Sale Shares, LB Holdco, the LB Holdco Subsidiary and the Telco Assets, which may be in the possession of the Seller and as may be reasonably requested by the Purchasers to complete the Confirmatory Due Diligence."

3. Section 6.2, Article VI of the Agreement is hereby amended to read as follows:

"Validation Period and Adjustments. Within thirty (30) days after the end of the Confirmatory Due Diligence Period or until September 30, 2016 (**"Validation Period"**), the Parties shall validate and agree on the amount of the Total Liabilities as of the First Payment Date.

- (a) If the Total Liabilities as of the First Payment Date are less than the Total Liabilities as of April 30, 2016, the Purchasers shall pay the variance to the Seller within thirty (30) days from the end of the Validation Period but in no case later than October 17, 2016 through the delivery of a manager's check covering the amount of the variance.
- (b) If the Total Liabilities as of the First Payment Date are more than the Total Liabilities as of April 30, 2016, the Seller shall pay the variance to the Purchasers within thirty (30) days from the end of the Validation Period through the delivery of manager's checks covering the amount of the variance.

The Purchasers undertake to provide the representatives/s of the Seller reasonable access to the relevant financial records, documents, and people to determine and confirm the Total Liabilities as of the First Payment Date."

4. Except as provided in Sections 2 and 3 above, no other provisions of the Agreement have been amended or otherwise modified and the Agreement shall remain in full force and effect against the Parties.
5. From and after the date hereof, all references in any other agreement among the Parties shall be deemed to be references to the Agreement after giving effect to this Amendment, and each reference to "hereof", "hereunder," "herein" or "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement as amended hereby.
6. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have caused this Amendment to be signed on the date and at the place first above written.

The Seller:

SCHUTZENGEL TELECOM, INC.

By:

/s/ Jose A. Ramos, Jr.
JOSE A. RAMOS, JR.
President and Chief Operating Officer

The Purchasers:

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

By:

/s/ Manuel V. Pangilinan
MANUEL V. PANGILINAN
Chairman and President

GLOBE TELECOM, INC.

By:

/s/ Ernest L. Cu
ERNEST L. CU
President and Chief Executive Officer

The Company:

BOW ARKEN HOLDING COMPANY, INC.

By:

/s/ Ray C. Espinosa
RAY C. ESPINOSA
Co-Chairman and Co-President

/s/ Gil B. Genio
GIL B. GENIO
Co-Chairman and Co-President

SIGNED IN THE PRESENCE OF:

GRACE PATRICIA W. VILCHEZ-CUSTODIO
(Seller)

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
GLOBE TELECOM, INC.
(Purchasers)

and

BRIGHTSHARE HOLDINGS CORPORATION
(Company)

SALE AND PURCHASE AGREEMENT

RELATING TO THE SALE AND PURCHASE OF 100.00%
EQUITY INTEREST IN BRIGHTSHARE HOLDINGS CORPORATION

30 May 2016

This **SALE AND PURCHASE AGREEMENT** (the "**Agreement**") is dated May 30, 2016 (the "**Signing Date**"), by and among:

GRACE PATRICIA W. VILCHEZ-CUSTODIO, Filipino, married, of legal age, with address at 2 Birmingham Street, Victoria Place, Pasig City (hereinafter, the "**Seller**");

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Ramon Cojuangco Building, Makati Avenue, Makati City, represented herein by its Chairman and President, Mr. Manuel V. Pangilinan (hereinafter, "**PLDT**");

GLOBE TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig City, represented herein by its President and Chief Executive Officer, Mr. Ernest L. Cu (hereinafter, "**GLOBE**" and together with PLDT, the "**Purchasers**");

- and -

BRIGHTSHARE HOLDINGS CORPORATION, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Unit 701, Emerald Building, 24 F. Ortigas Jr. Road, Ortigas Center, Pasig City, represented herein by its Director, Mr. Jose A. Ramos ("**HB Holdco**" or the "**Company**").

(Seller, PLDT, GLOBE and HB Holdco are at times individually referred to as a "**Party**" and collectively, as the "**Parties**".)

WHEREAS:

- (A) The Seller is the beneficial owner of 25,000 common shares of stock, which comprise in the aggregate one hundred percent (100%) of the entire issued and outstanding capital stock of HB Holdco on a fully-diluted basis as set out in **Schedule 1** (the "**Sale Shares**") and for which the certificate authorizing registration covering the sale and transfer of the Sale Shares from Mr. Juan Fermin D. Rayos Del Sol to the Seller is pending issuance by the BIR;
- (B) HB Holdco, through its subsidiary identified in **Schedule 2** (the "**HB Holdco Subsidiary**"), owns and possesses the Franchises to operate and maintain telecommunications service in the Philippines as set out in **Schedule 3(A)** (the "**Franchises**"), and the HB Holdco Subsidiary have been assigned the frequencies listed in **Schedule 3(B)** (the "**Frequencies**") pursuant to the Franchises (the Franchises and the Frequencies are collectively referred to as the "**Telco Assets**");
- (C) The Seller has extended various shareholder advances and other advances to HB Holdco and HB Holdco Subsidiary, in the aggregate amount of One Hundred Sixty Six Million Sixty One Thousand Four Hundred Twenty Pesos (PHP166,061,420.00) as of the Signing Date, details of which are set out in **Schedule 4** (the "**Outstanding Advances**");
- (D) The Seller has agreed to sell, transfer and convey the Sale Shares in favor of the Purchasers, and the Purchasers have agreed to purchase and acquire from the Seller such Sale Shares on a 50-50 basis, on the underlying consideration that the purchase of the Sale Shares will result in the Purchasers acquiring and owning HB Holdco which in turn owns, directly or indirectly, all the rights, title and interests in and to the Telco Assets through the HB Holdco Subsidiary;
- (E) The Purchasers have agreed to purchase from the Seller on a 50-50 basis, and the Seller has agreed

to sell to the Purchasers, the Outstanding Advances under the terms and conditions set forth in this Agreement;

- (F) HB Holdco as the issuer of the Sale Shares, desires to assist the Seller and the Purchasers to implement the transactions contemplated herein, and for such purpose have agreed to perform certain obligations as set forth in this Agreement; and
- (G) The Seller has agreed that, concurrent with the purchase by the Purchasers of the Sale Shares, the Purchasers will also acquire from the Other Sellers the shares and outstanding shareholder advances and other advances described in **Schedule 5** (collectively, the “**Concurrent Transactions**”).

NOW, THEREFORE, in consideration of the premises and the mutual agreements and covenants hereinafter set forth, the Parties hereby agree as follows:

ARTICLE I **DEFINITIONS AND INTERPRETATION**

1.1 **Definitions.** When used in this Agreement, unless the contrary intention appears or a different meaning is called for in the context of another provision in this Agreement, the capitalized terms shall have the meanings assigned to them in **Schedule 6** unless the context otherwise requires or they are expressly assigned a different meaning.

1.2 **References.** References to Sections, Recitals and Schedules are, unless otherwise stated, to sections, clauses and recitals of and schedules to this Agreement. Section headings are for convenience only and shall not affect the construction of this Agreement. The terms and conditions set out in the Recitals and Schedules are incorporated into and form part of this Agreement. References to this Agreement shall include the Recitals and Schedules. In construing this Agreement, the singular shall include the plural and vice versa. Reference to any statute or statutory provision shall include any statute or statutory provision which amends or replaces, or has amended or replaced, it and shall include any subordinate legislation made under the relevant statute.

1.3 **Date or Time.** Any reference to a date or a time of day is a reference to Philippine Standard time.

1.4 **Schedules and Annexes.** The following schedules and annexes attached to this Agreement shall form integral parts hereof:

Schedule 1	Sale Shares
Schedule 2	Information on HB Holdco Subsidiary
Schedule 3(A)	List of Franchises
Schedule 3(B)	List of Frequencies
Schedule 4	Details of Outstanding Advances
Schedule 5	Concurrent Transactions
Schedule 6	Definitions
Schedule 7(A)	Seller Warranties
Schedule 7(B)	Purchaser Warranties
Schedule 8	List of Resigning Directors
Annex A	Form of Deed of Absolute Sale of Shares
Annex B	Form of Deed of Assignment of Outstanding Advances
Annex C	Form of First Payment Certificate

Annex D	Form of Irrevocable Proxy
Annex E	Form of Notice to PCC
Annex F	Form of Second Payment SBLC and Final Payment SBLC

ARTICLE II
**SALE AND PURCHASE OF SALE SHARES AND OUTSTANDING ADVANCES;
ASSUMPTION OF TOTAL LIABILITIES**

2.1. Sale and Purchase of Sale Shares. Subject to the First Payment Milestone referred to in Section 3.3, and without prejudice to and in accordance with the Terms and Manner of Payment under Article III hereof:

- (d) The Seller hereby sells, transfers, assigns and conveys in favor of the Purchasers, and the Purchasers hereby purchase, acquire and accept from the Seller on a 50-50 basis, free and clear of any Encumbrance, the Sale Shares as set out in **Schedule 1** hereof, and all of the Seller's rights and interests therein, including full voting rights and the rights to any dividend or other distribution declared, made or payable after the First Payment Date;
- (e) The Seller hereby sells, transfers, assigns and conveys in favor of the Purchasers, and the Purchasers hereby purchase, acquire and accept from the Seller on a 50-50 basis, free and clear of any Encumbrance, the Outstanding Advances and all of the Seller's rights and interests therein; and
- (f) The sale and purchase contemplated herein shall be for all of the Sale Shares and the Outstanding Advances. Unless expressly agreed otherwise in writing by the Purchasers, the First Payment Milestone shall not occur unless the sale and purchase transaction among the Parties is for all, and not only some, of the Sale Shares and the Outstanding Advances.

2.2. Assumption of Total Liabilities. Subject to the First Payment Milestone referred to in Section 3.3, and without prejudice to and in accordance with the Terms and Manner of Payment under Article III hereof, the Purchasers, through HB Holdco and the HB Holdco Subsidiary (as may be appropriate), shall assume the Total Liabilities from and after the First Payment Date.

2.3. Purchase Price. The aggregate purchase price payable to the Seller shall be **One Hundred Ninety One Million Sixty One Thousand Four Hundred Twenty Pesos (PHP191,061,420.00)** (the "**Purchase Price**"), consisting of the following:

- (c) **Twenty Five Million Pesos (PHP25,000,000.00)** as purchase price for the Sale Shares (the "**Sale Shares Purchase Price**"); and
- (d) **One Hundred Sixty Six Million Sixty One Thousand Four Hundred Twenty Pesos (PHP166,061,420.00)** as purchase price for the Outstanding Advances (the "**Outstanding Advances Purchase Price**").

ARTICLE III
TERMS AND MANNER OF PAYMENT

3.1 Terms of Payment. Subject to the First Payment Milestone referred to in Section 3.3 below, the Purchase Price shall be payable to the Seller on a deferred basis on the payment dates and in the amounts set forth below, unless otherwise agreed by the Parties in writing:

- (a) On the First Payment Date referred to in Section 3.3 below, the amount of Ninety Five Million Five Hundred Thirty Thousand Seven Hundred Eight Pesos (PHP95,530,708.00) representing fifty percent (50%) of the Purchase Price (the “**First Payment**”);
- (b) On December 1, 2016 (the “**Second Payment Date**”), the amount of Forty Seven Million Seven Hundred Sixty Five Thousand Three Hundred Fifty Six Pesos (PHP47,765,356.00) representing twenty five percent (25%) of the Purchase Price (the “**Second Payment**”); and
- (c) On May 30, 2017 (the “**Final Payment Date**”), the amount of Forty Seven Million Seven Hundred Sixty Five Thousand Three Hundred Fifty Six Pesos (PHP47,765,356.00) representing twenty five percent (25%) of the Purchase Price (the “**Final Payment**”).

3.2 Manner of Payment. Subject to the First Payment Milestone referred to in Section 3.3 below, the Purchase Price shall be payable to the Seller as follows:

- (a) On the First Payment Date:
 - (1) the First Payment shall be paid not later than 11:00 a.m. through the delivery of two (2) manager’s checks payable to the Seller covering the amount thereof; and
 - (2) the Purchasers shall deliver to the Seller, as security for the Second Payment and the Final Payment, an irrevocable standby letter(s) of credit from an issuing bank, and under terms and conditions, acceptable to the Seller covering the amount of the Second Payment (the “**Second Payment SBLC**”) and the Final Payment (the “**Final Payment SBLC**”), in the form of **Annex F**.
- (b) On the Second Payment Date, the Second Payment shall be paid through the delivery of two (2) manager’s checks payable to the Seller covering the amount thereof. If the Purchasers fail to pay the full amount of the Second Payment by 11:00 a.m. of the Second Payment Date, such failure shall be deemed as non-performance of the Purchasers’ obligations to pay the Second Payment in full on such date. The Seller shall have the right to immediately and unconditionally draw any unpaid portion of the Second Payment under the Second Payment SBLC.
- (c) On the Final Payment Date, the Final Payment shall be paid through the delivery of two (2) manager’s checks payable to the Seller covering the amount thereof. If the Purchasers fail to pay the full amount of the Final Payment by 11:00 a.m. of the Final Payment Date, such failure shall be deemed as non-performance of the Purchasers’ obligations to pay the Final Payment in full on such date. The Seller shall have the right to immediately and unconditionally draw any unpaid portion of the Final Payment under the Final Payment SBLC.
- (d) For the avoidance of doubt, the Seller hereby agrees that the delivery of the two (2) manager’s checks for the First Payment, the Second Payment, and the Final Payment, including any amount drawn from the Second Payment SBLC and/or the Final Payment SBLC, if appropriate, shall be deemed full compliance by the Purchasers with their obligation to pay the Purchase Price, without prejudice to the obligation to make additional payments to the Seller (if any) pursuant to Article VI of this Agreement.

3.3 First Payment Milestone. The full payment of the Purchase Price and the performance by each of the Parties of their respective obligations under this Agreement from and after the Signing Date, shall be subject to the fulfillment and satisfaction of each of the First Payment Deliverables set out in Section 3.4 below (the “**First Payment Milestone**”).

The date on which the First Payment Milestone shall have occurred is referred to in this Agreement as the “**First Payment Date**”.

3.4 Deliverables. The obligations of each of the Seller and the Purchasers to complete and consummate the transactions contemplated by this Agreement shall be subject to the satisfaction on or prior to the First Payment Date of each of the following conditions and deliverables (the “**First Payment Deliverables**”), any one or more of which may be waived in writing, in whole or in part, by the Purchasers:

(a) As to the obligations of both the Seller and the Purchasers:

- (1) The Parties shall have filed the relevant notice with the Philippine Competition Commission (“PCC”) in accordance with the relevant PCC memorandum circular, substantially in the form of **Annex E**;
- (2) No Law, or other legally binding resolution or order, writ, injunction, restraining order or decree of any Governmental Authority, shall be in effect which would restrain or prohibit the Parties from executing the Definitive Agreements, or making the First Payment as contemplated in this Agreement; and
- (3) No Material Adverse Change shall have occurred.

(b) Seller Deliverables as to the obligations of the Purchasers:

- (1) **The Sale Shares sold by the Seller to the Purchasers constitute one hundred percent (100%) of the total issued and outstanding capital stock of HB Holdco;**
- (2) **At or prior to the First Payment Date, all corporate actions, approvals and other proceedings (as applicable) required for the consummation and implementation by the Seller and HB Holdco of the transactions contemplated in the Definitive Agreements (including specifically the sale, transfer, assignment and conveyance of the Sale Shares and the Outstanding Advances in favor of the Purchasers), shall have been obtained by the Seller and HB Holdco, and shall be in full force and effect, evidence of such authorizations or approvals satisfactory to the Purchasers shall have been submitted by the Seller and HB Holdco to each of the Purchasers;**
- (3) At or prior to the First Payment Date, all (a) filings, permits, authorizations (other than the Tax Clearance/CAR), (b) Third Party Consents (other than Third Party Consents disclosed to the Purchasers in writing), and (c) other approvals and waivers, for the consummation and implementation by the Seller and HB Holdco of the transactions contemplated in the Definitive Agreements (including specifically the sale, transfer, assignment and conveyance of the Sale Shares and the Outstanding Advances in favor of the Purchasers) required under applicable Law to be obtained by the Seller and/or under agreements entered into by the Seller, HB Holdco, or the HB Holdco Subsidiary (including the terms of any shareholders’ agreements and/or loan agreements entered into by any of the Seller, HB Holdco, or the HB Holdco Subsidiary), shall have been obtained by the Seller and HB Holdco, and shall be in full force and effect, evidence of such authorizations or approvals satisfactory to the Purchasers shall have been submitted by the Seller and HB Holdco to each of the Purchasers;
- (4) **All of the payment milestones and deliverables under the separate definitive agreements covering the Concurrent Transactions shall have been fulfilled, and the implementation of the transactions as contemplated under the said**

agreements shall have occurred or, in the sole reasonable determination of the Purchasers, will occur simultaneously with the First Payment Milestone;

- (5) The covenants and agreements required to be complied with by the Seller and HB Holdco as provided in this Agreement shall have been complied with prior to or as of the First Payment Date, and generally no event of default or any other event which, with the giving of notice or lapse of time or both, would be an event of default under this Agreement, has occurred and is continuing;
- (6) All the representations and warranties of the Seller and HB Holdco contained in Schedule 7(A) hereof shall have been true and correct when made, and shall be true and correct as of the First Payment Date, with the same force and effect as if made on the First Payment Date; and
- (7) The Resigning Directors shall have submitted their letters of resignation to HB Holdco, effective as of the First Payment Date.

(c) Purchasers Deliverables as to the obligations of the Seller:

- (1) At or prior to the First Payment Date, all corporate actions, approvals and other proceedings required for the consummation and implementation by the Purchasers of the transactions contemplated in the Definitive Agreements (including specifically the purchase, acquisition and acceptance of the Sale Shares and Outstanding Advances from the Seller), shall have been obtained by each of the Purchasers, and shall be in full force and effect, evidence of such authorizations or approvals satisfactory to the Seller shall have been submitted by each of the Purchasers to the Seller;
- (2) The covenants and agreements required to be complied with by the Purchasers as provided in this Agreement shall have been complied with prior or as of the First Payment Date, and generally no event of default or any other event which, with the giving of notice or lapse of time or both, would be an event of default under this Agreement, has occurred and is continuing; and
- (3) All the representations and warranties of the Purchasers contained in **Schedule 7(B)** hereof shall have been true and correct when made, and shall be true and correct as of the First Payment Date, with the same force and effect as if made on the First Payment Date.

3.5 Reasonable Endeavors. The Parties shall use their reasonable endeavors to obtain the fulfillment and satisfaction of the First Payment Deliverables set out in Section 3.4 above. For this purpose, the Parties agree to jointly file and submit: (i) the relevant notice with the PCC in accordance with the relevant PCC memorandum circular, and (ii) the required disclosure to the SEC and PSE, pursuant to the SRC. They shall also keep each other promptly informed of any circumstances that may result in any other First Payment Deliverable not being satisfied in accordance with its terms.

3.6 Activities Prior to First Payment Milestone.

For the orderly conduct of the First Payment Milestone, no later than one (1) day prior to the First Payment Date, the Seller shall provide each of the Purchasers with (i) a copy of the DST return signed and ready to be filed by the Seller with the BIR in respect of its sale of the Sale Shares, and (ii) the name of the particular BIR revenue district office or the proper BIR payee of the manager's check covering the DST payment on the Sale Shares.

3.7 First Payment Acts. Subject to the fulfillment (or waiver by the relevant Party) of the First Payment

Deliverables set forth in Section 3.4, the First Payment Milestone will take place at 10:00 a.m. on the First Payment Date or such other time and in such location as the Parties may agree in writing. On the First Payment Date, provided that all the First Payment Deliverables have been fulfilled or otherwise waived in writing by the relevant Party, the Parties shall implement each of the following actions (the “**First Payment Acts**”):

- (a) Acts Required of each of the Seller and HB Holdco. The Seller (and HB Holdco as the case may be) shall deliver each of the following to each of the Purchasers:
- (1) Duly executed Deeds of Absolute Sale of Shares of all the Sale Shares belonging to the Seller in favor of the Purchasers (substantially in the form attached as **Annex A**), evidencing the sale, assignment, transfer, and conveyance by the Seller of the Sale Shares in favor of the Purchasers (the “**Deeds of Sale**”);
 - (2) Evidence of the annotation of the execution of the Deeds of Sale in the stock and transfer book of HB Holdco;
 - (3) Duly executed Deeds of Assignment of all the Outstanding Advances in favor of the Purchasers (substantially in the form attached as **Annex B**), evidencing the sale, assignment, transfer, and conveyance by the Seller of the Outstanding Advances in favor of the Purchasers (the “**Deeds of Assignment**”);
 - (4) All original stock certificates evidencing the Sale Shares duly endorsed in blank by the registered owners, including the original of the stock certificates for shares of stock in HB Holdco beneficially owned by the Seller and registered in the names of her nominee directors who hold such shares as nominees of the Seller, duly endorsed in blank by such nominee directors;
 - (5) Copy of the CGT return signed and ready to be filed by the Seller with the BIR in respect of the sale of the Sale Shares;
 - (6) Duly signed deeds of assignment or deeds of trust or nominee agreements from each of the Resigning Directors listed in **Schedule 8** dated as of the First Payment Date, transferring legal or beneficial ownership over the qualifying shares to the replacement directors to be identified and nominated by the Purchasers prior to the First Payment Date;
 - (7) Duly executed letters of resignation of each of the directors listed in **Schedule 8** dated as of the First Payment Date;
 - (8) The First Payment Certificate from the Seller, in the form attached hereto as **Annex C**, certifying and confirming that (A) the First Payment Deliverables of the Seller under Section 3.4(b) have been satisfied, (B) the Seller Warranties set forth in **Schedule 7(A)** are true and correct when made and on the First Payment Date with the same force and effect as though such representations and warranties had been made on and as of and the First Payment Date, and (C) the Seller has performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement which the Seller is required to perform or comply with, in all respects;
 - (9) Irrevocable proxies (substantially in the form attached as **Annex D**) executed by the Seller, constituting each of the Purchasers as her attorney-in-fact, with full power and authority to vote the Sale Shares on a 50-50 basis at any meeting of the shareholders of HB Holdco that may be convened from and after the First

Payment Date, and to do any and all acts related to their exercise of her rights as a stockholder in the HB Holdco from and after the First Payment Date; and

(10) HB Holdco's stock and transfer book, stock certificate book, minutes book, corporate dry seal, original Articles of Incorporation and By-Laws and all amendments thereto.

(b) Acts Required of each of the Purchasers. Each of the Purchasers shall deliver each of the following to the Seller:

(1) An original sworn certificate of each of the Purchasers' Corporate Secretary or equivalent officer containing the resolution/s or approval/s of the Board of Directors (or equivalent governing body) approving the execution, delivery, and performance by each of the Purchasers of this Agreement and each of the Definitive Agreements and, designating the Person or Persons authorized to sign this Agreement and each of the Definitive Agreements on its behalf, including the specimen signature/s of such authorized signatory/ies;

(2) Manager's checks for the First Payment;

(3) Second Payment SBLC;

(4) Final Payment SBLC;

(5) Manager's checks for the Seller issued in the name of the particular BIR revenue district office or the proper BIR payee, in the amount equal to the payment required for the DST for the transfer of Sale Shares;

(6) Duly executed Deeds of Sale; and

(7) Duly executed Deeds of Assignment.

(c) Resignation of Directors. On the First Payment Date, HB Holdco shall cause the holding of a special shareholders' meeting for the purpose of accepting the resignation of the Resigning Directors, and electing the Incoming Directors to the Board of Directors of HB Holdco.

3.8 Payment of Fees, Expenses and Taxes.

(f) Income or Capital Gains Tax

(iii) The Seller shall pay the income or CGT, if any, and file the corresponding returns covering the income tax or CGT, within the reglementary period for filing and paying the same, and provide proof of payment of the taxes arising from the sale of the Sale Shares, or provide proof of tax exemption therefrom. The Seller shall furnish a copy of the relevant tax return or tax-exempt ruling to each of the Purchasers.

(iv) The Seller shall file the CGT returns and pay the CGT due on the sale of the Sale Shares within the reglementary period for filing and paying the same, and, within three (3) days from filing and payment thereof, provide each of the Purchasers with a copy of the CGT return duly filed and evidencing that CGT have been paid with the authorized agent bank of the appropriate BIR Revenue District. Immediately thereafter, the Seller shall procure the issuance of the Tax

Clearance/CAR.

(g) Documentary Stamp Tax.

(iii) The DST on the transfer of the Sale Shares shall be for the account of the Purchasers. The Seller shall arrange the payment thereof upon receipt of separate manager's checks from each of the Purchasers in the amounts of the DST on the Sale Shares of each of the Purchasers.

(iv) Within the reglementary period for filing and paying the same, the Seller shall file with an authorized agent bank of the appropriate BIR Revenue District the DST return and pay the DST due on the sale of the Sale Shares. The Seller shall provide each of the Purchasers proof of payment of the DST on the transfer of their Sale Shares within three (3) Business Days from payment thereof.

(h) Other Fees, Costs and Expenses. All other fees, costs and expenses incurred in connection with the negotiation, preparation, and execution of this Agreement and the Definitive Agreements, as well as those arising out of or in connection with this Agreement shall be borne and paid by the Party incurring such fees, costs and expenses. The fees in respect of the Second Payment SBLC and Final Payment SBLC shall be for the account of the Purchasers.

(i) Tax Clearance/CAR. The Seller shall be responsible for obtaining from the BIR the Tax Clearance/CAR for the Sale Shares. The Seller shall secure the Tax Clearance/CAR as soon as practicable after the First Payment Date, and in any event not later than six (6) months from such date or such longer period as the Parties may agree.

ARTICLE IV COVENANTS and UNDERTAKINGS

4.1 Mutual Covenants.

(a) Each Party shall cooperate and use best efforts to prepare and file as soon as practicable all necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and to use best efforts to obtain any necessary Governmental Authorizations, which it is required to obtain under this Agreement. The Parties further agree to use best efforts to perform any act, comply with any requirement, make any undertaking or obtain any clearance or approval required by any Governmental Authority or applicable Law.

(b) The Parties also agree to cooperate with each other and in good faith in defending against any and all claims, demands, suits or proceedings (commenced by any Person or Governmental Authority) asserted against any of the Parties relating to, resulting from or arising out of the transactions contemplated by this Agreement.

4.2 Non-Compete.

(a) The Seller undertakes that the Seller shall not, within a period of five (5) consecutive years after the First Payment Date, engage, directly or indirectly, in any business, undertaking or enterprise that is competitive with or antagonistic to the telecommunications services of the Purchasers and their Affiliates (the "**Restricted Business**"). For the avoidance of doubt, the Parties agree that restriction in this Section 4.2 shall not apply to (1) any joint venture or similar agreement entered into by the Seller pursuant to Section 8.2(a); and (2)

any acquisition by the Seller of shares or any equity interest in any of the Purchasers or their Affiliates, HB Holdco and/or the HB Holdco Subsidiary in case of any future divestment by the respective shareholders of the foregoing companies.

- (b) For purposes of this Section 4.2, the expression “competitive with” the Restricted Business shall include directly or indirectly carrying on (whether alone or in partnership or joint venture with anyone else) or otherwise being concerned with or interested in (whether as trustee, principal, agent, shareholder, unit holder or in any other capacity) any business similar to or competitive with the Restricted Business, except to the extent the Seller shall take merely a trading position as a passive investor in shares representing no more than five percent (5%) of the issued and outstanding capital stock of any listed corporation engaged in the Restricted Business.

ARTICLE V REPRESENTATIONS AND WARRANTIES

- 5.1 Warranties of the Seller and HB Holdco. Each of the Seller and HB Holdco hereby represents and warrants to each of the Purchasers that the statements set out in **Schedule 7(A)** (the “**Seller Warranties**”) are true, complete, and accurate and not misleading, and are deemed repeated as of the Signing Date and the First Payment Date, by reference to facts and circumstances on or immediately prior to the said dates; provided, however, that the indemnity obligation of the Seller for any breach of said Seller Warranties shall be governed by the provisions of Article VI on Indemnification and Limitations to Indemnity.
- 5.2 Warranties of the Purchasers. Each of the Purchasers hereby represents and warrants to the Seller and HB Holdco that the statements set out in **Schedule 7(B)** (the “**Purchaser Warranties**”) are true, complete, and accurate and not misleading, and are deemed repeated as of the Signing Date and the First Payment Date, by reference to facts and circumstances on or immediately prior to the said dates.
- 5.3 Breach of a Warranty Prior to First Payment Milestone. If, prior to the First Payment Milestone, the Purchasers become aware of a breach of any of the Seller Warranties (other than a breach of the Seller Warranties on ownership of Sale Shares and Telco Assets), the Purchasers shall still proceed with the First Payment Milestone and may seek indemnification for damages suffered as a result of such breach; provided, that the Purchasers’ right to seek indemnification shall be subject to Article VII (Indemnification and Limitations to Indemnity) of this Agreement.
- 5.4 Separate Warranty. Each Warranty is to be treated as a separate representation and warranty. The interpretation of any statement made may not be restricted by reference to or inference from any other statement, save as expressly otherwise provided.

ARTICLE VI DUE DILIGENCE AND PRICE ADJUSTMENT MECHANISM

- 6.1 Confirmatory Due Diligence. After the First Payment Date, the Purchasers shall have the right to conduct a corporate, financial, tax, legal, business and technical due diligence and review on the Sale Shares, HB Holdco, the HB Holdco Subsidiary and the Telco Assets (the “**Confirmatory Due Diligence**”) for a period not exceeding sixty (60) days from the First Payment Date (the “**Confirmatory Due Diligence Period**”); provided, however, that all documents, materials and information requested, and which may be in the possession of the Seller, shall have been complete and promptly provided to the Purchasers to determine whether any claim for adjustment or indemnification may be brought under terms to be agreed upon in this Agreement. For this

purpose, the Seller shall give the Purchasers and their representatives such information relating to the Sale Shares, HB Holdco, the HB Holdco Subsidiary and the Telco Assets, which may be in the possession of the Seller and as may be reasonably requested by the Purchasers to complete the Confirmatory Due Diligence.

6.2 Validation Period and Adjustments. Within thirty (30) days after the end of the Confirmatory Due Diligence Period ("**Validation Period**"), the Parties shall validate and agree on the amount of the Total Liabilities as of the First Payment Date.

- (a) If the Total Liabilities as of the First Payment Date are less than the Total Liabilities as of April 30, 2016, the Purchasers shall pay the variance to the Seller within thirty (30) days from the end of the Validation Period through the delivery of a manager's check covering the amount of the variance.
- (b) If the Total Liabilities as of the First Payment Date are more than the Total Liabilities as of April 30, 2016, the Seller shall pay the variance to the Purchasers within thirty (30) days from the end of the Validation Period through the delivery of manager's checks covering the amount of the variance.

The Purchasers undertake to provide the representative/s of the Seller reasonable access to the relevant financial records, documents, and people to determine and confirm the Total Liabilities as of the First Payment Date.

ARTICLE VII INDEMNIFICATION AND LIMITATIONS TO INDEMNITY

7.1 Seller's Liability for Indemnification. Subject to the limitations and qualifications provided for in this Article VII, the Seller shall indemnify, defend and hold harmless each of the Purchasers from and against any and all Losses in the event that:

- (a) any of the Seller Warranties given by the Seller and/or HB Holdco herein or in **Schedule 7(A)** is not true and correct in any material respect of the date made and said breach is not remediable or, if remediable, remains unremedied after forty five (45) days from the Seller's receipt of written notice from the Purchasers; or
- (b) the Seller and/or HB Holdco fails to perform or comply in any material respect with any covenant or undertaking under this Agreement or any of the Definitive Agreements.

7.2 Limitations on the Seller's Liability

- (a) Notwithstanding anything in this Agreement, the provisions in this Article VII shall operate to limit all liabilities of the Seller whatsoever under any and all claims (including Third Party Claims) for indemnification by the Purchasers under this Agreement (the "**Indemnity Claims**").
- (b) No Indemnity Claims shall arise in respect of any Loss as contemplated above to the extent that liability for such breach occurs or is increased wholly or partly as a result of the passing of, or any change in, any Law, regulation or administrative practice not in effect at the First Payment Date whether with or without retrospective effect.
- (c) The Seller Warranties and the liability of the Seller under this Agreement shall be subject to and qualified by:

- (i) any matter or thing hereafter done or omitted to be done at the request in writing or with the approval in writing of the Purchasers or in accordance with the terms of this Agreement;
 - (ii) any provisions on the limitation of the Seller's liability as may at any time be agreed in writing by the Purchasers; and
 - (iii) written disclosures made by the Seller on or before the Signing Date and accepted by the Purchasers.
- (d) The rights and remedies of the Purchasers under this Article VII are exclusive and in lieu of any and all other rights and remedies that the Purchasers may have under this Agreement or otherwise for monetary relief with respect to any breach of or failure by the Seller to perform any representation, warranty, or covenant set forth in this Agreement.

7.3 De Minimis and De Maximis Claims. Notwithstanding anything to the contrary, the liability of the Seller in respect of Indemnity Claims shall be subject to the following limitations:

- (a) the Seller shall not be liable under this Agreement in respect of any individual Indemnity Claim (or a series of Indemnity Claims arising from substantially identical facts or circumstances) where the total Loss agreed or determined in respect of any such claim or series of claims does not exceed Five Million Pesos (PHP5,000,000.00);
- (b) the Seller shall not be liable under this Agreement in respect of any Indemnity Claim in Section 7.3(a) unless the aggregate amount of Losses for which the Seller would otherwise be liable under this Agreement exceeds Fifty Million Pesos (PHP50,000,000.00), in which case, the Seller shall be liable for the full amount of the Indemnity Claims subject to the maximum aggregate liability under Section 7.3(c);
- (c) the maximum aggregate liability of the Seller shall be as follows:
 - (i) the maximum aggregate liability of the Seller for Indemnity Claims relating to breach of Seller Warranties on ownership of the Sale Shares, the Outstanding Advances, or the Telco Assets, shall not exceed Two Hundred Six Million Three Hundred Fifty Thousand Eight Hundred Ninety Five Pesos (PHP206,350,895.00);
 - (ii) the maximum aggregate liability of the Seller for Indemnity Claims relating to breach of Seller Warranties by reason of fraud or non-disclosure of material contracts with suppliers for the supply and provisioning of goods and services relating to the rollout, maintenance and operation, and network infrastructure and facilities and the operation and provision of services shall not exceed Ninety Five Million Five Hundred Thirty Thousand Seven Hundred Ten Pesos (PHP95,530,710.00); and
 - (iii) the maximum aggregate liability of the Seller for all other Indemnity Claims relating to breach of Seller Warranties not covered in Sections 7.3(c)(i) and 7.3(c)(ii) above, shall not exceed Five Million Eight Hundred Ninety Five Thousand Seven Hundred Forty Pesos (PHP5,895,740.00).

7.4 Time Limits. No Indemnity Claim shall be brought by the Purchasers against the Seller unless notice in writing of any such Indemnity Claim (specifying in reasonable detail the nature of the breach and the amount claimed in respect thereof and all matters relied upon together with supporting evidence) has been given to the Seller before the expiry of a period of: (i) five (5) years

from the end of the Confirmatory Due Diligence Period in respect of Indemnity Claims relating to breach of Seller Warranties on ownership of and the title to the Sale Shares, the Outstanding Advances, or the Telco Assets; (ii) three (3) years from the end of the Confirmatory Due Diligence Period in respect of Indemnity Claims relating to breach of Seller Warranties on Taxes; and (iii) two (2) years from the end of the Confirmatory Due Diligence Period in respect of all other Indemnity Claims (the “**Claim Period**”, and the date of serving of notice of the Indemnity Claim, the “**Claim Date**”).

7.5 Conduct of Claims. In the event that any of the Purchasers becomes aware of any matter, which it has determined has given or could give rise to an Indemnity Claim:

- (a) The Purchasers shall immediately, and in any event within thirty (30) days from the time that either of the Purchasers learns of or discovers such an Indemnity Claim (the “**Notice Period**”), send a written notice to the Seller of the events, circumstances, claims and actions that have occurred and have become known to the Purchasers that comprise the Indemnity Claim (stating the amount of the Loss, if known) and that may bring about the application of Section 7.1 of this Agreement (the “**Claim Notice**”).
- (b) The Seller shall have thirty (30) days from her receipt of the Claim Notice (the “**Reply Period**”), to notify the Purchasers that she objects or disputes the Claim Notice or the amount or any aspect of the Indemnity Claim subject of the Claim Notice (the “**Claim Objection**”), or otherwise notify the Purchasers that she does not dispute the Claim Notice and accepts liability for the Indemnity Claim (the “**Claim Acceptance**”).
- (c) If the Seller fails to respond to the Claim Notice within the Reply Period, or sends a written notice of a Claim Acceptance within such period, then the Indemnity Claim shall be deemed accepted. The Purchasers may recover the amount of the Loss subject of the Indemnity Claim, and the Seller shall pay the amount thereof to the Purchasers in cash within thirty (30) days from the end of the Reply Period.
- (d) If within the Reply Period the Seller sends a written notice to the Purchasers of a Claim Objection, such notice shall state in detail the reasons why it does not accept liability for the Indemnity Claim.
- (j) If no agreement is reached by the Parties within thirty (30) days from the end of the Reply Period, notwithstanding earnest efforts to settle the Indemnity Claim, the matter shall be referred to the Claims Dispute Resolution procedure in Section 7.7 below.

7.6 Third Party Claim. If any of the Purchasers receives written notice of the assertion of any claim or demand by any Person who is not a Party or Affiliate of any Party (a “**Third Party Claim**”) against any of the Purchasers with respect to which an Indemnity Claim is to be sought or which may be sought by any such Purchaser from the Seller:

- (e) The Purchasers will give the Seller written notice thereof within a reasonable time from receipt of notice of the assertion of such claim or of the commencement of any claim, action or proceeding. Such notice shall describe the nature of the Third Party Claim in reasonable detail (including a copy of the Third Party Claim) and shall indicate the estimated amount, if practicable, of the Loss that has been or may be sustained by the Purchasers.
- (f) If the Seller notifies the Purchasers that she accepts liability for such claim, the Purchasers, in consultation with the Seller, shall enter into a settlement agreement with the third party claimant, and all costs and expenses for such settlement shall be for the account of the Seller.

- (g) If the Seller notifies the Purchasers that she does not accept liability for said claim, then the Purchasers and the Seller shall, at the expense of the Seller, cooperate with each other in good faith in defending against the claim or taking such other action as may be appropriate under the circumstances, taking into account the best interests of HB Holdco (or the HB Holdco Subsidiary, as appropriate) and advice of legal counsel.
- (h) In the event that the Purchasers and the Seller disagree on the course of action to be taken, the matter shall be referred to the Claims Dispute Resolution process under Section 7.7 but in the meantime, the Purchasers shall have the right to handle the claim in a way they deem appropriate taking into account the best interests of HB Holdco (or the HB Holdco Subsidiary, as appropriate) and advice of legal counsel.

7.7 Claims Dispute Resolution.

- (a) If the Seller disputes her liability to the Purchasers with respect to any Indemnity Claim or Third Party Claim brought under Section 7.5 or 7.6, the Parties shall refer the matter for resolution to the Seller and the respective Presidents and Chief Executive Officers of each the Purchasers. If the dispute is so resolved by the Seller and the Presidents and Chief Executive Officers of each of the Purchasers, such resolution shall be final and binding on the Parties for all purposes.
- (b) If the Seller and the Presidents and Chief Executive Officers of each of the Purchasers fail to reach an agreement with respect to the dispute within thirty (30) days from referral, then the Parties shall jointly refer the matter for resolution by the Seller and the respective Chairman of the Board of each the Purchasers. If the dispute remains unresolved despite referral thereof within thirty (30) days from such referral, then the matter will be settled through arbitration under Section 11.13.
- (c) In the event, and from the time an arbitral award is made holding the Seller liable to the Purchasers for any Indemnity Claim or Third Party Claim brought under Section 7.5 or 7.6, then the Purchasers may recover from the Seller the amount of the Loss subject of the Indemnity Claim or Third Party Claim, subject to the limitations provided in this Article VII.

ARTICLE VIII
TERMINATION

8.1 Causes for Termination. This Agreement may be terminated by the mutual written agreement of the Seller and the Purchasers.

8.2 Break Fee

A break fee ("**Break Fee**") shall be payable to the Seller as follows:

- (a) If, notwithstanding the fulfillment and satisfaction of all the First Payment Deliverables, any one of the Purchasers (the "**Defaulting Purchaser**") shall refuse or otherwise fail to pay its share in the First Payment for any reason whatsoever, the Defaulting Purchaser shall pay to the Seller as penalty an amount equal to Fifteen Million Four Hundred Seventy Six Thousand Three Hundred Seventeen Pesos (PHP15,476,317.00). To the fullest extent permitted under applicable Laws and regulations, the non-Defaulting Purchaser and the Seller shall, in good faith, discuss, negotiate, and conclude a joint venture

agreement or other mutually acceptable commercial arrangement with respect to each of HB Holdco and the HB Holdco Subsidiary.

- (b) If, notwithstanding the fulfillment and satisfaction of all the First Payment Deliverables, both Purchasers shall each refuse or otherwise fail to pay each of its share in the First Payment for any reason whatsoever, the Purchasers shall pay to the Seller as penalty an aggregate amount equal to Thirty Million Nine Hundred Fifty Two Thousand Six Hundred Thirty Four Pesos (PHP30,952,634.00).
- (c) The Break Fee under this Section 8.2 shall be payable within thirty (30) days from receipt of written demand therefor.

8.3 Effectivity and Consequences of Termination.

The termination of this Agreement shall be effective on the date set by the Parties as the effective date of such termination.

- 8.4 Survival. The following clauses shall survive the termination of this Agreement: (i) Article VIII (Termination); and (ii) Article X (Confidentiality).

ARTICLE IX NON-SOLICITATION; EXCLUSIVITY

- 9.1 No Solicitation. From and after the Signing Date until the First Payment Date (or termination of this Agreement prior to the First Payment Date), without the prior written consent of the Purchasers, the Seller, HB Holdco and the HB Holdco Subsidiary (and the respective senior officers with a rank of at least Vice President and directors of the above companies) shall not directly or indirectly solicit, initiate or participate in any way in discussions or negotiations with, or provide information or assistance to, or enter into any agreement with any Person or group of Persons concerning any acquisition, merger, consolidation, liquidation, dissolution, disposition of assets (including by way of lease or similar transaction), joint operating transaction, or assist or participate in, facilitate or encourage any effort or attempt by any other Person to do or seek to do any of the foregoing. In the event any communication occurs which violates or proposes to violate the terms of this Article IX, the Seller, HB Holdco or the HB Holdco Subsidiary shall, within twenty four (24) hours of such communication, notify each of the Purchasers of the communication and all details thereof.
- 9.2 Exclusivity. From the Signing Date until the First Payment Date, the Seller, HB Holdco and the HB Holdco Subsidiary, shall not enter into any discussion or agreement or transaction involving the sale, transfer, assignment, or creation of any Encumbrance, on the Sale Shares, the Outstanding Advances, HB Holdco, the HB Holdco Subsidiary, and the Telco Assets.

ARTICLE X CONFIDENTIALITY

- 10.1 Confidential Information. No Confidential Information may be disclosed by the Party receiving such information (the "**Receiving Party**") to any Person except:
- (a) to directors (as applicable), senior officers (as applicable), advisors, counsels, and authorized representatives of the Receiving Party reasonably requiring access to such Confidential Information solely for the purposes of this Agreement and who are obliged to treat the Confidential Information, this Agreement, and the discussions among the

Parties as confidential in the same manner and to the same extent as is provided under this Agreement; or

- (b) with the consent of the Party that owns such Confidential Information (the “**Disclosing Party**”); or
- (c) if the Receiving Party is required to do so by Law, a stock exchange or any Governmental Authority; provided, that the Receiving Party will promptly give the Disclosing Party written notice of such required disclosure to enable the Disclosing Party to seek legal relief to prevent the disclosure of the Confidential Information; provided further, that if the Disclosing Party fails to obtain legal relief, the Receiving Party will disclose only that portion of the Confidential Information reasonably determined by its counsel as legally required to be disclosed; or
- (d) if the Receiving Party is required to do so in connection with legal proceedings relating to this Agreement.

10.2 Disclosure of Confidential Information. If the Receiving Party discloses Confidential Information under Section 10.1 above, the Receiving Party shall use its reasonable endeavors to ensure that recipients of the Confidential Information do not disclose the Confidential Information except in the circumstances permitted in Section 10.1, or keep the same confidential as may be allowed.

10.3 Use of Confidential Information. The Receiving Party shall not use any Confidential Information, except for the purpose of determining whether to exercise its rights, or in performing its obligations under this Agreement or as otherwise required by Law. The Receiving Party shall not make any use of the Confidential Information or any part of it to the competitive disadvantage of the Disclosing Party.

10.4 Delivery of Materials. In the event of termination of this Agreement, at any time after such termination becomes effective, the defaulting Party shall, on the request of the non-defaulting Party(ies), immediately deliver to the non-defaulting Party or otherwise destroy all documents or other materials containing or referring to Confidential Information which are:

- (a) in the defaulting Party’s possession, power or control; or
- (b) in the possession, power or control of Persons who have received Confidential Information under this Agreement.

The defaulting Party shall, if requested by the non-defaulting Party(ies) provide to the non-defaulting Party(ies) a certification under oath from a duly authorized officer of the defaulting Party that all such documents or other materials containing or referring to Confidential Information have been returned, erased or destroyed.

This Section 10.4 shall not apply to Confidential Information which the defaulting Party must retain because of any Law or any legally binding order or rule of any court, tribunal, authority, administrative body, judicial body, regulator or stock exchange; provided, that such Confidential Information retained by the defaulting Party remains subject to this Article X.

10.5 Confidentiality of the Transaction. Prior to the First Payment Date, no Party shall disclose the negotiations leading to, the making of this Agreement and its terms (or any other agreement referred to in this Agreement) and the transactions and matters which are the subject of this Agreement to any third party without the prior approval of the other Parties of the form and manner of the disclosure, and each Party shall procure that each of its directors (as applicable), employees, advisers, or agents shall not make any such disclosure without the prior approval of

the other Parties, unless and to the extent that disclosure is:

- (c) to the Party's professional advisers; or
- (d) required by Law or the rules of any stock exchange or other regulatory body, and provided that in relation to any announcement, the disclosing party shall immediately notify the other Parties of the requirement to make any such announcement and shall disclose its contents to the other Parties prior to such announcement and shall give the other Parties an opportunity to comment on the contents.

This Section 10.5 shall not apply to disclosure of such information to or at the written request of or with the written consent of the non-disclosing Party, or such information, which is in the public domain other than by the disclosing Party's breach of this Article X.

- 10.6 Confidentiality. The Seller and HB Holdco must not, and HB Holdco must procure that its Affiliates shall not, at any time, directly or indirectly use or disclose to any third party any confidential information of the business of HB Holdco, the HB Holdco Subsidiary, or any of the Purchasers or their respective Affiliates, which is not generally known or available in the market place or which but for a violation of this Article X would not be generally known or available to the public.
- 10.7 Remedies. The Receiving Party acknowledges that any unauthorized use or disclosure of the Confidential Information or any part of it in breach of this Agreement may cause material damage to the Disclosing Party and that the Disclosing Party has the right, in addition to any other remedies available at Law or in equity, to seek injunctive relief against the Receiving Party and any representative of the Receiving Party in respect of any such breach of this Article X.

ARTICLE XI GENERAL PROVISIONS

- 11.1 Successors and Assignment. This Agreement shall be binding on and inure for the benefit of the successors of each of the Parties but shall not be assignable or otherwise transferable without the prior written consent of the other Party or Parties.
- 11.2 Severability.
 - (a) If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, such provision or part shall to that extent be deemed not to form part of this Agreement but the legality, validity or enforceability of the remainder of this Agreement shall not be affected.
 - (b) If any illegal, invalid or unenforceable provision would be legal, valid and enforceable if some part of it were deleted or modified, the provision shall apply with whatever deletion or modification is necessary to give effect to the commercial intention of the Parties.
 - (c) Upon the determination that any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner in order for the transactions contemplated hereby to be consummated as originally contemplated to the greatest extent possible.
- 11.3 Relationship of the Purchasers. The liabilities of the Purchasers hereunder shall be joint and not

solidary (as this is used under Philippine Civil Code) with each other, and nothing in this Agreement shall be deemed to create a partnership or joint venture between or among any of them. Thus, any representation, warranty, obligation, or liability of a Purchaser or of the Purchasers shall not be enforceable, in whole or in part, against the other Purchaser, and such other Purchaser shall not be liable for the representation, warranty, obligations, or liability of any of the other Purchaser. Each of the Purchasers shall be entitled, at its option, to take independent measures with respect to its rights and obligations under this Agreement, and it shall not be necessary for any of the Purchasers to be joined as a party in any judicial or other proceeding for such purpose.

11.4 Costs. Unless otherwise stated in this Agreement, each Party shall bear all its own costs incurred in connection with the preparation, negotiation and execution of this Agreement (including any valuations and audits).

11.5 Notices. Any notice required or permitted to be given by or under this Agreement may be given by delivering the same to the Party in question by delivering it, or by sending it in a prepaid envelope by registered mail or courier, to its address shown in this Agreement or by fax transmission or email as follows:

To Seller: Grace Patricia W. Vilchez-Custodio
Address : 2 Birmingham Street, Victoria Place
Pasig City
Facsimile No. : +632-6372887

To HB Holdco: BRIGHTSHARE HOLDINGS CORPORATION
Address : Unit 701 Emerald Bldg.
24 F. Ortigas Jr. Road
Ortigas Center, Pasig City
Facsimile No. : +632-6372887

Attention: The Chairman and President

To PLDT: PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
Address : Ramon Cojuangco Building
Makati Avenue, Makati City
Facsimile No. : +632-8880686; +632-8107138

Attention: The Chairman and President

To GLOBE: GLOBE TELECOM, INC.
Address : The Globe Tower
32nd Street corner 7th Avenue
Bonifacio Global City, Taguig City
Email : elcu@globe.com.ph

Attention: The Chief Executive Officer

or to such other address, fax number, or email address as the Party concerned may have notified to the others in accordance with this Section 11.5. Any such notice shall be deemed to be served upon receipt and shall be deemed to have been received:

- (a) at the time of delivery, if delivered by hand;
- (b) at the time of posting, if delivered by registered mail or courier; or
- (c) at the time of transmission in legible form, if delivered by fax or email.

- 11.6 Waiver. Any Party to this Agreement may waive compliance with any of the agreements or conditions of the other Parties contained herein. Any such waiver or extension shall only be valid if set forth in an instrument in writing signed by the Party waiving compliance. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition, of this Agreement. The failure of any Party to assert any of its rights hereunder shall not constitute a waiver of any of such rights.
- 11.7 Amendment. This Agreement may not be amended or modified except by an instrument in writing signed by or on behalf of the Seller and the Purchasers.
- 11.8 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
- 11.9 Entire Agreement.
- (a) This Agreement forms the entire agreement between the Parties relating to the matters referred to in this Agreement. This Agreement replaces and supersedes any previous representations, warranties, undertakings, proposal, correspondence, understanding or other communication, whether written or oral, between the Parties. None of the Parties shall be liable to the other, in equity or otherwise, for any warranty or representation that is not set out in this Agreement. Each Party acknowledges that she or it has not relied on or been induced to enter into this Agreement by any warranty or representation other than those expressly set out in this Agreement.
- (b) To the extent permitted by Law and except in the case of fraud, each of the Parties agrees and acknowledges that a Party's only right and remedy in relation to any representation, warranty or undertaking made or given in connection with this Agreement shall be for breach of the terms of this Agreement to the exclusion of all other rights and remedies (including those in tort or arising under statute).
- 11.10 Further Action and Assurances. Each of the Parties shall use all reasonable efforts to take or cause to be taken all appropriate action, do or cause to be done all things necessary, proper or advisable, and execute and deliver such documents and other papers as may be required to carry out the provisions of this Agreement and consummate and make effective the transactions contemplated by this Agreement, including the transfer of management and operation of HB Holdco and HB Holdco Subsidiary and the election of new HB Holdco nominee directors in the HB Holdco Subsidiary following the First Payment Date. From and after the First Payment Date, it is understood that the management and operation of HB Holdco and the HB Holdco Subsidiary shall be the sole responsibility of the Purchasers.
- 11.11 Disclaimer. Nothing in this Agreement shall entitle any Person other than the Seller or the Purchasers (or their respective successors and permitted assignees) to any claim, cause of action, remedy, or right of any kind.
- 11.12 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Republic of the Philippines, unless the principles or rules of conflict of laws to the extent such principles or rules would require or permit the application of the laws of another jurisdiction.
- 11.13 Arbitration. Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity, or termination shall be exclusively referred to and finally settled by arbitration in Singapore in accordance with the Arbitration Rules of the

Singapore International Arbitration Center (“SIAC Rules”) for the time being in force, which rules are deemed to be incorporated by reference in this clause. The arbitration tribunal shall consist of three arbitrators. The arbitral proceedings shall be conducted in the English language. The arbitration proceedings shall be strictly confidential. Any party to this Agreement may initiate arbitration proceedings against one or more other Parties to this Agreement by sending a request for arbitration to all other Parties to this Agreement.

The Parties agree that an arbitral tribunal appointed hereunder may exercise jurisdiction with respect to this Agreement.

The arbitral award shall be final and binding upon the Parties and enforceable by any court having jurisdiction for this purpose.

The Parties agree that the provisions of this Section 11.13 constitute a separate and independent agreement among them and no claim that this Agreement is void, unenforceable or ineffective shall preclude the submission of any dispute, controversy or claim to arbitration. The Parties recognize that: (a) the panel of arbitrators has jurisdiction to settle the issue of whether this Agreement (or any provision thereof) is void, unenforceable or ineffective; and (b) except to the extent allowed under Sections 28 and 29 of Republic Act No. 9285 (2004), no Party has the right to ask a court to restrain or enjoin the conduct of arbitration proceedings for the settlement of any dispute, controversy or claim under this Agreement. The Parties also agree that the filing of any judicial complaint or suit against any Party and any of such Party’s officers, directors, employees or agents in relation to any matter arising out of, or relating to, or in connection with this Agreement, shall not preclude the submission of any dispute, controversy or claim to arbitration.

- 11.14 Supervening Legislation. Any present or future legislation which operates to vary the obligations of a Party in connection with this Agreement with the result that another Party’s rights, powers or remedies are adversely affected (including, by way of delay or postponement) is excluded except to the extent that its exclusion is prohibited or rendered ineffective by Law.

- SIGNATURE PAGE FOLLOWS -

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date of this Agreement.

The Seller:

/s/ Grace Patricia W. Vilchez-Custodio
GRACE PATRICIA W. VILCHEZ-CUSTODIO

With my marital consent:

/s/ Zeus Earl Roy D. Custodio
ZEUS EARL ROY D. CUSTODIO

The Purchasers:

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

By:

/s/ Manuel V. Pangilinan
MANUEL V. PANGILINAN
Chairman and President

GLOBE TELECOM, INC.

By:

/s/ Ernest L. Cu
ERNEST L. CU
President and Chief Executive Officer

The Company:

BRIGHTSHARE HOLDINGS CORPORATION

By:

/s/ Jose A. Ramos, Jr.
JOSE A. RAMOS, JR.
Director

SCHEDULE 6
DEFINITIONS

“Action”	Means an action, dispute, claim, demand, investigation, inquiry, prosecution, litigation, proceeding, arbitration, mediation, suit, or dispute resolution, whether at law, in equity, under statute or otherwise and whether actual or contingent.
“Affiliate”	Means, with respect to any specified Person, any other Person that directly, or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under direct or indirect common Control with, such specified Person.
“Bank Debt”	Means all the current and long-term liabilities of HB Holdco and the HB Holdco Subsidiary owed to banks or other financial institutions.
“BIR”	Means the Philippine Bureau of Internal Revenue.
“Books and Records”	Means the records, documents, evidence of title, and other papers relating to a company, its business and assets, including the minute books, stock and transfer book, stock records, and other corporate and accounting records, ledgers, and journals.
“Break Fee”	Has the meaning given to it in Section 8.2.
“Business Day”	Means a day on which banks are open for general business in the Cities of Mandaluyong, Taguig, and Makati, Philippines.
“CGT”	Means the capital gains tax as provided in Republic Act No. 8424 or the National Internal Revenue Code of 1997, as amended.
“Claim Acceptance”	Has the meaning given to it in Section 7.5(b).
“Claim Date”	Has the meaning given to it in Section 7.4.
“Claim Notice”	Has the meaning given to it in Section 7.5(a).
“Claim Objection”	Has the meaning given to it in Section 7.5(b).
“Claim Period”	Has the meaning given to it in Section 7.4.
“Concurrent Transactions”	Has the meaning given to it in Whereas Clause (G).
“Confidential Information”	Means, with respect to a Party, all financial, operational, technical, trade and other information pertaining to the business, operations and affairs of the Party, whether such information be printed, written or verbally furnished by one Party to another, or the latter’s directors, officers, employees, agents or representatives, excluding the following: (i) information which, at the relevant time is in the public domain, or becomes generally known in the industry or to the public, other than as a result of a breach of this Agreement; (ii)

information which the recipient can establish to have been known to it at the relevant time, and not acquired directly or indirectly from another Party; or (iii) information which becomes available to the recipient from any third person, the disclosure of which does not constitute a breach of any agreement or legal obligation which such third person has with any Party.

“Confirmatory Due Diligence”	Has the meaning given to it in Section 6.1.
“Confirmatory Due Diligence Period”	Has the meaning given to it in Section 6.1.
“Contract”	Means any written contract, agreements, commitment, understanding, lease, license, franchise, warranty, guaranty, mortgage, note, bond, or other instrument or consensual obligation that is legally binding.
“Control”	(including, with its correlative meanings, the terms “Controlled by” and “under common Control with”), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, as trustee or executor, by contract or otherwise; provided, that in any event, any Person which owns, directly or indirectly, more than fifty percent (50%) of the outstanding capital stock or equity interest having ordinary voting power to elect the board of directors or other governing body of a corporation or any other Person will be deemed control of such corporation or other Person.
“CPCN”	Means each certificate of public convenience and necessity issued by the NTC to the HB Holdco Subsidiary as identified in Schedule 3(A) .
“Deeds of Assignment”	Means the Deeds of Assignment in substantially the same form as Annex B covering the sale and assignment of the Outstanding Advances.
“Deeds of Sale”	Means the Deeds of Absolute Sale of Shares in substantially the same form as Annex A covering the sale and purchase of the Sale Shares.
“Defaulting Purchaser”	Has the meaning given to it in Section 8.2(a).
“Definitive Agreements”	Means (i) this Agreement; (ii) the Deeds of Sale; (iii) the Deeds of Assignment; (iv) the Second Payment SBLC; and (v) the Final Payment SBLC.
“Disclosing Party”	Has the meaning given to it in Section 10.1(b).
“DST”	Means the documentary stamp taxes as provided in Republic

Act No. 8424 or the National Internal Revenue Code of 1997, as amended.

Means, with respect to any property or asset, any lien (statutory or other), claim, charge, adverse interest, option, mortgage, pledge, assessment, security interest, assignment, deposit arrangement, lease, levy, other encumbrance, or other preferential arrangement of any kind in respect of such property or asset; or any preference, priority or other agreement or preferential arrangement of any kind or nature whatsoever including, without limitation, any conditional sale, capital lease, or other title retention agreement relating to such property or asset, and any other right of or arrangement with any creditor to have its claims satisfied out of any assets, or the proceeds therefrom, prior to any general creditor of the owner thereof.

“Final Payment”	Has the meaning given to it in Section 3.1(c).
“Final Payment Date”	Has the meaning given to it in Section 3.1(c).
“Final Payment SBLC”	Has the meaning given to it in Section 3.2(a)(2).
“First Payment”	Has the meaning given to it in Section 3.1(a).
“First Payment Acts”	Has the meaning given to it in Section 3.7.
“First Payment Certificate”	Means the certificate to be delivered by the Seller to each of the Purchasers on the First Payment Date in substantially the form provided in Annex C hereof as referred to in Section 3.7(a)(8).
“First Payment Date”	Has the meaning given to it in Section 3.3.
“First Payment Deliverables”	Means each of the conditions and deliverables of the Seller and the Purchasers set out in Section 3.4.
“First Payment Milestone”	Has the meaning given to it in Section 3.3.
“Franchises”	Means all the franchises, provisional authorities, certificates of convenience and necessity, and material licenses, permits, registrations, and approvals necessary to operate and maintain telecommunications systems in the Philippines.
“Frequencies”	Means all of the frequencies assigned to the HB Holdco Subsidiary as each listed in Schedule 3(B) .
“GLOBE”	Means Globe Telecom, Inc.
“Governmental Authorization”	Means any consent, license, permit or registration issued, granted, given, or otherwise made available by or under the authority of any Governmental Authority or pursuant to any Law including the Franchises.
“Governmental Authority”	Means any government office, branch, department, or agency having jurisdiction over any of the Parties, or any Person

exercising or entitled to exercise executive, legislative, judicial, regulatory or administrative functions of or pertaining to a government having jurisdiction over any of the Parties, or any political subdivision thereof, including those responsible for tax, wherever situated.

“Governing Document”	Means any charter, articles, by-laws, certificates, or similar document adopted, filed or registered with any Governmental Authority in connection with the creation, formation or organization of an entity, and any Contract among shareholders, partners or members of an entity.
“HB Holdco” or the “Company”	Means Brightshare Holdings Corporation.
“HB Holdco Subsidiary”	Means the subsidiary of HB Holdco identified in Schedule 2 .
“Incoming Directors”	Means the Persons nominated by the Purchasers to be directors of HB Holdco on the First Payment Date.
“Indemnity Claims”	Has the meaning given to it in Section 7.2(a).
“Key Executives”	Means senior officers and executives of HB Holdco and the HB Holdco Subsidiary with rank of at least Vice President.
“Law”	Includes any law, statute, constitution, proclamation, ordinance, by-law, regulation, rule, authorization, concession, grant, franchise, license, directive, guideline, policy, requirement, ruling, judgment, order or decree or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority whether in the Philippines or in any other jurisdiction where a Party has been established, with force and effect of law.
“LB Holdco”	Means Bow Arken Holding Company, Inc.
“LB Holdco Shares”	Means the shares of stock constituting one hundred percent (100%) of the total issued and outstanding capital of LB Holdco.
“Loss”	Means any and all losses, liabilities, damages, claims, awards, judgments, costs and expenses actually suffered or incurred by such Party.
“Material Adverse Change”	Means (1) any change in law or in the regulatory environment that will make it unlawful for the Parties to make the First Payment; or (2) any significant change in the political conditions of the Philippines that will prevent the Parties from making the First Payment, such as but not limited to war, or widespread rebellion or civil strife.
“Material Adverse Effect”	Means any circumstance, condition, incident, situation, change in, or effect that, individually or in the aggregate with any other circumstances, conditions, incidents, situations, changes in, or

effects that will prevent the Company and the Sellers to perform their obligations and undertakings under this Agreement, except for any such changes or effects resulting from changes in general economic, regulatory or political conditions or changes that affect the telecommunications industry in general.

“Notice Period”	Has the meaning given to it in Section 7.5(a).
“NTC”	Means the National Telecommunications Commission.
“Order”	Means any order, injunction, judgment, decree, ruling, assessment or arbitration award of any Governmental Authority or arbitrator.
“Ordinary and Regular Course”	Means in respect of the business of HB Holdco and the HB Holdco Subsidiary the ordinary, regular and usual course of normal day-to-day operations.
“Other Sellers”	Means the owners or holders of the VTI Shares and the LB Holdco Shares.
“Outstanding Advances”	Means the shareholder advances and other advances made by the Seller in HB Holdco and the HB Holdco Subsidiary in the aggregate principal amount of One Hundred Sixty Six Million Sixty One Thousand Four Hundred Twenty Pesos (PHP166,061,420.00), as set out in Schedule 4 .
“Outstanding Advances Purchase Price”	Means the purchase price for the Outstanding Advances as provided in Section 2.3(b).
“PA”	Means each of the provisional authorities issued by the NTC to HB Holdco and the HB Holdco Subsidiary as identified in Schedule 3(A) .
“Party”	Means any of the Seller, Purchasers, or HB Holdco, and “Parties” are all of the Seller, Purchasers, and HB Holdco.
“PCC”	Means the Philippine Competition Commission.
“Person”	Means any individual, partnership, firm, corporation, limited liability company, joint venture, association, trust, unincorporated organization, or other entity, committee, department, Governmental Authority, or any body, incorporated or unincorporated, whether having distinct legal personality or not, as well as any syndicate or group that would be deemed to be a person under Philippine Law.
“PFRS”	Means the Philippine Financial Reporting Standards applied on a consistent basis.
“PHP”	Means Philippine Pesos, the lawful currency of the Philippines.
“PLDT”	Means Philippine Long Distance Telephone Company.

"PSE"	Means the Philippine Stock Exchange, Inc.
"Purchase Price"	Has the meaning given to it in Section 2.3.
"Purchasers"	Means PLDT and GLOBE.
"Purchaser Warranties"	Means the representations and warranties of the Purchasers as set forth in Schedule 7(B) of this Agreement.
"Receiving Party"	Has the meaning given to it in Section 10.1.
"Reply Period"	Has the meaning given to it in Section 7.5(b).
"Restricted Business"	Has the meaning given to it in Section 4.2(a).
"Resigning Directors"	Means the directors of HB Holdco and HB Holdco Subsidiary enumerated in Schedule 8 , who will resign as of the First Payment Date.
"Returns"	Means all returns, reports and declarations of every nature required to be filed with respect to any Tax.
"Sale Shares"	Means the 25,000 common shares of HB Holdco, held by the Seller and its nominee directors constituting 100.00% of the total issued and outstanding capital stock of HB Holdco as set out in Schedule 1 of this Agreement.
"Sale Shares Purchase Price"	Has the meaning given to it in Section 2.3(a).
"SEC"	Means the Philippine Securities and Exchange Commission.
"Second Payment"	Has the meaning given to it in Section 3.1(b).
"Second Payment Date"	Has the meaning given to it in Section 3.1(b).
"Second Payment SBLC"	Has the meaning given to it in Section 3.2(a)(2).
"Seller"	Means Grace Patricia W. Vilchez-Custodio.
"Seller Acquisition Date"	Means the relevant date on which the Seller acquired ownership of shares of stock of HB Holdco or the HB Holdco Subsidiary.
"Seller Warranties"	Means the representations and warranties of the Seller and HB Holdco as set forth in Schedule 7(A) of this Agreement.
"SRC"	Means the Securities Regulations Code of the Philippines (Republic Act No. 8799).
"Tax"	means (a) any net income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental or windfall profit tax, custom, duty or

other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest, penalty, addition to tax or additional amount imposed by any Law or Government Authority, whether disputed or not, (b) any liability for the payment of any amounts of any of the foregoing as a result of being a member of an affiliated, consolidated, combined, unitary or similar group, or being a party to any agreement or arrangement whereby liability for payment of such amounts was determined or taken into account with reference to the liability of any other Person, (c) any liability for the payment of any amounts as a result of being a party to any tax sharing agreements or arrangements (whether or not written) or with respect to the payment of any amounts of any of the foregoing as a result of any express or implied obligation to indemnify any other Person, and (d) any liability for the payment of any of the foregoing types as a successor or transferee.

“Tax Clearance/CAR”	Means the certificate authorizing registration issued by the BIR authorizing the registration in the books of the Company of the transfer of the Sale Shares to the name of the Purchasers.
“Telco Assets”	Means the Franchises, the Frequencies, and other assets held by HB Holdco and the HB Holdco Subsidiary.
“Third Party Claim”	Has the meaning given to it in Section 7.6.
“Third Party Consents”	Means the consents by creditors or any other Person which are required to complete or consummate or otherwise carry out the sale and purchase of the Sale Shares or any other transaction contemplated herein.
“Total Liabilities”	Means liabilities of each of HB Holdco and the HB Holdco Subsidiary, which shall include: (i) trade payables comprising of outstanding or unpaid accounts to suppliers, unserved balances on contracts and/or purchase orders already issued, and additional contracts that may be entered into or purchase orders that may be issued and which are critical to the ongoing operations of HB Holdco and the HB Holdco Subsidiary; (ii) all current and long term liabilities owed to banks or other financial institutions; and (iii) operating payables comprising of other accounts payable, taxes payable, accrued liabilities, total lease obligations, employee wages, employee severance payment resulting from the transactions contemplated in this Agreement and the Definitive Agreements, deferred taxes, contingent liabilities, and all other short-term and long-term liabilities.
“Validation Period”	Has the meaning given to it in Section 6.2.
“VTI”	Means Vega Telecom, Inc.
“VTI Shares”	Means the shares of stock constituting one hundred percent (100%) of the total issued and outstanding capital stock of VTI.
“Warranties”	Means the Seller Warranties and the Purchaser Warranties.

SCHEDULE 7(A)
REPRESENTATIONS AND WARRANTIES OF THE SELLER AND HB HOLDCO

REPRESENTATIONS AND WARRANTIES OF THE SELLER:

1. Authority; No Conflicts

- (g) The Seller is an individual with full legal capacity and possesses the capacity to sue or to be sued in her own name, and has the power to own her property and assets.
- (h) The Seller has the requisite legal capacity to enter into, deliver and perform this Agreement and perform the respective Deeds of Sale and Deeds of Assignment. All acts and other proceedings required to be taken by the Seller to authorize the execution, delivery and performance of this Agreement, the Deeds of Sale and the Deeds of Assignment and the consummation of the transactions contemplated hereby and thereby, have been or will have been at or prior to the First Payment Date duly and properly taken.
- (i) This Agreement has been duly executed and delivered by the Seller and the Deeds of Sale and the Deeds of Assignment will be, as of the First Payment Date, duly executed and delivered by the Seller. This Agreement constitutes valid and binding obligations of the Seller and the deeds of sale of share and deeds of assignment of advances will constitute, as of the First Payment Date, valid and binding obligations of the Seller, enforceable against it in accordance with their respective terms.
- (j) No Third Party Consents are required.
- (k) All Governmental Authorizations that the Seller is required to obtain have been obtained, and all notices (other than the PCC Notice and the relevant disclosures to the SEC and PSE) that the Seller is required to give to any Person in connection with the execution, delivery and performance of this Agreement have been given.
- (l) Neither the execution and delivery of this Agreement nor the consummation or performance of any of the transactions contemplated under this Agreement will directly or indirectly (with or without notice or lapse of time) (i) breach any provision of the Governing Documents of HB Holdco or the HB Holdco Subsidiary, as applicable, or any resolution adopted by the shareholders or board of directors of HB Holdco and the HB Holdco Subsidiary as applicable, (ii) breach any Contract to which the Seller, HB Holdco or a HB Holdco Subsidiary is a party or to which it may be bound, (iii) violate or conflict with any Governmental Authorization or Law to which the Seller, HB Holdco or the HB Holdco Subsidiary or any of the assets owned, used or held for use by the Seller, HB Holdco and the HB Holdco Subsidiary may be subject, (iv) breach any Order to which the Seller, HB Holdco and HB Holdco Subsidiary or any of the assets owned, used or held for use by the Seller, HB Holdco or HB Holdco Subsidiary may be subject, (v) result in the imposition or creation of any Encumbrance upon or with respect to any of the Telco Assets, (vi) violate or conflict with any Governmental Authorization or Law, or breach any Order, to which the Sale Shares may be subject or result in the imposition or creation of any Encumbrances upon or with respect to any of the Sale Shares, other than, in the cases of clauses (iii), (iv) and (v) above.

REPRESENTATIONS AND WARRANTIES OF THE SELLER AND HB HOLDCO:

2. HB Holdco, HB Holdco Subsidiary and the Sale Shares

- (l) Each of HB Holdco and the HB Holdco Subsidiary is an entity duly organized and validly existing under the Laws of the place of its jurisdiction, with full corporate or company power (as the case may be) and authority to conduct its business as it is now being conducted, to own or use the Telco Assets that it purports to own or use, and to perform all its obligations under all Contracts to which it is a party. Each of HB Holdco and the HB Holdco Subsidiary is duly qualified to do business in each jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it, requires such qualification.
- (m) The authorized and outstanding capital stock of each of HB Holdco and the HB Holdco Subsidiary are set forth in Schedules 1 and 2. The names of the shareholders of each of HB Holdco and the HB Holdco Subsidiary and the types and numbers of shares of stock beneficially and of record owned by them as of the date hereof are set forth in Schedules 1 and 2.
- (n) The Sale Shares represent one hundred percent (100.00%) of the total issued and outstanding share capital of HB Holdco. The Seller is and will be on the First Payment Date the sole owner of record and beneficial owner and holder of the Sale Shares, free and clear of all Encumbrances.
- (o) All of the outstanding shares of HB Holdco and the HB Holdco Subsidiary have been duly authorized and validly issued, are fully paid and non-assessable and have not been issued in violation of any preemptive or subscription rights.
- (p) None of the Sale Shares or other outstanding securities of HB Holdco and the HB Holdco Subsidiary was issued in violation of any Law. None of HB Holdco or the HB Holdco Subsidiary own or has any Contract to acquire, any equity securities or other securities of any Person or any direct or indirect equity or ownership interest in any other business.
- (q) There are no outstanding warrants, options, stock rights, agreements, convertible or exchangeable securities or other commitments (other than this Agreement) pursuant to which any of HB Holdco and the HB Holdco Subsidiary, is or may become obligated to issue, sell, purchase, return or redeem, or otherwise acquire any shares of its capital stock and none of the equity securities of HB Holdco and the HB Holdco Subsidiary are reserved for sale or issuance for any purpose.
- (r) There is no voting trust, standstill, stockholder or other agreement to which HB Holdco or any HB Holdco Subsidiary is a party or is bound with respect to the voting of the capital stock of HB Holdco or any HB Holdco Subsidiary.
- (s) Except for the HB Holdco Subsidiary identified in Schedule 2, HB Holdco does not have any other subsidiaries and affiliates.
- (t) HB Holdco owns legally and beneficially the outstanding capital stock of the HB Holdco Subsidiary as set forth in Schedule 2.
- (u) The shareholdings in of each of HB Holdco and the HB Holdco Subsidiary as of the First Payment Date complies in all material respects and is not in violation of applicable Laws imposing nationality restrictions or limits on foreign ownership of HB Holdco and the HB Holdco Subsidiary.

3. Financial Statements

- (f) Each of the Financial Statements (including the related notes) fairly presents, in all material respects, the financial position, results of operations and cash flow of HB Holdco and the HB Holdco Subsidiary as of the respective dates thereof, and each of the other related statements (including the related notes) included in the Financial Statements fairly presents, in all material respects, the results of operations, the changes in financial position and cash flow of HB Holdco and the HB Holdco Subsidiary for the respective periods or as of the respective dates set forth therein, all in conformity with PFRS consistently used therein. None of the entries in the Financial Statements is based on any material extraordinary item or transaction or otherwise based on any transaction not entered into in the Ordinary and Regular Course of business, other than as disclosed in the Financial Statements or to the extent the inclusion of any such entries therein would not prevent the Financial Statements from being a fair presentation, in all material respects, of the financial position, results of operations and cash flow of HB Holdco and HB Holdco Subsidiary as of the respective dates thereof.

“Financial Statements” shall mean the audited financial statements of HB Holdco and the HB Holdco Subsidiary for the past two (2) fiscal years.

- (g) Since the date of the Financial Statements, there has been no material change in the manner of keeping books, accounts, records or in the accounting practice reflected therein of each of HB Holdco and the HB Holdco Subsidiary.
- (h) To the best knowledge of the Seller after reasonable and diligent inquiry, neither each of HB Holdco nor the HB Holdco Subsidiary has outstanding liabilities or claims (including contingent liabilities) of such nature as would have a Material Adverse Effect on HB Holdco or the HB Holdco Subsidiary, except as liabilities disclosed in the Financial Statements and the unaudited financial statements of HB Holdco and the HB Holdco Subsidiary as of the end of the month immediately preceding the First Payment Date.
- (i) HB Holdco and the HB Holdco Subsidiary have no outstanding Bank Debts as of the First Payment Date.
- (j) The total liabilities of HB Holdco and the HB Holdco Subsidiary as at April 30, 2016 is Fifteen Million Two Hundred Eighty Nine Thousand Four Hundred Seventy Five Pesos (PHP15,289,475.00).

4. Accounts Receivables

All accounts receivable reflected on the Financial Statements or the accounting records of HB Holdco and the HB Holdco Subsidiary as of the First Payment Date represent or will represent valid obligations arising from sales actually made or services actually performed in the Ordinary and Regular Course of business. Reserves with respect to such accounts receivable have been calculated consistent with past practice. To the best knowledge of the Seller after reasonable and diligent inquiry, there is no contest, claim, defense or right of setoff, in the Ordinary and Regular Course of business, under any Contract with any obligor of an account receivable relating to the amount or validity of such account receivable.

5. No Undisclosed Liabilities

To the best knowledge of the Seller after reasonable and diligent inquiry, none of HB Holdco or the HB Holdco Subsidiary has any liabilities (including without limitation, tax liabilities, accrued liabilities, total lease obligations, deferred taxes, contingent liabilities, off-balance sheet liabilities and other short term and long term liabilities, due and whether incurred in respect of or measured by any income for any period prior to such date arising out of transactions entered into or any state of facts existing prior thereto) that would have been required to be reflected in, reserved against or otherwise described in the Financial Statements or in the notes thereto in accordance with PFRS, except for (a) liabilities reflected in, reserved against or otherwise described in the Financial Statements or in the notes thereto, (b) liabilities incurred in the Ordinary and Regular Course of business since the date of the Financial Statements as expressly reflected in the statement of liabilities of HB Holdco and the HB Holdco Subsidiary for the first quarter of 2016.

6. No Material Adverse Effect

- (a) Since the date of the Financial Statements, there has not been any event or circumstance that may have a Material Adverse Effect.*
- (b) Since the Seller Acquisition Date, none of the following events has occurred or is continuing:*
 - (i) cancellation, suspension, termination, shortening of the term or coverage or forfeiture of any of the Franchises of the HB Holdco Subsidiary;*
 - (ii) default or change or amendment or revisions in, any of the Franchises of the HB Holdco Subsidiary that has a Material Adverse Effect;*
 - (iii) cancellation, suspension, termination, shortening of the term or coverage or forfeiture of Frequencies of the HB Holdco Subsidiary; or*
 - (iv) default or change in the assignment of Frequencies of the HB Holdco Subsidiary that has a Material Adverse Effect.*
- (c) Since the date of the Financial Statements, none of the following events has occurred or is continuing:*
 - (i) default in any of the financial obligations that has a Material Adverse Effect; and*
 - (ii) dispute by any of HB Holdco and the HB Holdco Subsidiary with any of its major suppliers that will have a Material Adverse Effect.*

7. Books and Records

Since the Seller Acquisition Date:

- (a) *the Books and Records of each of HB Holdco and the HB Holdco Subsidiary are complete and correct in all material respects;*
- (b) *the minute books of HB Holdco and the HB Holdco Subsidiary contain accurate and complete records of all meetings held and corporate action, and no such meeting has been held for which minutes have not been prepared and are not contained in such minute books; and*
- (c) *each material transaction of each of HB Holdco and the HB Holdco Subsidiary is properly and accurately recorded on the Books and Records of HB Holdco and the HB Holdco Subsidiary, and each document (including any Contract, invoice, or receipt) on which entries in the Books and Records of HB Holdco and the HB Holdco Subsidiary are based is complete and accurate in all material respects.*

On the First Payment Date, all of the Books and Records will be in the possession of each of HB Holdco and the HB Holdco Subsidiary.

8. Absence of Certain Changes and Events

Except as contemplated by this Agreement, since December 31, 2015, the business of each of HB Holdco and HB Holdco Subsidiary has been conducted only in the Ordinary and Regular Course of business and there has not been any:

- (a) *change in the authorized, issued or subscribed shares of any of HB Holdco and the HB Holdco Subsidiary or issuance of any shares of its capital stock, grant of any equity option or right to purchase shares of any of HB Holdco and the HB Holdco Subsidiary, issuance of security convertible into such equity, grant of any registration rights, purchase, redemption, retirement, or other acquisition by any of HB Holdco and the HB Holdco Subsidiary of any of its shares, or declaration or payment of any dividend or other distribution or payment with respect to any of its shares or equity;*
- (b) *prepayment or acceleration of the payment of any debt of any of HB Holdco and the HB Holdco Subsidiary;*
- (c) *amendment to the Governing Documents of any of HB Holdco and the HB Holdco Subsidiary;*
- (d) *payment or increase (in either case, except in the Ordinary and Regular Course of business) by any of HB Holdco and the HB Holdco Subsidiary of any bonuses, salaries, or other compensation to any shareholder, director or employee, or entry into any employment, severance, or similar Contract with any shareholder, director or employee, other than as prescribed under applicable Law or existing contracts;*

- (e) *damage to or destruction or loss of any asset or property of any of HB Holdco and the HB Holdco Subsidiary, whether or not covered by insurance, which may have a Material Adverse Effect to such company;*
- (f) *except in the Ordinary and Regular Course of business, entry into, modification or termination, or receipt of written notice of termination of any Contract of any of HB Holdco and the HB Holdco Subsidiary or any transaction involving a total remaining commitment by or to any of HB Holdco and the HB Holdco Subsidiary of at least Twenty Million Pesos (PHP20,000,000.00);*
- (g) *sale, lease, or other disposition of any asset or property of any of HB Holdco and the HB Holdco Subsidiary (except for intra-group sales, leases or other dispositions), or the creation of any Encumbrance on any material asset or on any material asset or property of any of HB Holdco and the HB Holdco Subsidiary;*
- (h) *cancellation or waiver of any claims or rights with a value to any of HB Holdco and the HB Holdco Subsidiary in excess of Twenty Million Pesos (PHP20,000,000.00);*
- (i) *material change in the accounting methods used in respect of any of HB Holdco and the HB Holdco Subsidiary; or*
- (j) *contract or agreement by the Seller or any of HB Holdco and the HB Holdco Subsidiary to do any of the foregoing.*

9. Title to Assets

Each of HB Holdco and the HB Holdco Subsidiary has good and valid title to all the assets material to the business of HB Holdco and the HB Holdco Subsidiary, listed, referenced or included in the balance sheet portion of the Financial Statements free and clear of all Encumbrances of any nature whatsoever.

10. Intellectual Property

- (d) Each of HB Holdco and the HB Holdco Subsidiary owns, or is licensed or otherwise has the full right to use, all patents, trademarks, trade names, copyrights, technology, know-how, processes and licenses, used in or necessary for the conduct of its business as heretofore conducted free of any liens.
- (e) No activities of each of HB Holdco and the HB Holdco Subsidiary will infringe any intellectual property rights of any Person and no actions or proceedings have been initiated and are pending against any of HB Holdco or the HB Holdco Subsidiary in respect of such infringement.
- (f) None of HB Holdco or the HB Holdco Subsidiary is in breach of any agreement relating to intellectual property rights to which any of HB Holdco or the HB Holdco Subsidiary is a party (whether as licensor or licensee) or which relate to intellectual property rights of third parties for which the Seller has received written notice. All intellectual property rights required to operate the respective businesses of each of HB Holdco and the HB Holdco Subsidiary are valid and subsisting and nothing has been done or omitted to be done by HB Holdco or the HB Holdco Subsidiary which would have a Material Adverse Effect on the validity or subsistence of any such intellectual property rights. Each of HB Holdco and the HB Holdco Subsidiary has the ability to use all intellectual property rights required to use its assets or to carry on its business as currently conducted and such ability to use will not be affected materially and adversely by the acquisition of the Sale Shares by the Purchasers.

11. Contracts; No Defaults

- (a) *All Contracts entered into by each of HB Holdco and the HB Holdco Subsidiary are in full force and effect and valid and enforceable against HB Holdco or the HB Holdco Subsidiary, as applicable, which is party to it in accordance with its terms. None of HB Holdco or the HB Holdco Subsidiary has breached and is currently in breach of any of the applicable terms and requirements of any of the Contracts for which HB Holdco or the Holdco Subsidiary may be liable, which breach shall have a Material Adverse Effect. None of HB Holdco or the HB Holdco Subsidiary has received written notice or other written communication regarding any actual or alleged breach of the Contracts, and the Seller has no knowledge of any breach of any Contract by the other party or parties to it that has a Material Adverse Effect.*
- (b) *All Contracts entered into by HB Holdco and the HB Holdco Subsidiary have been: (i) duly and validly executed and delivered pursuant to due authority; and (ii) entered into on arms-length terms.*
- (c) *None of HB Holdco and the HB Holdco Subsidiary is a party to any Contract which restricts its ability to engage in its primary business.*
- (d) *None of HB Holdco and the HB Holdco Subsidiary is a party to any Contract under which any third party is entitled, as a result of change in ownership of the Subject Shares:*
 - (i) *to terminate the Contract;*
 - (ii) *to accelerate payment or require the payment of damages or indemnity from, or create any financial obligation on the part of, HB Holdco and the HB Holdco Subsidiary;*
 - (iii) *to call any of HB Holdco and the HB Holdco Subsidiary in default of the Contract;*
or
 - (iv) *to require the adoption of terms which are less favorable to HB Holdco and the HB Holdco Subsidiary than the current terms.*

- (e) *All Contracts, including contracts with suppliers for the supply and provisioning of goods and services relating to the rollout, maintenance and operation, and network infrastructure and facilities, and the operation and provision of services have been and will be disclosed to the Purchasers during the Confirmatory Due Diligence.*
- (f) *No principal contractor or supplier of HB Holdco and the HB Holdco Subsidiary is in default (or, to the best knowledge of the Seller after reasonable and diligent inquiry, would be in default, but for the requirements of notice or lapse of time, or both) under any of the Contracts with HB Holdco and the HB Holdco Subsidiary.*

12. Taxes

- (a) *Since the Seller Acquisition Date, all Returns required to be filed with any taxing authority, including all Returns required to be filed by or on behalf of each of HB Holdco and the HB Holdco Subsidiary, to the extent required to be filed on or before the First Payment Date, have been filed when due in accordance with all applicable Laws.*
- (b) *None of HB Holdco and the HB Holdco Subsidiary has any Tax liability (whether due or to become due) with respect to the income, property and operations of HB Holdco and the HB Holdco Subsidiary, except for Tax liabilities reflected on the Financial Statements or that have arisen after the date of the Financial Statements in the Ordinary and Regular Course of business.*
- (c) *For the previous three (3) fiscal years, all Taxes shown as due and payable on any Return previously filed by or on behalf of HB Holdco and the HB Holdco Subsidiary have been timely paid or withheld and remitted to the appropriate taxing authority.*
- (d) *Neither the Seller nor any of HB Holdco and the HB Holdco Subsidiary has granted or has had granted on its behalf any extension or waiver of the statute of limitations period applicable to any Return, which period (after giving effect to such extension or waiver) has not yet expired.*
- (e) *There is no Action now pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened against or with respect to any of HB Holdco and the HB Holdco Subsidiary in respect of any Tax of which the Seller or any of HB Holdco and the HB Holdco Subsidiary has received written notice.*
- (f) *There are no liens for Taxes upon the assets or properties of any of HB Holdco and the HB Holdco Subsidiary, except for statutory liens for current Taxes, assessments or other governmental charges not yet delinquent or the amount or validity of which is being contested in good faith by appropriate proceedings.*
- (g) *Since the Seller Acquisition Date, none of HB Holdco and the HB Holdco Subsidiary has received written notice of any claim by a Governmental Authority in a jurisdiction where HB Holdco and the HB Holdco Subsidiary do not file Returns that it is or may be subject to taxation by that Governmental Authority.*

- (h) *Since the Seller Acquisition Date, each of HB Holdco and the HB Holdco Subsidiary has withheld and paid all Taxes required to have been withheld and paid by applicable Law in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other Person.*
- (i) *None of HB Holdco and the HB Holdco Subsidiary is party to any Tax allocation or sharing agreement.*
- (j) *During the three (3) years prior to the date of this Agreement, none of HB Holdco and the HB Holdco Subsidiary has distributed the stock of another Person, or have had its stock distributed by another Person, in a transaction that was purported or intended to qualify for tax-free treatment.*
- (k) *There are no outstanding rulings of, or requests for rulings with, any taxing authority expressly addressed to, or from, either HB Holdco and the HB Holdco Subsidiary or the Seller.*

13. Employee Benefits and Labor Standards

- (k) HB Holdco does not have any employees since its date of incorporation.
- (l) To the best knowledge of the Seller after reasonable and diligent inquiry, no Key Executive and no group of employees or independent contractors of the HB Holdco Subsidiary has any plans to terminate his, her or their employment or relationship with the HB Holdco Subsidiary for which the HB Holdco Subsidiary have received written notice, and HB Holdco Subsidiary is not in breach of any Contract with any of its employees.
- (m) Since the Seller Acquisition Date, HB Holdco Subsidiary has complied in all material respects with all Laws relating to labor and employment, including any Laws pertaining to employee relations, employment practices, wages and hours, civil rights, employment discrimination, immigration, occupational safety and health, employee privacy, mass layoffs, labor or arbitration, collective bargaining, or other labor law or ordinance. HB Holdco Subsidiary is not liable for the payment of any claims, damages, fines, penalties, or other amounts, however designated, for failure to comply with any of the foregoing Laws.
- (n) There are no Actions against HB Holdco Subsidiary pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened based on any Laws pertaining to employee relations, employment practices, wages and hours, civil rights, employment discrimination, immigration, occupational safety and health, employee privacy, plant closings or mass layoffs, labor or arbitration, collective bargaining, or other violation of any labor or employment law or ordinance; and, to the best knowledge of the Seller after reasonable and diligent inquiry, there are no facts or circumstances which could form the basis for any of the foregoing.
- (o) HB Holdco Subsidiary is not a party to any settlement agreement, consent decree or other Contract containing continuing compliance or reporting obligations entered into to resolve any labor or employment matter.
- (p) No group of employees of HB Holdco Subsidiary has a pending demand for recognition or filed a petition for recognition or representation rights with any Governmental Authority.
- (q) There are no negotiations pending between HB Holdco Subsidiary and any labor organization or group of employees regarding terms for a collective bargaining agreement or other labor agreement.

- (r) HB Holdco Subsidiary is not a party to or bound by any collective bargaining agreement or any other contract or agreement with any labor organization or group of employees.
- (s) There are no ongoing or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened labor disputes, including but not limited to strikes, slow downs, sit downs, work stoppages, interruptions of work, picketing or lockouts with respect to employees of the HB Holdco Subsidiary; and, to the best knowledge of the Seller after reasonable and diligent inquiry, there are no facts or circumstances which could form the basis for any of the foregoing.
- (t) There have not been any strikes, slow downs, sit downs, work stoppages, interruptions of work, picketing, lockouts, unfair labor practice charges or other material labor disputes pending or involving any employees of the HB Holdco Subsidiary for the last three (3) years.
- (u) There are no agreements or arrangements for the payment of additional benefits or compensation to any director, officer, employee or consultants rendering services to the HB Holdco Subsidiary or otherwise the grant of golden parachutes (or other similar arrangements) in case of severance of employment from or termination of service or employment contract with HB Holdco Subsidiary upon a change in controlling interest of HB Holdco Subsidiary.

14. Employee Restrictions

To the best knowledge of the Seller after reasonable and diligent inquiry, no Director or Key Executive of HB Holdco and HB Holdco Subsidiary is a party to, or is otherwise bound by, any Contract, including any confidentiality, noncompetition, or proprietary rights agreement, between such employee or director and any other Person that in any way adversely affects or adversely will affect (a) the performance of his duties as an employee or director of any of HB Holdco and the HB Holdco Subsidiary, or (b) the ability of any of HB Holdco and the HB Holdco Subsidiary to conduct its business.

15. Compliance with Legal Requirements; Governmental Authorizations; Frequencies

- (a) Since the Seller Acquisition Date, each of HB Holdco and HB Holdco Subsidiary is and at all times, has been, in material compliance with each Law that is or was applicable to it or to the conduct or operation of its business or the ownership or use of any of its assets. To the best knowledge of the Seller after reasonable and diligent inquiry, no event has occurred or circumstance exists that (with or without notice or lapse of time) is likely to cause any of HB Holdco and the HB Holdco Subsidiary to materially violate any Law. The HB Holdco and the HB Holdco Subsidiary have not received, any written notice or other written communication from any Governmental Authority regarding any actual or alleged violation of any Law.
- (b) Since the Seller Acquisition Date, each of HB Holdco and HB Holdco Subsidiary has timely filed all material reports and statements required to be filed by it with all relevant government authorities, including but not limited to, the SEC, NTC and Congress of the Philippines, and none of the reports, as its respective date, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein so as to ensure that such statements, in light of the circumstances under which they were made, were not misleading.
- (c) All Governmental Authorizations held by HB Holdco and the HB Holdco Subsidiary, are valid and in full force and effect and not the subject of any Action, other than any routine

review, by any Governmental Authority. Since the Seller Acquisition Date, each of HB Holdco and HB Holdco Subsidiary is, and at all times has been, in compliance with all of the terms and requirements of each such Governmental Authorization and has not received any written notice or other written communication within the past two (2) years, from any Governmental Authority regarding any actual or alleged material violation of any Governmental Authorization. No Governmental Authorization granted to the HB Holdco Subsidiary has been terminated, revoked or cancelled or allowed to lapse. There are no pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened action or claim for the revocation of cancellation of any Governmental Authorization. All applications required to have been filed for the renewal of such material Governmental Authorizations have been duly filed on a timely basis with the appropriate Governmental Authorities.

- (d) Each of HB Holdco and the HB Holdco Subsidiary has Franchises necessary to allow it to conduct and operate its businesses lawfully in the manner in which it currently conducts and operates its businesses and allow it to own and use its assets in the manner in which it currently owns and uses such assets. The complete list of all Franchises held by the HB Holdco Subsidiary are set forth in **Schedule 3(A)**.
- (e) Since the Seller Acquisition Date, all regulatory fees payable by or due from any of HB Holdco or the HB Holdco Subsidiary have been paid in full, and there are no pending assessments for such regulatory fees issued to any of the HB Holdco or the HB Holdco Subsidiary.
- (f) The complete and accurate list of all Frequencies are set forth in **Schedule 3(B)**. The Frequencies of the HB Holdco Subsidiary and the corresponding Franchises for such Frequencies are valid, in full force and effect, and not the subject of any Action other than any routine review, by any Governmental Authority.
- (g) All Frequencies assigned to the HB Holdco Subsidiary are evidenced by applicable frequency assignment sheets. There are no restrictions or conditions attached to the Frequencies which would prevent or restrict the Parties from achieving the First Payment Milestone.
- (h) There is no interference on the Frequencies that will restrict or prevent the Purchasers from using the Frequencies.

16. Insurance

All insurance policies of each of HB Holdco and the HB Holdco Subsidiary are in full force and effect. Since the Seller Acquisition Date, none of HB Holdco and the HB Holdco Subsidiary has received any notice of cancellation or non-renewal with respect to any such policies. Since the Seller Acquisition Date, all premiums due and payable thereon have been paid, and each of HB Holdco and the HB Holdco Subsidiary has complied with the provisions of such policies.

17. Legal Proceedings; Orders

There are no pending, or to the best knowledge of the Seller after reasonable and diligent inquiry, threatened claims, legal actions, regulatory or other proceedings, arbitrations, prosecutions, or lawsuits against any of HB Holdco and the HB Holdco Subsidiary or involving the Telco Assets, Governmental Authorizations, or any of their material properties of which any of HB Holdco and the HB Holdco Subsidiary has received notice or is otherwise aware. There are no actions, suits or proceedings pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened against any of HB Holdco and the HB Holdco Subsidiary which, if adversely decided

against HB Holdco and the HB Holdco Subsidiary, as the case may be, may impair the ownership of, marketable title to, possession or use of the Telco Assets or the performance of this Agreement by HB Holdco and the HB Holdco Subsidiary. To the best knowledge of the Seller after reasonable and diligent inquiry, there are no circumstances which are likely to give rise to any such action, suit or proceedings.

18. All Information

- (d) All material information about HB Holdco and the HB Holdco Subsidiary and contained in any written document or communication (including e-mails and documents or communications transmitted electronically) which has been or, will be given to the Purchasers, or the Purchasers' advisers, or employees, in the course of the Confirmatory Due Diligence and negotiations relating to this Agreement, is true and accurate in all material respects and is not misleading.
- (e) The copies of all contracts and agreements in respect of HB Holdco and the HB Holdco Subsidiary supplied to or made available for review by the Purchasers or any of its advisers, agents or employees, are true and complete.
- (f) No representation or warranty made by each of HB Holdco and the HB Holdco Subsidiary herein or any statement, document or certificate furnished or to be furnished in behalf of HB Holdco and the HB Holdco Subsidiary to the Purchasers in connection with the transactions contemplated hereby, contains or will contain on the First Payment Date any untrue statement of material fact, or omit or will omit to state a material fact necessary in order to make the statement of fact contained herein or therein not misleading.

19. No Transactions with Affiliates and Related Parties

HB Holdco has not entered into any transaction with or has any indebtedness to any of its directors or officers or any of its shareholders, or any of such shareholders' affiliates or other related parties, except in the Ordinary and Regular Course of business.

20. Outstanding Advances

- (f) The aggregate principal amount of the Outstanding Advances is One Hundred Sixty Six Million Sixty One Thousand Four Hundred Twenty Pesos (PHP166,061,420.00) as of April 30, 2016. The Outstanding Advances are legal, valid and binding obligations due to the Seller from HB Holdco and the HB Holdco Subsidiary, and enforceable against them, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar Law affecting creditors' rights generally and to general principles of equity.
- (g) The Seller has no outstanding liabilities to HB Holdco that may give rise to a right of set-off in favor of HB Holdco.
- (h) The Seller has the legal right and authority to assign the Outstanding Advances absolutely and free from all Encumbrances.
- (i) The Outstanding Advances have not been sold, offered for sale or legally or equitably assigned or otherwise encumbered by the Seller.
- (j) There are no Orders, garnishment, attachments or liens outstanding affecting the Outstanding Advances in any way.

21. Environmental Liability

Since the Seller Acquisition Date, each of HB Holdco and the HB Holdco Subsidiary (i) is not in violation of any statute, rule, regulation, decision or order of any Governmental Authority relating to the use, disposal or release of hazardous or toxic substances, electromagnetic or radio frequency, wave or current or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substance, (ii) does not own or operate any real property contaminated with any substance that is subject to environmental laws, or (iii) is not subject to any claim relating to environmental laws or any pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened investigation which might lead to such a claim.

SCHEDULE 7(B)
REPRESENTATIONS AND WARRANTIES OF EACH PURCHASER

1.1 Corporate Existence; Authority; No Conflict

- (e) 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.
- (f) It has full corporate 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 of directors, and no other corporate action or corporate proceeding is necessary to authorize this Agreement or the transactions contemplated hereby.
- (g) 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.
- (h) The execution and delivery of this Agreement, and the performance of its obligations hereunder, do not and will not violate any Law and will not conflict with or result in a breach of its Governing Documents, or of any Contract 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.

SCHUTZENGELE TELECOM, INC.
(Seller)

**PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
GLOBE TELECOM, INC.**
(Purchasers)

and

BOW ARKEN HOLDING COMPANY, INC.
(Company)

SALE AND PURCHASE AGREEMENT

**RELATING TO THE SALE AND PURCHASE OF 100.00%
EQUITY INTEREST IN BOW ARKEN HOLDING COMPANY, INC.**

30 May 2016

This **SALE AND PURCHASE AGREEMENT** (the "**Agreement**") is dated May 30, 2016 (the "**Signing Date**"), by and among:

SCHUTZENGELE TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Central Avenue, New Era, Quezon City, represented herein by its Director, Mr. Jose A. Ramos, Jr. (hereinafter, the "**Seller**");

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY, a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Ramon Cojuangco Building, Makati Avenue, Makati City, represented herein by its Chairman and President, Mr. Manuel V. Pangilinan (hereinafter, "**PLDT**");

GLOBE TELECOM, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig City, represented herein by its President and Chief Executive Officer, Mr. Ernest L. Cu (hereinafter, "**GLOBE**" and together with PLDT, the "**Purchasers**");

- and -

BOW ARKEN HOLDING COMPANY, INC., a corporation organized and existing under the laws of the Republic of the Philippines, with office address at Unit 701 Emerald Building, No. 24 F. Ortigas, Jr. Road, Pasig City, represented herein by its Director, Mr. Jose A. Ramos, Jr. ("**LB Holdco**" or the "**Company**").

(The Seller, PLDT, GLOBE and LB Holdco are at times individually referred to as a "**Party**" and collectively, as the "**Parties**".)

WHEREAS:

- (A) The Seller is the registered and beneficial owner of 250,000 common shares of stock, which comprise in the aggregate one hundred percent (100%) of the entire issued and outstanding capital stock of LB Holdco on a fully-diluted basis with a remaining subscription payable amounting to Eighteen Million Seven Hundred Forty Nine Thousand Nine Hundred Pesos (PHP18,749,900.00) as set out in **Schedule 1** (the "**Sale Shares**");
- (B) LB Holdco, through its subsidiary identified in **Schedule 2** (the "**LB Holdco Subsidiary**"), owns and possesses the Franchises to operate and maintain telecommunications service in the Philippines as set out in **Schedule 3(A)** (the "**Franchises**"), and the LB Holdco Subsidiary have been assigned the frequencies listed in **Schedule 3(B)** (the "**Frequencies**") pursuant to the Franchises (the Franchises and the Frequencies are collectively referred to as the "**Telco Assets**");
- (C) The Seller has extended various shareholder advances and other advances to LB Holdco and LB Holdco Subsidiary, in the aggregate amount of Four Hundred Seventy Five Million Nine Hundred Ninety Five Thousand Seven Hundred Eighty Eight Pesos (PHP475,995,788.00) as of the Signing Date, details of which are set out in **Schedule 4** (the "**Outstanding Advances**");
- (D) The Seller has agreed to sell, transfer and convey the Sale Shares in favor of the Purchasers, and the Purchasers have agreed to purchase and acquire from the Seller such Sale Shares on a 50-50 basis, on the underlying consideration that the purchase of the Sale Shares will result in the Purchasers acquiring and owning LB Holdco which in turn owns, directly or indirectly, all the rights, title and interests in and to the Telco Assets through the LB Holdco Subsidiary;

- (E) The Purchasers have agreed to purchase from the Seller on a 50-50 basis, and the Seller has agreed to sell to the Purchasers, the Outstanding Advances under the terms and conditions set forth in this Agreement;
- (F) LB Holdco as the issuer of the Sale Shares, desires to assist the Seller and the Purchasers to implement the transactions contemplated herein, and for such purpose have agreed to perform certain obligations as set forth in this Agreement; and
- (G) The Seller has agreed that, concurrent with the purchase by the Purchasers of the Sale Shares, the Purchasers will also acquire from the Other Sellers the shares and outstanding shareholder advances and other advances described in **Schedule 5** (collectively, the “**Concurrent Transactions**”).

NOW, THEREFORE, in consideration of the premises and the mutual agreements and covenants hereinafter set forth, the Parties hereby agree as follows:

ARTICLE I
DEFINITIONS AND INTERPRETATION

1.1 **Definitions.** When used in this Agreement, unless the contrary intention appears or a different meaning is called for in the context of another provision in this Agreement, the capitalized terms shall have the meanings assigned to them in **Schedule 6** unless the context otherwise requires or they are expressly assigned a different meaning.

1.2 **References.** References to Sections, Recitals and Schedules are, unless otherwise stated, to sections, clauses and recitals of and schedules to this Agreement. Section headings are for convenience only and shall not affect the construction of this Agreement. The terms and conditions set out in the Recitals and Schedules are incorporated into and form part of this Agreement. References to this Agreement shall include the Recitals and Schedules. In construing this Agreement, the singular shall include the plural and vice versa. Reference to any statute or statutory provision shall include any statute or statutory provision which amends or replaces, or has amended or replaced, it and shall include any subordinate legislation made under the relevant statute.

1.3 **Date or Time.** Any reference to a date or a time of day is a reference to Philippine Standard time.

1.4 **Schedules and Annexes.** The following schedules and annexes attached to this Agreement shall form integral parts hereof:

Schedule 1	Sale Shares
Schedule 2	Information on LB Holdco Subsidiary
Schedule 3(A)	List of Franchises
Schedule 3(B)	List of Frequencies
Schedule 4	Details of Outstanding Advances
Schedule 5	Concurrent Transactions
Schedule 6	Definitions
Schedule 7(A)	Seller Warranties
Schedule 7(B)	Purchaser Warranties
Schedule 8	List of Resigning Directors
Annex A-1	Form of Deed of Assignment of Subscription Rights

Annex A-2	Form of Deed of Absolute Sale of Shares
Annex B	Form of Deed of Assignment of Outstanding Advances
Annex C	Form of First Payment Certificate
Annex D	Form of Irrevocable Proxy
Annex E	Form of Notice to PCC
Annex F	Form of Second Payment SBLC and Final Payment SBLC

ARTICLE II
**SALE AND PURCHASE OF SALE SHARES AND OUTSTANDING ADVANCES;
ASSUMPTION OF TOTAL LIABILITIES**

2.1. Sale and Purchase of Sale Shares. Subject to the First Payment Milestone referred to in Section 3.3, and without prejudice to and in accordance with the Terms and Manner of Payment under Article III hereof:

- (g) The Seller hereby sells, transfers, assigns and conveys in favor of the Purchasers, and the Purchasers hereby purchase, acquire and accept from the Seller on a 50-50 basis, free and clear of any Encumbrance, the Sale Shares as set out in **Schedule 1** hereof, and all of the Seller's rights and interests therein, including full voting rights and the rights to any dividend or other distribution declared, made or payable after the First Payment Date;
- (h) The Seller hereby sells, transfers, assigns and conveys in favor of the Purchasers, and the Purchasers hereby purchase, acquire and accept from the Seller on a 50-50 basis, free and clear of any Encumbrance, the Outstanding Advances and all of the Seller's rights and interests therein; and
- (i) The sale and purchase contemplated herein shall be for all of the Sale Shares and the Outstanding Advances. Unless expressly agreed otherwise in writing by the Purchasers, the First Payment Milestone shall not occur unless the sale and purchase transaction among the Parties is for all, and not only some, of the Sale Shares and the Outstanding Advances.

2.2. Assumption of Total Liabilities. Subject to the First Payment Milestone referred to in Section 3.3, and without prejudice to and in accordance with the Terms and Manner of Payment under Article III hereof, the Purchasers, through LB Holdco and the LB Holdco Subsidiary (as may be appropriate), shall assume the Total Liabilities from and after the First Payment Date.

2.3. Purchase Price. The aggregate purchase price payable to the Seller shall be **Five Hundred Seventy Five Million Nine Hundred Ninety Five Thousand Seven Hundred Eighty Eight Pesos (PHP575,995,788.00)** (the "**Purchase Price**"), consisting of the following:

- (e) **One Hundred Million Pesos (PHP100,000,000.00)** as purchase price for the Sale Shares (the "**Sale Shares Purchase Price**"); and
- (f) **Four Hundred Seventy Five Million Nine Hundred Ninety Five Thousand Seven Hundred Eighty Eight Pesos (PHP475,995,788.00)** as purchase price for the Outstanding Advances (the "**Outstanding Advances Purchase Price**").

ARTICLE III
TERMS AND MANNER OF PAYMENT

3.1 Terms of Payment. Subject to the First Payment Milestone referred to in Section 3.3 below, the

Purchase Price shall be payable to the Seller on a deferred basis on the payment dates and in the amounts set forth below, unless otherwise agreed by the Parties in writing:

- (a) On the First Payment Date referred to in Section 3.3 below, the amount of Two Hundred Eighty Seven Million Nine Hundred Ninety Seven Thousand Eight Hundred Ninety Six Pesos (PHP287,997,896.00) representing fifty percent (50%) of the Purchase Price (the “**First Payment**”);
- (b) On December 1, 2016 (the “**Second Payment Date**”), the amount of One Hundred Forty Three Million Nine Hundred Ninety Eight Thousand Nine Hundred Forty Six Pesos (PHP143,998,946.00) representing twenty five percent (25%) of the Purchase Price (the “**Second Payment**”); and
- (c) On May 30, 2017 (the “**Final Payment Date**”), the amount of One Hundred Forty Three Million Nine Hundred Ninety Eight Thousand Nine Hundred Forty Six Pesos (PHP143,998,946.00) representing twenty five percent (25%) of the Purchase Price (the “**Final Payment**”).

3.2 Manner of Payment. Subject to the First Payment Milestone referred to in Section 3.3 below, the Purchase Price shall be payable to the Seller as follows:

- (a) On the First Payment Date:
 - (1) the First Payment shall be paid not later than 11:00 a.m. through the delivery of two (2) manager’s checks payable to the Seller covering the amount thereof; and
 - (2) the Purchasers shall deliver to the Seller, as security for the Second Payment and the Final Payment, an irrevocable standby letter(s) of credit from an issuing bank, and under terms and conditions, acceptable to the Seller covering the amount of the Second Payment (the “**Second Payment SBLC**”) and the Final Payment (the “**Final Payment SBLC**”), in the form of **Annex F**.
- (b) On the Second Payment Date, the Second Payment shall be paid through the delivery of two (2) manager’s checks payable to the Seller covering the amount thereof. If the Purchasers fail to pay the full amount of the Second Payment by 11:00 a.m. of the Second Payment Date, such failure shall be deemed as non-performance of the Purchasers’ obligations to pay the Second Payment in full on such date. The Seller shall have the right to immediately and unconditionally draw any unpaid portion of the Second Payment under the Second Payment SBLC.
- (c) On the Final Payment Date, the Final Payment shall be paid through the delivery of two (2) manager’s checks payable to the Seller covering the amount thereof. If the Purchasers fail to pay the full amount of the Final Payment by 11:00 a.m. of the Final Payment Date, such failure shall be deemed as non-performance of the Purchasers’ obligations to pay the Final Payment in full on such date. The Seller shall have the right to immediately and unconditionally draw any unpaid portion of the Final Payment under the Final Payment SBLC.
- (d) For the avoidance of doubt, the Seller hereby agrees that the delivery of the two (2) manager’s checks for the First Payment, the Second Payment, and the Final Payment, including any amount drawn from the Second Payment SBLC and/or the Final Payment SBLC, if appropriate, shall be deemed full compliance by the Purchasers with their obligation to pay the Purchase Price, without prejudice to the obligation to make additional payments to the Seller (if any) pursuant to Article VI of this Agreement.

- 3.3 First Payment Milestone. The full payment of the Purchase Price and the performance by each of the Parties of their respective obligations under this Agreement from and after the Signing Date, shall be subject to the fulfillment and satisfaction of each of the First Payment Deliverables set out in Section 3.4 below (the “**First Payment Milestone**”).

The date on which the First Payment Milestone shall have occurred is referred to in this Agreement as the “**First Payment Date**”.

- 3.4 Deliverables. The obligations of each of the Seller and the Purchasers to complete and consummate the transactions contemplated by this Agreement shall be subject to the satisfaction on or prior to the First Payment Date of each of the following conditions and deliverables (the “**First Payment Deliverables**”), any one or more of which may be waived in writing, in whole or in part, by the Purchasers:

(a) As to the obligations of both the Seller and the Purchasers:

- (1) The Parties shall have filed the relevant notice with the Philippine Competition Commission (“**PCC**”) in accordance with the relevant PCC memorandum circular, substantially in the form of **Annex E**;
- (2) No Law, or other legally binding resolution or order, writ, injunction, restraining order or decree of any Governmental Authority, shall be in effect which would restrain or prohibit the Parties from executing the Definitive Agreements, or making the First Payment as contemplated in this Agreement; and
- (3) No Material Adverse Change shall have occurred.

(b) Seller Deliverables as to the obligations of the Purchasers:

- (1) **The Sale Shares sold by the Seller to the Purchasers constitute one hundred percent (100%) of the total issued and outstanding capital stock of LB Holdco;**
- (2) **At or prior to the First Payment Date, all corporate actions, approvals and other proceedings required for the consummation and implementation by the Seller and LB Holdco of the transactions contemplated in the Definitive Agreements (including specifically the sale, transfer, assignment and conveyance of the Sale Shares and the Outstanding Advances in favor of the Purchasers), shall have been obtained by the Seller and LB Holdco, and shall be in full force and effect, evidence of such authorizations or approvals satisfactory to the Purchasers shall have been submitted by the Seller and LB Holdco to each of the Purchasers;**
- (3) At or prior to the First Payment Date, all (a) filings, permits, authorizations (other than the Tax Clearance/CAR), (b) Third Party Consents (other than Third Party Consents disclosed to the Purchasers in writing), and (c) other approvals and waivers, for the consummation and implementation by the Seller and LB Holdco of the transactions contemplated in the Definitive Agreements (including specifically the sale, transfer, assignment and conveyance of the Sale Shares and the Outstanding Advances in favor of the Purchasers) required under applicable Law to be obtained by the Seller and/or under agreements entered into by the Seller, LB Holdco, or LB Holdco Subsidiary (including the terms of any shareholders’ agreements and/or loan agreements entered into by any of the Seller, LB Holdco, or LB Holdco Subsidiary), shall have been obtained by the Seller and LB Holdco, and shall be in full force and effect, evidence of such

authorizations or approvals satisfactory to the Purchasers shall have been submitted by the Seller and LB Holdco to each of the Purchasers;

- (4) **All of the payment milestones and deliverables under the separate definitive agreements covering the Concurrent Transactions shall have been fulfilled, and the implementation of the transactions as contemplated under the said agreements shall have occurred or, in the sole reasonable determination of the Purchasers, will occur simultaneously with the First Payment Milestone;**
- (5) **The covenants and agreements required to be complied with by the Seller and LB Holdco as provided in this Agreement shall have been complied with prior to or as of the First Payment Date, and generally no event of default or any other event which, with the giving of notice or lapse of time or both, would be an event of default under this Agreement, has occurred and is continuing;**
- (6) **All the representations and warranties of the Seller and LB Holdco contained in Schedule 7(A) hereof shall have been true and correct when made, and shall be true and correct as of the First Payment Date, with the same force and effect as if made on the First Payment Date; and**
- (7) **The Resigning Directors shall have submitted their letters of resignation to LB Holdco, effective as of the First Payment Date.**

(c) Purchasers Deliverables as to the obligations of the Seller:

- (1) At or prior to the First Payment Date, all corporate actions, approvals and other proceedings required for the consummation and implementation by the Purchasers of the transactions contemplated in the Definitive Agreements (including specifically the purchase, acquisition and acceptance of the Sale Shares and Outstanding Advances from the Seller), shall have been obtained by each of the Purchasers, and shall be in full force and effect, evidence of such authorizations or approvals satisfactory to the Seller shall have been submitted by each of the Purchasers to the Seller;
- (2) The covenants and agreements required to be complied with by the Purchasers as provided in this Agreement shall have been complied with prior or as of the First Payment Date, and generally no event of default or any other event which, with the giving of notice or lapse of time or both, would be an event of default under this Agreement, has occurred and is continuing; and
- (3) All the representations and warranties of the Purchasers contained in **Schedule 7(B)** hereof shall have been true and correct when made, and shall be true and correct as of the First Payment Date, with the same force and effect as if made on the First Payment Date.

3.5 Reasonable Endeavors. The Parties shall use their reasonable endeavors to obtain the fulfillment and satisfaction of the First Payment Deliverables set out in Section 3.4 above. For this purpose, the Parties agree to jointly file and submit: (i) the relevant notice with the PCC in accordance with the relevant PCC memorandum circular; and (ii) the required disclosure to the SEC and PSE, pursuant to the SRC. They shall also keep each other promptly informed of any circumstances that may result in any other First Payment Deliverable not being satisfied in accordance with its terms.

3.6 Activities Prior to First Payment Milestone.

For the orderly conduct of the First Payment Milestone, no later than one (1) day prior to the First

Payment Date, the Seller shall provide each of the Purchasers with (i) a copy of the DST return signed and ready to be filed by the Seller with the BIR in respect of its sale of the Sale Shares, and (ii) the name of the particular BIR revenue district office or the proper BIR payee of the manager's check covering the DST payment on the Sale Shares.

3.7 First Payment Acts. Subject to the fulfillment (or waiver by the relevant Party) of the First Payment Deliverables set forth in Section 3.4, the First Payment Milestone will take place at 10:00 a.m. on the First Payment Date or such other time and in such location as the Parties may agree in writing. On the First Payment Date, provided that all the First Payment Deliverables have been fulfilled or otherwise waived in writing by the relevant Party, the Parties shall implement each of the following actions (the "**First Payment Acts**"):

- (a) Acts Required of each of the Seller and LB Holdco. The Seller (and LB Holdco as the case may be) shall deliver each of the following to each of the Purchasers:
- (1) Duly executed Deeds of Assignment of Subscription Rights and Deeds of Absolute Sale of all the Sale Shares belonging to the Seller in favor of the Purchasers (substantially in the forms attached as **Annex A-1** and **Annex A-2**, respectively), evidencing the sale, assignment, transfer, and conveyance by the Seller of the Sale Shares in favor of the Purchasers (the "**Deeds of Assignment of Subscription**");
 - (2) Evidence of the annotation of the execution of the Deeds of Assignment of Subscription Rights in the stock and transfer book of LB Holdco;
 - (3) Duly executed Deeds of Assignment of all the Outstanding Advances in favor of the Purchasers (substantially in the form attached as **Annex B**), evidencing the sale, assignment, transfer, and conveyance by the Seller of the Outstanding Advances in favor of the Purchasers (the "**Deeds of Assignment of Outstanding Advances**");
 - (4) All original stock certificates evidencing the Sale Shares duly endorsed in blank by the registered owners, including the original of the stock certificates for shares of stock in LB Holdco beneficially owned by the Seller and registered in the names of its nominee directors who hold such shares as nominees of the Seller, duly endorsed in blank by such nominee directors, or in the absence thereof, all subscription agreements covering the Sale Shares held by the Seller and its nominee directors;
 - (5) Copy of the CGT return signed and ready to be filed by the Seller with the BIR in respect of the sale of the Sale Shares;
 - (6) Duly signed deeds of assignment or deeds of trust or nominee agreements from each of the Resigning Directors listed in **Schedule 8** dated as of the First Payment Date, transferring legal or beneficial ownership over the qualifying shares to the replacement directors to be identified and nominated by the Purchasers prior to the First Payment Date;
 - (7) Duly executed letters of resignation of each of the directors listed in **Schedule 8** dated as of the First Payment Date;
 - (8) An original sworn certificate of the Seller's Corporate Secretary or equivalent officer containing the resolution/s or approval/s of the Board of Directors (or equivalent governing body) and shareholders, if applicable, approving the sale of

its Sale Shares, and the execution, delivery, and performance by the Seller of this Agreement and each of the Definitive Agreements and, designating in each case, the Person or Persons authorized to sign this Agreement and each of the Definitive Agreements, on behalf of the Seller, including the specimen signature/s of such authorized signatory/ies;

- (9) The First Payment Certificate from the Seller, in the form attached hereto as **Annex C**, certifying and confirming that (A) the First Payment Deliverables of the Seller under Section 3.4(b) have been satisfied, (B) the Seller Warranties set forth in **Schedule 7(A)** are true and correct when made and on the First Payment Date with the same force and effect as though such representations and warranties had been made on and as of and the First Payment Date, and (C) the Seller has performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement which the Seller is required to perform or comply with, in all respects;
- (10) Irrevocable proxies (substantially in the form attached as **Annex D**) executed by the Seller, constituting each of the Purchasers as its attorney-in-fact, with full power and authority to vote the Sale Shares on a 50-50 basis at any meeting of the shareholders of LB Holdco that may be convened from and after the First Payment Date, and to do any and all acts related to their exercise of its rights as a stockholder in the LB Holdco from and after the First Payment Date; and
- (11) LB Holdco's stock and transfer book, stock certificate book, minutes book, corporate dry seal, original Articles of Incorporation and By-Laws and all amendments thereto.

(b) Acts Required of each of the Purchasers. Each of the Purchasers shall deliver each of the following to the Seller:

- (1) An original sworn certificate of each of the Purchasers' Corporate Secretary or equivalent officer containing the resolution/s or approval/s of the Board of Directors (or equivalent governing body) approving the execution, delivery, and performance by the each of the Purchasers of this Agreement and each of the Definitive Agreements and, designating the Person or Persons authorized to sign this Agreement and each of the Definitive Agreements on its behalf, including the specimen signature/s of such authorized signatory/ies;
- (2) Manager's checks for the First Payment;
- (3) Second Payment SBLC;
- (4) Final Payment SBLC;
- (5) Manager's checks for the Seller issued in the name of the particular BIR revenue district office or the proper BIR payee, in the amount equal to the payment required for the DST for the transfer of Sale Shares;
- (6) Duly executed Deeds of Assignment of Subscription Rights; and
- (7) Duly executed Deeds of Assignment of Outstanding Advances.

(c) Resignation of Directors. On the First Payment Date, LB Holdco shall cause the holding of a special shareholders' meeting for the purpose of accepting the resignation of the

Resigning Directors, and electing the Incoming Directors to the Board of Directors of LB Holdco.

3.8 Payment of Fees, Expenses and Taxes.

(k) Income or Capital Gains Tax

(v) The Seller shall pay the income or CGT, if any, and file the corresponding returns covering the income tax or CGT, within the reglementary period for filing and paying the same, and provide proof of payment of the taxes arising from the sale of the Sale Shares, or provide proof of tax exemption therefrom. The Seller shall furnish a copy of the relevant tax return or tax-exempt ruling to each of the Purchasers.

(vi) The Seller shall file the CGT returns and pay the CGT due on the sale of the Sale Shares within the reglementary period for filing and paying the same, and, within three (3) days from filing and payment thereof, provide each of the Purchasers with a copy of the CGT return duly filed and evidencing that CGT have been paid with the authorized agent bank of the appropriate BIR Revenue District. Immediately thereafter, the Seller shall procure the issuance of the Tax Clearance/CAR.

(l) Documentary Stamp Tax.

(v) The DST on the transfer of the Sale Shares shall be for the account of the Purchasers. The Seller shall arrange the payment thereof upon receipt of separate manager's checks from each of the Purchasers in the amounts of the DST on the Sale Shares of each of the Purchasers.

(vi) Within the reglementary period for filing and paying the same, the Seller shall file with an authorized agent bank of the appropriate BIR Revenue District the DST return and pay the DST due on the sale of the Sale Shares. The Seller shall provide each of the Purchasers proof of payment of the DST on the transfer of their Sale Shares within three (3) Business Days from payment thereof.

(m) Other Fees, Costs and Expenses. All other fees, costs and expenses incurred in connection with the negotiation, preparation, and execution of this Agreement and the Definitive Agreements, as well as those arising out of or in connection with this Agreement shall be borne and paid by the Party incurring such fees, costs and expenses. The fees in respect of the Second Payment SBLC and Final Payment SBLC shall be for the account of the Purchasers.

(n) Tax Clearance/CAR. The Seller shall be responsible for obtaining from the BIR the Tax Clearance/CAR for the Sale Shares. The Seller shall secure the Tax Clearance/CAR as soon as practicable after the First Payment Date, and in any event not later than six (6) months from such date or such longer period as the Parties may agree.

ARTICLE IV
COVENANTS and UNDERTAKINGS

4.1 Mutual Covenants.

(a) Each Party shall cooperate and use best efforts to prepare and file as soon as practicable all

necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and to use best efforts to obtain any necessary Governmental Authorizations, which it is required to obtain under this Agreement. The Parties further agree to use best efforts to perform any act, comply with any requirement, make any undertaking or obtain any clearance or approval required by any Governmental Authority or applicable Law.

- (b) The Parties also agree to cooperate with each other and in good faith in defending against any and all claims, demands, suits or proceedings (commenced by any Person or Governmental Authority) asserted against any of the Parties relating to, resulting from or arising out of the transactions contemplated by this Agreement.

4.2 Non-Compete.

- (a) The Seller undertakes that the Seller and its Affiliates shall not, within a period of five (5) consecutive years after the First Payment Date, engage, directly or indirectly, in any business, undertaking or enterprise that is competitive with or antagonistic to the telecommunications services of the Purchasers and their Affiliates (the “**Restricted Business**”). For the avoidance of doubt, the Parties agree that restriction in this Section 4.2 shall not apply to (1) any joint venture or similar agreement entered into by the Seller pursuant to Section 8.2(a); and (2) any acquisition by the Seller or its Affiliates of shares or any equity interest in any of the Purchasers or their Affiliates, LB Holdco and/or LB Holdco Subsidiary in case of any future divestment by the respective shareholders of the foregoing companies.
- (b) For purposes of this Section 4.2, the expression “competitive with” the Restricted Business shall include directly or indirectly carrying on (whether alone or in partnership or joint venture with anyone else) or otherwise being concerned with or interested in (whether as trustee, principal, agent, shareholder, unit holder or in any other capacity) any business similar to or competitive with the Restricted Business, except to the extent the Seller or its Affiliates shall take merely a trading position as a passive investor in shares representing no more than five percent (5%) of the issued and outstanding capital stock of any listed corporation engaged in the Restricted Business.

ARTICLE V **REPRESENTATIONS AND WARRANTIES**

- 5.1 Warranties of the Seller and LB Holdco. Each of the Seller and LB Holdco hereby represents and warrants to each of the Purchasers that the statements set out in **Schedule 7(A)** (the “**Seller Warranties**”) are true, complete, and accurate and not misleading, and are deemed repeated as of the Signing Date and the First Payment Date, by reference to facts and circumstances on or immediately prior to the said dates; provided, however, that the indemnity obligation of the Seller for any breach of said Seller Warranties shall be governed by the provisions of Article VII on Indemnification and Limitations to Indemnity.
- 5.2 Warranties of the Purchasers. Each of the Purchasers hereby represents and warrants to the Seller and LB Holdco that the statements set out in **Schedule 7(B)** (the “**Purchaser Warranties**”) are true, complete, and accurate and not misleading, and are deemed repeated as of the Signing Date and the First Payment Date, by reference to facts and circumstances on or immediately prior to the said dates.
- 5.3 Breach of a Warranty Prior to First Payment Milestone. If, prior to the First Payment Milestone, the

Purchasers become aware of a breach of any of the Seller Warranties (other than a breach of the Seller Warranties on ownership of Sale Shares and Telco Assets), the Purchasers shall still proceed with the First Payment Milestone and may seek indemnification for damages suffered as a result of such breach; provided, that the Purchasers' right to seek indemnification shall be subject to Article VII (Indemnification and Limitations to Indemnity) of this Agreement.

- 5.4 Separate Warranty. Each Warranty is to be treated as a separate representation and warranty. The interpretation of any statement made may not be restricted by reference to or inference from any other statement, save as expressly otherwise provided.

ARTICLE VI

DUE DILIGENCE AND PRICE ADJUSTMENT MECHANISM

- 6.1 Confirmatory Due Diligence. After the First Payment Date, the Purchasers shall have the right to conduct a corporate, financial, tax, legal, business and technical due diligence and review on the Sale Shares, LB Holdco, the LB Holdco Subsidiary and the Telco Assets (the "**Confirmatory Due Diligence**") for a period not exceeding sixty (60) days from the First Payment Date (the "**Confirmatory Due Diligence Period**"); provided, however, that all documents, materials and information requested, and which may be in the possession of the Seller, shall have been complete and promptly provided to the Purchasers to determine whether any claim for adjustment or indemnification may be brought under terms to be agreed upon in this Agreement. For this purpose, the Seller shall give the Purchasers and their representatives such information relating to the Sale Shares, LB Holdco, the LB Holdco Subsidiary and the Telco Assets, which may be in the possession of the Seller and as may be reasonably requested by the Purchasers to complete the Confirmatory Due Diligence.
- 6.2 Validation Period and Adjustments. Within thirty (30) days after the end of the Confirmatory Due Diligence Period ("**Validation Period**"), the parties shall validate and agree on the amount of the Total Liabilities as of the First Payment Date.
- (a) If the Total Liabilities as of the First Payment Date are less than the Total Liabilities as of April 30, 2016, the Purchasers shall pay the variance to the Seller within thirty (30) days from the end of the Validation Period through the delivery of a manager's check covering the amount of the variance.
- (b) If the Total Liabilities as of the First Payment Date are more than the Total Liabilities as of April 30, 2016, the Seller shall pay the variance to the Purchasers within thirty (30) days from the end of the Validation Period through the delivery of manager's checks covering the amount of the variance.

The Purchasers undertake to provide the representative/s of the Seller reasonable access to the relevant financial records, documents, and people to determine and confirm the Total Liabilities as of the First Payment Date.

ARTICLE VII

INDEMNIFICATION AND LIMITATIONS TO INDEMNITY

- 7.1 Seller's Liability for Indemnification. Subject to the limitations and qualifications provided for in this Article VII, the Seller shall indemnify, defend and hold harmless each of the Purchasers from and against any and all Losses in the event that:

- (a) any of the Seller Warranties given by the Seller and/or LB Holdco herein or in **Schedule 7(A)** is not true and correct in any material respect of the date made and said breach is not remediable or, if remediable, remains unremedied after forty five (45) days from the Seller's receipt of written notice from the Purchasers; or
- (b) the Seller and/or LB Holdco fails to perform or comply in any material respect with any covenant or undertaking under this Agreement or any of the Definitive Agreements.

7.2 Limitations on the Seller's Liability

- (a) Notwithstanding anything in this Agreement, the provisions in this Article VII shall operate to limit all liabilities of the Seller whatsoever under any and all claims (including Third Party Claims) for indemnification by the Purchasers under this Agreement (the "**Indemnity Claims**").
- (b) No Indemnity Claims shall arise in respect of any Loss as contemplated above to the extent that liability for such breach occurs or is increased wholly or partly as a result of the passing of, or any change in, any Law, regulation or administrative practice not in effect at the First Payment Date whether with or without retrospective effect.
- (c) The Seller Warranties and the liability of the Seller under this Agreement shall be subject to and qualified by:
 - (i) any matter or thing hereafter done or omitted to be done at the request in writing or with the approval in writing of the Purchasers or in accordance with the terms of this Agreement;
 - (ii) any provisions on the limitation of the Seller's liability as may at any time be agreed in writing by the Purchasers; and
 - (iii) written disclosures made by the Seller on or before the Signing Date and accepted by the Purchasers.
- (d) The rights and remedies of the Purchasers under this Article VII are exclusive and in lieu of any and all other rights and remedies that the Purchasers may have under this Agreement or otherwise for monetary relief with respect to any breach of or failure by the Seller to perform any representation, warranty, or covenant set forth in this Agreement.

7.3 De Minimis and De Maximis Claims. Notwithstanding anything to the contrary, the liability of the Seller in respect of Indemnity Claims shall be subject to the following limitations:

- (a) the Seller shall not be liable under this Agreement in respect of any individual Indemnity Claim (or a series of Indemnity Claims arising from substantially identical facts or circumstances) where the total Loss agreed or determined in respect of any such claim or series of claims does not exceed Five Million Pesos (PHP5,000,000);
- (b) the Seller shall not be liable under this Agreement in respect of any Indemnity Claim in Section 7.3(a) unless the aggregate amount of Losses for which the Seller would otherwise be liable under this Agreement exceeds Fifty Million Pesos (PHP50,000,000.00), in which case, the Seller shall be liable for the full amount of the Indemnity Claims subject to the maximum aggregate liability under Section 7.3(c); and
- (c) the maximum aggregate liability of the Seller shall be as follows:

- (i) the maximum aggregate liability of the Seller for Indemnity Claims relating to breach of Seller Warranties on ownership of the Sale Shares, the Outstanding Advances, or the Telco Assets, shall not exceed Six Hundred Ninety One Million Three Hundred Forty Eight Thousand One Hundred Seventy Five Pesos (PHP691,348,175.00);
- (ii) the maximum aggregate liability of the Seller for Indemnity Claims relating to breach of Seller Warranties by reason of fraud or non-disclosure of material contracts with suppliers for the supply and provisioning of goods and services relating to the rollout, maintenance and operation, and network infrastructure and facilities and the operation and provision of services shall not exceed Two Hundred Eighty Seven Million Nine Hundred Ninety Seven Thousand Eight Hundred Ninety Four Pesos (PHP287,997,894.00); and
- (iii) the maximum aggregate liability of the Seller for all other Indemnity Claims relating to breach of Seller Warranties not covered in Sections 7.3(c)(i) and 7.3(c)(ii) above, shall not exceed Nineteen Million Seven Hundred Fifty Two Thousand Eight Hundred Five Pesos (PHP19,752,805.00).

7.4 Time Limits. No Indemnity Claim shall be brought by the Purchasers against the Seller unless notice in writing of any such Indemnity Claim (specifying in reasonable detail the nature of the breach and the amount claimed in respect thereof and all matters relied upon together with supporting evidence) has been given to the Seller before the expiry of a period of: (i) five (5) years from the end of the Confirmatory Due Diligence Period in respect of Indemnity Claims relating to breach of Seller Warranties on ownership of and the title to the Sale Shares, the Outstanding Advances, or the Telco Assets; (ii) three (3) years from the end of the Confirmatory Due Diligence Period in respect of Indemnity Claims relating to breach of Seller Warranties on Taxes; and (iii) two (2) years from the end of the Confirmatory Due Diligence Period in respect of all other Indemnity Claims (the “**Claim Period**”, and the date of serving of notice of the Indemnity Claim, the “**Claim Date**”).

7.5 Conduct of Claims. In the event that any of the Purchasers becomes aware of any matter, which it has determined has given or could give rise to an Indemnity Claim:

- (a) The Purchasers shall immediately, and in any event within thirty (30) days from the time that either of the Purchasers learns of or discovers such an Indemnity Claim (the “**Notice Period**”), send a written notice to the Seller of the events, circumstances, claims and actions that have occurred and have become known to the Purchasers that comprise the Indemnity Claim (stating the amount of the Loss, if known) and that may bring about the application of Section 7.1 of this Agreement (the “**Claim Notice**”).
- (b) The Seller shall have thirty (30) days from its receipt of the Claim Notice (the “**Reply Period**”), to notify the Purchasers that it objects or disputes the Claim Notice or the amount or any aspect of the Indemnity Claim subject of the Claim Notice (the “**Claim Objection**”), or otherwise notify the Purchasers that it does not dispute the Claim Notice and accepts liability for the Indemnity Claim (the “**Claim Acceptance**”).
- (c) If the Seller fails to respond to the Claim Notice within the Reply Period, or sends a written notice of a Claim Acceptance within such period, then the Indemnity Claim shall be deemed accepted. The Purchasers may recover the amount of the Loss subject of the Indemnity Claim, and the Seller shall pay the amount thereof to the Purchasers in cash within thirty (30) days from the end of the Reply Period.

- (d) If within the Reply Period the Seller sends a written notice to the Purchasers of a Claim Objection, such notice shall state in detail the reasons why it does not accept liability for the Indemnity Claim.
- (o) If no agreement is reached by the Parties within thirty (30) days from the end of the Reply Period, notwithstanding earnest efforts to settle the Indemnity Claim, the matter shall be referred to the Claims Dispute Resolution procedure in Section 7.7 below.

7.6 Third Party Claim. If any of the Purchasers receives written notice of the assertion of any claim or demand by any Person who is not a Party or Affiliate of any Party (a “**Third Party Claim**”) against any of the Purchasers with respect to which an Indemnity Claim is to be sought or which may be sought by any such Purchaser from the Seller:

- (i) The Purchasers will give the Seller written notice thereof within a reasonable time from receipt of notice of the assertion of such claim or of the commencement of any claim, action or proceeding. Such notice shall describe the nature of the Third Party Claim in reasonable detail (including a copy of the Third Party Claim) and shall indicate the estimated amount, if practicable, of the Loss that has been or may be sustained by the Purchasers.
- (j) If the Seller notifies the Purchasers that it accepts liability for such claim, the Purchasers, in consultation with the Seller, shall enter into a settlement agreement with the third party claimant, and all costs and expenses for such settlement shall be for the account of the Seller.
- (k) If the Seller notifies the Purchasers that it does not accept liability for said claim, then the Purchasers and the Seller shall, at the expense of the Seller, cooperate with each other in good faith in defending against the claim or taking such other action as may be appropriate under the circumstances, taking into account the best interests of LB Holdco (or the LB Holdco Subsidiary, as appropriate) and advice of legal counsel.
- (l) In the event that the Purchasers and the Seller disagree on the course of action to be taken, the matter shall be referred to the Claims Dispute Resolution process under Section 7.7 but in the meantime, the Purchasers shall have the right to handle the claim in a way they deem appropriate taking into account the best interests of LB Holdco (or the LB Holdco Subsidiary, as appropriate) and advice of legal counsel.

7.7 Claims Dispute Resolution.

- (a) If the Seller disputes its liability to the Purchasers with respect to any Indemnity Claim or Third Party Claim brought under Section 7.5 or 7.6, the Seller and the Purchasers shall refer the matter for resolution to the Presidents and Chief Executive Officers of the Seller and each the Purchasers. If the dispute is so resolved by the Presidents and Chief Executive Officers of the Seller and each of the Purchasers, such resolution shall be final and binding on the Parties for all purposes.
- (b) If the Presidents and Chief Executive Officers of the Seller and each of the Purchasers fail to reach an agreement with respect to the dispute within thirty (30) days from referral, then each of the Purchasers and the Seller shall jointly refer the matter to their respective Chairman of the Board. If the dispute remains unresolved despite referral to the Chairman of the Board of the Seller and each of the Purchasers within thirty (30) days from referral, then the matter will be settled through arbitration under Section 11.13.
- (c) In the event, and from the time an arbitral award is made holding the Seller liable to the

Purchasers for any Indemnity Claim or Third Party Claim brought under Section 7.5 or 7.6, then the Purchasers may recover from the Seller the amount of the Loss subject of the Indemnity Claim or Third Party Claim, subject to the limitations provided in this Article VII.

ARTICLE VIII TERMINATION

8.1 Causes for Termination. This Agreement may be terminated by the mutual written agreement of the Seller and the Purchasers.

8.2 Break Fee

A break fee ("**Break Fee**") shall be payable to the Seller as follows:

- (a) If, notwithstanding the fulfillment and satisfaction of all the First Payment Deliverables, any one of the Purchasers (the "**Defaulting Purchaser**") shall refuse or otherwise fail to pay its share in the First Payment for any reason whatsoever, the Defaulting Purchaser shall pay to the Seller as penalty an amount equal to Fifty One Million Eight Hundred Fifty One Thousand One Hundred Thirteen Pesos (PHP51,851,113.00). To the fullest extent permitted under applicable Laws and regulations, the non-Defaulting Purchaser and the Seller shall, in good faith, discuss, negotiate, and conclude a joint venture agreement or other mutually acceptable commercial arrangement with respect to each of LB Holdco and the LB Holdco Subsidiary.
- (b) If, notwithstanding the fulfillment and satisfaction of all the First Payment Deliverables, both Purchasers shall each refuse or otherwise fail to pay each of its share in the First Payment for any reason whatsoever, the Purchasers shall pay to the Seller as penalty an aggregate amount equal to One Hundred Three Million Seven Hundred Two Thousand Two Hundred Twenty Six Pesos (PHP103,702,226.00).
- (c) The Break Fee under this Section 8.2 shall be payable within thirty (30) days from receipt of written demand therefor.

8.3 Effectivity and Consequences of Termination.

The termination of this Agreement shall be effective on the date set by the Parties as the effective date of such termination.

8.4 Survival. The following clauses shall survive the termination of this Agreement: (i) Article VIII (Termination); and (ii) Article X (Confidentiality).

ARTICLE IX NON-SOLICITATION; EXCLUSIVITY

9.1 No Solicitation. From and after the Signing Date until the First Payment Date (or termination of this Agreement prior to the First Payment Date), without the prior written consent of the Purchasers, the Seller, LB Holdco and the LB Holdco Subsidiary (and the respective senior officers with a rank of at least Vice President and directors of the above companies) shall not directly or indirectly solicit, initiate or participate in any way in discussions or negotiations with, or provide information or assistance to, or enter into any agreement with any Person or group of Persons concerning any acquisition, merger, consolidation, liquidation, dissolution, disposition of assets

(including by way of lease or similar transaction), joint operating transaction, or assist or participate in, facilitate or encourage any effort or attempt by any other Person to do or seek to do any of the foregoing. In the event any communication occurs which violates or proposes to violate the terms of this Article IX, the Seller, LB Holdco or the LB Holdco Subsidiary shall, within twenty four (24) hours of such communication, notify each of the Purchasers of the communication and all details thereof.

- 9.2 Exclusivity. From the Signing Date until the First Payment Date, the Seller, LB Holdco and any of the LB Holdco Subsidiary, shall not enter into any discussion or agreement or transaction involving the sale, transfer, assignment, or creation of any Encumbrance, on the Sale Shares, the Outstanding Advances, LB Holdco, the LB Holdco Subsidiary, and the Telco Assets.

ARTICLE X CONFIDENTIALITY

- 10.1 Confidential Information. No Confidential Information may be disclosed by the Party receiving such information (the “**Receiving Party**”) to any Person except:
- (a) to directors, senior officers, advisors, counsels, and authorized representatives of the Receiving Party reasonably requiring access to such Confidential Information solely for the purposes of this Agreement and who are obliged to treat the Confidential Information, this Agreement, and the discussions among the Parties as confidential in the same manner and to the same extent as is provided under this Agreement; or
 - (b) with the consent of the Party that owns such Confidential Information (the “**Disclosing Party**”); or
 - (c) if the Receiving Party is required to do so by Law, a stock exchange or any Governmental Authority; provided, that the Receiving Party will promptly give the Disclosing Party written notice of such required disclosure to enable the Disclosing Party to seek legal relief to prevent the disclosure of the Confidential Information; provided further, that if the Disclosing Party fails to obtain legal relief, the Receiving Party will disclose only that portion of the Confidential Information reasonably determined by its counsel as legally required to be disclosed; or
 - (d) if the Receiving Party is required to do so in connection with legal proceedings relating to this Agreement.
- 10.2 Disclosure of Confidential Information. If the Receiving Party discloses Confidential Information under Section 10.1 above, the Receiving Party shall use its reasonable endeavors to ensure that recipients of the Confidential Information do not disclose the Confidential Information except in the circumstances permitted in Section 10.1, or keep the same confidential as may be allowed.
- 10.3 Use of Confidential Information. The Receiving Party shall not use any Confidential Information, except for the purpose of determining whether to exercise its rights, or in performing its obligations under this Agreement or as otherwise required by Law. The Receiving Party shall not make any use of the Confidential Information or any part of it to the competitive disadvantage of the Disclosing Party.
- 10.4 Delivery of Materials. In the event of termination of this Agreement, at any time after such termination becomes effective, the defaulting Party shall, on the request of the non-defaulting Party(ies), immediately deliver to the non-defaulting Party or otherwise destroy all documents or other materials containing or referring to Confidential Information which are:

- (a) in the defaulting Party's possession, power or control; or
- (b) in the possession, power or control of Persons who have received Confidential Information under this Agreement.

The defaulting Party shall, if requested by the non-defaulting Party(ies) provide to the non-defaulting Party(ies) a certification under oath from a duly authorized officer of the defaulting Party that all such documents or other materials containing or referring to Confidential Information have been returned, erased or destroyed.

This Section 10.4 shall not apply to Confidential Information which the defaulting Party must retain because of any Law or any legally binding order or rule of any court, tribunal, authority, administrative body, judicial body, regulator or stock exchange; provided, that such Confidential Information retained by the defaulting Party remains subject to this Article X.

10.5 Confidentiality of the Transaction. Prior to the First Payment Date, no Party shall disclose the negotiations leading to, the making of this Agreement and its terms (or any other agreement referred to in this Agreement) and the transactions and matters which are the subject of this Agreement to any third party without the prior approval of the other Parties of the form and manner of the disclosure, and each Party shall procure that each of its directors, employees, advisers, or agents shall not make any such disclosure without the prior approval of the other Parties, unless and to the extent that disclosure is:

- (e) to its professional advisers; or
- (f) required by Law or the rules of any stock exchange or other regulatory body, and provided that in relation to any announcement, the disclosing party shall immediately notify the other Parties of the requirement to make any such announcement and shall disclose its contents to the other Parties prior to such announcement and shall give the other Parties an opportunity to comment on the contents.

This Section 10.5 shall not apply to disclosure of such information to or at the written request of or with the written consent of the non-disclosing Party, or such information, which is in the public domain other than by the disclosing Party's breach of this Article X.

10.6 Confidentiality. The Seller and LB Holdco must not, and must procure that its Affiliates shall not, at any time, directly or indirectly use or disclose to any third party any confidential information of the business of LB Holdco, the LB Holdco Subsidiary, or any of the Purchasers or their respective Affiliates, which is not generally known or available in the market place or which but for a violation of this Article X would not be generally known or available to the public.

10.7 Remedies. The Receiving Party acknowledges that any unauthorized use or disclosure of the Confidential Information or any part of it in breach of this Agreement may cause material damage to the Disclosing Party and that the Disclosing Party has the right, in addition to any other remedies available at Law or in equity, to seek injunctive relief against the Receiving Party and any representative of the Receiving Party in respect of any such breach of this Article X.

ARTICLE XI

GENERAL PROVISIONS

11.1 Successors and Assignment. This Agreement shall be binding on and inure for the benefit of the successors of each of the Parties but shall not be assignable or otherwise transferable without the

prior written consent of the other Party or Parties.

11.2 Severability.

- (a) If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, such provision or part shall to that extent be deemed not to form part of this Agreement but the legality, validity or enforceability of the remainder of this Agreement shall not be affected.
- (b) If any illegal, invalid or unenforceable provision would be legal, valid and enforceable if some part of it were deleted or modified, the provision shall apply with whatever deletion or modification is necessary to give effect to the commercial intention of the Parties.
- (c) Upon the determination that any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner in order for the transactions contemplated hereby to be consummated as originally contemplated to the greatest extent possible.

11.3 Relationship of the Purchasers. The liabilities of the Purchasers hereunder shall be joint and not solidary (as this is used under Philippine Civil Code) with each other, and nothing in this Agreement shall be deemed to create a partnership or joint venture between or among any of them. Thus, any representation, warranty, obligation, or liability of a Purchaser or of the Purchasers shall not be enforceable, in whole or in part, against the other Purchaser, and such other Purchaser shall not be liable for the representation, warranty, obligations, or liability of any of the other Purchaser. Each of the Purchasers shall be entitled, at its option, to take independent measures with respect to its rights and obligations under this Agreement, and it shall not be necessary for any of the Purchasers to be joined as a party in any judicial or other proceeding for such purpose.

11.4 Costs. Unless otherwise stated in this Agreement, each Party shall bear all its own costs incurred in connection with the preparation, negotiation and execution of this Agreement (including any valuations and audits).

11.5 Notices. Any notice required or permitted to be given by or under this Agreement may be given by delivering the same to the Party in question by delivering it, or by sending it in a prepaid envelope by registered mail or courier, to its address shown in this Agreement or by fax transmission or email as follows:

To Seller: SCHUTZENGELE TELECOM, INC.

Address : Unit 701, Emerald Building,
24 F. Ortigas Jr. Road, Ortigas Center,
Pasig City

Facsimile No. : +632-6372887

Attention: The President and Chief Operating Officer

To LB Holdco: BOW ARKEN HOLDING COMPANY, INC.

Address : Unit 701, Emerald Building,
24 F. Ortigas Jr. Road, Ortigas Center,
Pasig City

Facsimile No. : +632-6372887

Attention: The Chairman and President

To PLDT: PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

Address : Ramon Cojuangco Building
Makati Avenue, Makati City

Facsimile No. : +632-8880686; +632-8107138

Attention: The Chairman and President

To GLOBE: GLOBE TELECOM, INC.

Address : The Globe Tower
32nd Street corner 7th Avenue
Bonifacio Global City, Taguig City

Email : elcu@globe.com.ph

Attention: The Chief Executive Officer

or to such other address, fax number or email address as the Party concerned may have notified to the others in accordance with this Section 11.5. Any such notice shall be deemed to be served upon receipt and shall be deemed to have been received:

- (a) at the time of delivery, if delivered by hand;
- (b) at the time of posting, if delivered by registered mail or courier; or
- (c) at the time of transmission in legible form, if delivered by fax or email.

11.6 Waiver. Any Party to this Agreement may waive compliance with any of the agreements or conditions of the other Parties contained herein. Any such waiver or extension shall only be valid if set forth in an instrument in writing signed by the Party waiving compliance. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition, of this Agreement. The failure of any Party to assert any of its rights hereunder shall not constitute a waiver of any of such rights.

11.7 Amendment. This Agreement may not be amended or modified except by an instrument in writing signed by or on behalf of the Seller and the Purchasers.

11.8 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.9 Entire Agreement.

- (a) This Agreement forms the entire agreement between the Parties relating to the matters referred to in this Agreement. This Agreement replaces and supersedes any previous representations, warranties, undertakings, proposal, correspondence, understanding or other communication, whether written or oral, between the Parties. None of the Parties shall be liable to the other, in equity or otherwise, for any warranty or representation that

is not set out in this Agreement. Each Party acknowledges that it has not relied on or been induced to enter into this Agreement by any warranty or representation other than those expressly set out in this Agreement.

- (b) To the extent permitted by Law and except in the case of fraud, each of the Parties agrees and acknowledges that its only right and remedy in relation to any representation, warranty or undertaking made or given in connection with this Agreement shall be for breach of the terms of this Agreement to the exclusion of all other rights and remedies (including those in tort or arising under statute).
- 11.10 Further Action and Assurances. Each of the Parties shall use all reasonable efforts to take or cause to be taken all appropriate action, do or cause to be done all things necessary, proper or advisable, and execute and deliver such documents and other papers as may be required to carry out the provisions of this Agreement and consummate and make effective the transactions contemplated by this Agreement, including the transfer of management and operation of LB Holdco and LB Holdco Subsidiary and the election of new LB Holdco nominee directors in the LB Holdco Subsidiary following the First Payment Date. From and after the First Payment Date, it is understood that the management and operation of LB Holdco and the LB Holdco Subsidiary shall be the sole responsibility of the Purchasers.
- 11.11 Disclaimer. Nothing in this Agreement shall entitle any Person other than the Seller or the Purchasers (or their respective successors and permitted assignees) to any claim, cause of action, remedy, or right of any kind.
- 11.12 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Republic of the Philippines, unless the principles or rules of conflict of laws to the extent such principles or rules would require or permit the application of the laws of another jurisdiction.
- 11.13 Arbitration. Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity, or termination shall be exclusively referred to and finally settled by arbitration in Singapore in accordance with the Arbitration Rules of the Singapore International Arbitration Center (“SIAC Rules”) for the time being in force, which rules are deemed to be incorporated by reference in this clause. The arbitration tribunal shall consist of three arbitrators. The arbitral proceedings shall be conducted in the English language. The arbitration proceedings shall be strictly confidential. Any party to this Agreement may initiate arbitration proceedings against one or more other Parties to this Agreement by sending a request for arbitration to all other Parties to this Agreement.

The Parties agree that an arbitral tribunal appointed hereunder may exercise jurisdiction with respect to this Agreement.

The arbitral award shall be final and binding upon the Parties and enforceable by any court having jurisdiction for this purpose.

The Parties agree that the provisions of this Section 11.13 constitute a separate and independent agreement among them and no claim that this Agreement is void, unenforceable or ineffective shall preclude the submission of any dispute, controversy or claim to arbitration. The Parties recognize that: (a) the panel of arbitrators has jurisdiction to settle the issue of whether this Agreement (or any provision thereof) is void, unenforceable or ineffective; and (b) except to the extent allowed under Sections 28 and 29 of Republic Act No. 9285 (2004), no Party has the right to ask a court to restrain or enjoin the conduct of arbitration proceedings for the settlement of any dispute, controversy or claim under this Agreement. The Parties also agree that the filing of any judicial complaint or suit against any Party and any of such Party’s officers, directors, employees or agents in relation to any matter arising out of, or relating to, or in connection with

this Agreement, shall not preclude the submission of any dispute, controversy or claim to arbitration.

- 11.14 Supervening Legislation. Any present or future legislation which operates to vary the obligations of a Party in connection with this Agreement with the result that another Party's rights, powers or remedies are adversely affected (including, by way of delay or postponement) is excluded except to the extent that its exclusion is prohibited or rendered ineffective by Law.

- SIGNATURE PAGE FOLLOWS -

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date of this Agreement.

The Seller:

SCHUTZENGELE TELECOM, INC.

By:

/s/ Jose A. Ramos, Jr.
JOSE A. RAMOS, JR.
Director

The Purchasers:

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

By:

/s/ Manuel V. Pangilinan
MANUEL V. PANGILINAN
Chairman and President

GLOBE TELECOM, INC.

By:

/s/ Ernest L. Cu
ERNEST L. CU
President and Chief Executive Officer

The Company:

BOW ARKEN HOLDING COMPANY, INC.

By:

/s/ Jose A. Ramos, Jr.
JOSE A. RAMOS, JR.
Director

SCHEDULE 6
DEFINITIONS

“Action”	Means an action, dispute, claim, demand, investigation, inquiry, prosecution, litigation, proceeding, arbitration, mediation, suit, or dispute resolution, whether at law, in equity, under statute or otherwise and whether actual or contingent.
“Affiliate”	Means, with respect to any specified Person, any other Person that directly, or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under direct or indirect common Control with, such specified Person.
“Bank Debt”	Means all the current and long-term liabilities of LB Holdco and the LB Holdco Subsidiary owed to banks or other financial institutions.
“BIR”	Means the Philippine Bureau of Internal Revenue.
“Books and Records”	Means the records, documents, evidence of title, and other papers relating to a company, its business and assets, including the minute books, stock and transfer book, stock records, and other corporate and accounting records, ledgers, and journals.
“Break Fee”	Has the meaning given to it in Section 8.2.
“Business Day”	Means a day on which banks are open for general business in the Cities of Mandaluyong, Taguig, and Makati, Philippines.
“CGT”	Means the capital gains tax as provided in Republic Act No. 8424 or the National Internal Revenue Code of 1997, as amended.
“Claim Acceptance”	Has the meaning given to it in Section 7.5(b).
“Claim Date”	Has the meaning given to it in Section 7.4.
“Claim Notice”	Has the meaning given to it in Section 7.5(a).
“Claim Objection”	Has the meaning given to it in Section 7.5(b).
“Claim Period”	Has the meaning given to it in Section 7.4.
“Concurrent Transactions”	Has the meaning given to it in Whereas Clause (G).
“Confidential Information”	Means, with respect to a Party, all financial, operational, technical, trade and other information pertaining to the business, operations and affairs of the Party, whether such information be printed, written or verbally furnished by one Party to another, or the latter’s directors, officers, employees, agents or representatives, excluding the following: (i) information which, at the relevant time is in the public domain, or becomes generally known in the industry or to the public, other than as a result of a breach of this Agreement; (ii) information which the recipient can establish to have been known to it at the relevant time, and not acquired directly or indirectly

from another Party; or (iii) information which becomes available to the recipient from any third person, the disclosure of which does not constitute a breach of any agreement or legal obligation which such third person has with any Party.

“Confirmatory Due Diligence”

Has the meaning given to it in Section 6.1.

“Confirmatory Due Diligence Period”

Has the meaning given to it in Section 6.1.

“Contract”

Means any written contract, agreements, commitment, understanding, lease, license, franchise, warranty, guaranty, mortgage, note, bond, or other instrument or consensual obligation that is legally binding.

“Control”

(including, with its correlative meanings, the terms “Controlled by” and “under common Control with”), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, as trustee or executor, by contract or otherwise; provided, that in any event, any Person which owns, directly or indirectly, more than fifty percent (50%) of the outstanding capital stock or equity interest having ordinary voting power to elect the board of directors or other governing body of a corporation or any other Person will be deemed control of such corporation or other Person.

“CPCN”

Means each certificate of public convenience and necessity issued by the NTC to the LB Holdco Subsidiary as identified in **Schedule 3(A)**.

“Deeds of Assignment of Subscription Rights”

Means the Deeds of Assignment of Subscription Rights and Deeds of Absolute Sale of the Sale Shares in substantially the same form as **Annex A-1** and **Annex A-2** covering the sale and purchase of the Seller’s subscription rights to the Sale Shares, including Six (6) fully paid-up common shares of the Company;

“Deeds of Assignment of Outstanding Advances”

Means the Deeds of Assignment of Outstanding Advances in substantially the same form as **Annex B** covering the sale and assignment of the Outstanding Advances.

“Defaulting Purchaser”

Has the meaning given to it in Section 8.2(a).

“Definitive Agreements”

Means (i) this Agreement; (ii) the Deeds of Assignment of Subscription Rights; (iii) the Deeds of Assignment of Outstanding Advances; (iv) the Second Payment SBLC; and (v) the Final Payment SBLC.

“Disclosing Party”

Has the meaning given to it in Section 10.1(b).

“DST”

Means the documentary stamp taxes as provided in Republic Act No. 8424 or the National Internal Revenue Code of 1997, as

amended.

Means, with respect to any property or asset, any lien (statutory or other), claim, charge, adverse interest, option, mortgage, pledge, assessment, security interest, assignment, deposit arrangement, lease, levy, other encumbrance, or other preferential arrangement of any kind in respect of such property or asset; or any preference, priority or other agreement or preferential arrangement of any kind or nature whatsoever including, without limitation, any conditional sale, capital lease, or other title retention agreement relating to such property or asset, and any other right of or arrangement with any creditor to have its claims satisfied out of any assets, or the proceeds therefrom, prior to any general creditor of the owner thereof.

“Final Payment”	Has the meaning given to it in Section 3.1(c).
“Final Payment Date”	Has the meaning given to it in Section 3.1(c).
“Final Payment SBLC”	Has the meaning given to it in Section 3.2(a)(2).
“First Payment”	Has the meaning given to it in Section 3.1(a).
“First Payment Acts”	Has the meaning given to it in Section 3.7.
“First Payment Certificate”	Means the certificate to be delivered by the Seller to each of the Purchasers on the First Payment Date in substantially the form provided in Annex C hereof as referred to in Section 3.7(a)(9).
“First Payment Date”	Has the meaning given to it in Section 3.3.
“First Payment Deliverables”	Means each of the conditions and deliverables of the Seller and the Purchasers set out in Section 3.4.
“First Payment Milestone”	Has the meaning given to it in Section 3.3.
“Franchises”	Means all the franchises, provisional authorities, and certificates of convenience and necessity, and material licenses, permits, registrations, and approvals necessary to operate and maintain telecommunications systems in the Philippines.
“Frequencies”	Means all of the frequencies assigned to the LB Holdco Subsidiary as each listed in Schedule 3(B) .
“GLOBE”	Means Globe Telecom, Inc.
“Governmental Authorization”	Means any consent, license, permit or registration issued, granted, given, or otherwise made available by or under the authority of any Governmental Authority or pursuant to any Law including the Franchises.
“Governmental Authority”	Means any government office, branch, department, or agency having jurisdiction over any of the Parties, or any Person exercising or entitled to exercise executive, legislative, judicial, regulatory or administrative functions of or pertaining to a government having

jurisdiction over any of the Parties, or any political subdivision thereof, including those responsible for tax, wherever situated.

“Governing Document”	Means any charter, articles, by-laws, certificates, or similar document adopted, filed or registered with any Governmental Authority in connection with the creation, formation or organization of an entity, and any Contract among shareholders, partners or members of an entity.
“HB Holdco”	Means Brightshare Holdings Corporation.
“HB Holdco Shares”	Means the shares of stock constituting one hundred percent (100%) of the total issued and outstanding capital stock of HB Holdco.
“Incoming Directors”	Means the Persons nominated by the Purchasers to be directors of LB Holdco on the First Payment Date.
“Indemnity Claims”	Has the meaning given to it in Section 7.2(a).
“Key Executives”	Means senior officers and executives of LB Holdco and LB Holdco Subsidiary with rank of at least Vice President.
“Law”	Includes any law, statute, constitution, proclamation, ordinance, by-law, regulation, rule, authorization, concession, grant, franchise, license, directive, guideline, policy, requirement, ruling, judgment, order or decree or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority whether in the Philippines or in any other jurisdiction where a relevant Party has been established, with force and effect of law.
“LB Holdco” or the “Company”	Means Bow Arken Holding Company, Inc.
“LB Holdco Subsidiary”	Means the subsidiary identified in Schedule 2 .
“Loss”	Means any and all losses, liabilities, damages, claims, awards, judgments, costs and expenses actually suffered or incurred by such Party.
“Material Adverse Change”	Means (1) any change in Law or in the regulatory environment that will make it unlawful for the Parties to make the First Payment; or (2) any significant change in the political conditions of the Philippines that will prevent the Parties from making the First Payment, such as but not limited to war, or widespread rebellion or civil strife.
“Material Adverse Effect”	Means any circumstance, condition, incident, situation, change in, or effect that, individually or in the aggregate with any other circumstances, conditions, incidents, situations, changes in, or effects that will prevent the Company and the Sellers to perform their obligations and undertakings under this Agreement, except for any such changes or effects resulting from changes in general

economic, regulatory or political conditions or changes that affect the telecommunications industry in general.

"Notice Period"	Has the meaning given to it in Section 7.5(a).
"NTC"	Means the National Telecommunications Commission.
"Order"	Means any order, injunction, judgment, decree, ruling, assessment or arbitration award of any Governmental Authority or arbitrator.
"Ordinary and Regular Course"	Means in respect of the business of LB Holdco and the LB Holdco Subsidiary the ordinary, regular and usual course of normal day-to-day operations.
"Other Sellers"	Means the owners or holders of the VTI Shares and the HB Holdco Shares.
"Outstanding Advances"	Means the shareholder advances and other advances made by the Seller in LB Holdco and the LB Holdco Subsidiary in the aggregate principal amount of Four Hundred Seventy Five Million Nine Hundred Ninety Five Thousand Seven Hundred Eighty Eight Pesos (PHP475,995,788.00), as set out in Schedule 4 .
"Outstanding Advances Purchase Price"	Means the purchase price for the Outstanding Advances as provided in Section 2.3(b).
"PA"	Means each of the provisional authorities issued by the NTC to LB Holdco and the LB Holdco Subsidiary as identified in Schedule 3(A) .
"Party"	Means any of the Seller, Purchasers, or LB Holdco, and "Parties" are all of the Seller, Purchasers, and LB Holdco.
"PCC"	Means the Philippine Competition Commission.
"Person"	Means any individual, partnership, firm, corporation, limited liability company, joint venture, association, trust, unincorporated organization, or other entity, committee, department, Governmental Authority, or any body, incorporated or unincorporated, whether having distinct legal personality or not, as well as any syndicate or group that would be deemed to be a person under Philippine Law.
"PFRS"	Means the Philippine Financial Reporting Standards applied on a consistent basis.
"PHP"	Means Philippine Pesos, the lawful currency of the Philippines.
"PLDT"	Means Philippine Long Distance Telephone Company.
"PSE"	Means the Philippine Stock Exchange, Inc.
"Purchase Price"	Has the meaning given to it in Section 2.3.
"Purchasers"	Means PLDT and GLOBE.

“Purchaser Warranties”	Means the representations and warranties of the Purchasers as set forth in Schedule 7(B) of this Agreement.
“Receiving Party”	Has the meaning given to it in Section 10.1.
“Reply Period”	Has the meaning given to it in Section 7.5(b).
“Restricted Business”	Has the meaning given to it in Section 4.2.
“Resigning Directors”	Means the directors of LB Holdco and the LB Holdco Subsidiary enumerated in Schedule 8 , who will resign as of the First Payment Date.
“Returns”	Means all returns, reports and declarations of every nature required to be filed with respect to any Tax.
“Sale Shares”	Means the 250,000 common shares of LB Holdco, held by the Seller and its nominee directors constituting 100.00% of the total issued and outstanding capital stock of LB Holdco (including the subscription rights of the Seller over such shares) as set out in Schedule 1 of this Agreement.
“Sale Shares Purchase Price”	Has the meaning given to it in Section 2.3(a).
“SEC”	Means the Philippine Securities and Exchange Commission.
“Second Payment”	Has the meaning given to it in Section 3.1(b).
“Second Payment Date”	Has the meaning given to it in Section 3.1(b).
“Second Payment SBLC”	Has the meaning given to it in Section 3.2(a)(2).
“Seller”	Means Schutzengel Telecom, Inc.
“Seller Acquisition Date”	Means the relevant date on which the Seller or its Affiliates acquired ownership of shares of stock of LB Holdco or LB Holdco Subsidiary.
“Seller Warranties”	Means the representations and warranties of the Seller and LB Holdco as set forth in Schedule 7(A) of this Agreement.
“SMART”	Means Smart Communications, Inc.
“SRC”	Means the Securities Regulations Code of the Philippines (Republic Act No. 8799).
“Tax”	means (a) any net income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental or windfall profit tax, custom, duty or other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest, penalty, addition to tax or additional amount imposed by any Law or Government Authority, whether disputed

or not, (b) any liability for the payment of any amounts of any of the foregoing as a result of being a member of an affiliated, consolidated, combined, unitary or similar group, or being a party to any agreement or arrangement whereby liability for payment of such amounts was determined or taken into account with reference to the liability of any other Person, (c) any liability for the payment of any amounts as a result of being a party to any tax sharing agreements or arrangements (whether or not written) or with respect to the payment of any amounts of any of the foregoing as a result of any express or implied obligation to indemnify any other Person, and (d) any liability for the payment of any of the foregoing types as a successor or transferee.

“Tax Clearance/CAR”	Means the certificate authorizing registration issued by the BIR authorizing the registration in the books of the Company of the transfer of the Sale Shares to the name of the Purchasers.
“Telco Assets”	Means the Franchises, the Frequencies, and other assets held by LB Holdco and LB Holdco Subsidiary.
“Third Party Claim”	Has the meaning given to it in Section 7.6.
“Third Party Consents”	Means the consents by creditors or any other Person which are required to complete or consummate or otherwise carry out the sale and purchase of the Sale Shares or any other transaction contemplated herein.
“Total Liabilities”	Means liabilities of each of LB Holdco and LB Holdco Subsidiary, which shall include: (i) trade payables comprising of outstanding or unpaid accounts to suppliers, unserved balances on contracts and/or purchase orders already issued, and additional contracts that may be entered into or purchase orders that may be issued and which are critical to the ongoing operations of LB Holdco and the LB Holdco Subsidiary; (ii) all current and long term liabilities owed to banks or other financial institutions; and (iii) operating payables comprising of other accounts payable, taxes payable, accrued liabilities, total lease obligations, employee wages, employee severance payment resulting from the transactions contemplated in this Agreement and the Definitive Agreements, deferred taxes, contingent liabilities, and all other short-term and long-term liabilities.
“Validation Period”	Has the meaning given to it in Section 6.2.
“VTI”	Means Vega Telecom, Inc.
“VTI Shares”	Means the shares of stock constituting one hundred percent (100%) of the total issued and outstanding capital stock of VTI.
“Warranties”	Means the Seller Warranties and the Purchaser Warranties.

SCHEDULE 7(A)
REPRESENTATIONS AND WARRANTIES OF THE SELLER AND LB HOLDCO

REPRESENTATIONS AND WARRANTIES OF THE SELLER:

1. Authority; No Conflicts

- (m) The Seller is a corporation duly organized and validly existing under the laws of the place of its incorporation and has the corporate power and authority to carry on its business as it is now being conducted or presently proposed to be conducted
- (n) The Seller has the requisite legal capacity to enter into, deliver and perform this Agreement and perform the respective Deeds of Sale and Deeds of Assignment. All acts and other proceedings required to be taken by the Seller to authorize the execution, delivery and performance of this Agreement, the Deeds of Sale and the Deeds of Assignment and the consummation of the transactions contemplated hereby and thereby, have been or will have been at or prior to the First Payment Date duly and properly taken.
- (o) This Agreement has been duly executed and delivered by the Seller and the Deeds of Sale and the Deeds of Assignment will be, as of the First Payment Date, duly executed and delivered by the Seller. This Agreement constitutes valid and binding obligations of the Seller and the deeds of sale of share and deeds of assignment of advances will constitute, as of the First Payment Date, valid and binding obligations of the Seller, enforceable against it in accordance with their respective terms.
- (p) No Third Party Consents are required.
- (q) All Governmental Authorizations that the Seller is required to obtain have been obtained, and all notices (other than the PCC Notice and the relevant disclosures to the SEC and PSE) that the Seller is required to give to any Person in connection with the execution, delivery and performance of this Agreement have been given.
- (r) Neither the execution and delivery of this Agreement nor the consummation or performance of any of the transactions contemplated under this Agreement will directly or indirectly (with or without notice or lapse of time) (i) breach any provision of the Governing Documents of the Seller, LB Holdco or LB Holdco Subsidiary, as applicable, or any resolution adopted by the shareholders or board of directors of the Seller, LB Holdco and LB Holdco Subsidiary as applicable, (ii) breach any Contract to which the Seller, LB Holdco or a LB Holdco Subsidiary is a party or to which it may be bound, (iii) violate or conflict with any Governmental Authorization or Law to which the Seller, LB Holdco or LB Holdco Subsidiary or any of the assets owned, used or held for use by the Seller, LB Holdco and LB Holdco Subsidiary may be subject, (iv) breach any Order to which the Seller, LB Holdco and LB Holdco Subsidiary or any of the assets owned, used or held for use by the Seller, LB Holdco or LB Holdco Subsidiary may be subject, (v) result in the imposition or creation of any Encumbrance upon or with respect to any of the Telco Assets, (vi) violate or conflict with any Governmental Authorization or Law, or breach any Order, to which the Sale Shares may be subject or result in the imposition or creation of any Encumbrances upon or with respect to any of the Sale Shares, other than, in the cases of clauses (iii), (iv) and (v) above.

REPRESENTATIONS AND WARRANTIES OF THE SELLER AND LB HOLDCO:

2. LB Holdco, LB Holdco Subsidiary and the Sale Shares

- (v) Each of LB Holdco and LB Holdco Subsidiary is an entity duly organized and validly existing under the laws of the place of its jurisdiction, with full corporate or company power (as the case may be) and authority to conduct its business as it is now being conducted, to own or use the Telco Assets that it purports to own or use, and to perform all its obligations under all Contracts to which it is a party. Each of LB Holdco and LB Holdco Subsidiary is duly qualified to do business in each jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it, requires such qualification.
- (w) The authorized and outstanding capital stock of each of LB Holdco and LB Holdco Subsidiary are set forth in Schedules 1 and 2. The names of the shareholders of each of LB Holdco and LB Holdco Subsidiary and the types and numbers of shares of stock beneficially and of record owned by them as of the date hereof are set forth in Schedules 1 and 2.
- (x) The Sale Shares represent one hundred percent (100.00%) of the total issued and outstanding share capital of LB Holdco. The Seller is and will be on the First Payment Date the sole owner of record and beneficial owner and holder of the Sale Shares, free and clear of all Encumbrances.
- (y) All of the outstanding shares of LB Holdco and LB Holdco Subsidiary have been duly authorized and validly subscribed, paid and non-assessable (except for the unpaid subscription on the Sale Shares amounting to Eighteen Million Seven Hundred Fifty Thousand Pesos (PHP18,750,000.00)) and have not been issued in violation of any preemptive or subscription rights.
- (z) None of the Sale Shares or other outstanding securities of LB Holdco and LB Holdco Subsidiary was issued in violation of any Law. None of LB Holdco or LB Holdco Subsidiary own or has any Contract to acquire, any equity securities or other securities of any Person or any direct or indirect equity or ownership interest in any other business.
- (aa) There are no outstanding warrants, options, stock rights, agreements, convertible or exchangeable securities or other commitments (other than this Agreement) pursuant to which any of LB Holdco and any of LB Holdco Subsidiary, is or may become obligated to issue, sell, purchase, return or redeem, or otherwise acquire any shares of its capital stock and none of the equity securities of LB Holdco and LB Holdco Subsidiary are reserved for sale or issuance for any purpose.
- (bb) There is no voting trust, standstill, stockholder or other agreement to which LB Holdco or any LB Holdco Subsidiary is a party or is bound with respect to the voting of the capital stock of LB Holdco or any LB Holdco Subsidiary.
- (cc) Except for LB Holdco Subsidiary identified in Schedule 2, LB Holdco does not have any other subsidiaries and affiliates.
- (dd) LB Holdco owns legally and beneficially the outstanding capital stock of LB Holdco Subsidiary as set forth in Schedule 2.
- (ee) The shareholdings in each of LB Holdco and LB Holdco Subsidiary as of the First Payment Date complies in all material respects and is not in violation of applicable Laws imposing

nationality restrictions or limits on foreign ownership of LB Holdco and LB Holdco Subsidiary.

3. Financial Statements

- (k) Each of the Financial Statements (including the related notes) fairly presents, in all material respects, the financial position, results of operations and cash flow of LB Holdco and LB Holdco Subsidiary as of the respective dates thereof, and each of the other related statements (including the related notes) included in the Financial Statements fairly presents, in all material respects, the results of operations, the changes in financial position and cash flow of LB Holdco and the LB Holdco Subsidiary for the respective periods or as of the respective dates set forth therein, all in conformity with PFRS consistently used therein. None of the entries in the Financial Statements is based on any material extraordinary item or transaction or otherwise based on any transaction not entered into in the Ordinary and Regular Course of business, other than as disclosed in the Financial Statements or to the extent the inclusion of any such entries therein would not prevent the Financial Statements from being a fair presentation, in all material respects, of the financial position, results of operations and cash flow of LB Holdco and LB Holdco Subsidiary as of the respective dates thereof.

“Financial Statements” shall mean the audited financial statements of LB Holdco and the LB Holdco Subsidiary for the past two (2) fiscal years.

- (l) Since the date of the Financial Statements, there has been no material change in the manner of keeping books, accounts, records or in the accounting practice reflected therein of each of LB Holdco and the LB Holdco Subsidiary.
- (m) To the best knowledge of the Seller after reasonable and diligent inquiry, neither each of LB Holdco nor the LB Holdco Subsidiary has outstanding liabilities or claims (including contingent liabilities) of such nature as would have a Material Adverse Effect on LB Holdco or the LB Holdco Subsidiary, except as liabilities disclosed in the Financial Statements and the unaudited financial statements of LB Holdco and the LB Holdco Subsidiary as of the end of the month immediately preceding the First Payment Date.
- (n) LB Holdco and the LB Holdco Subsidiary have no outstanding Bank Debts as of the First Payment Date.
- (o) The total liabilities of LB Holdco and the LB Holdco Subsidiary as at April 30, 2016 is One Hundred Fifteen Million Three Hundred Fifty Two Thosuang Three Hundred Eighty Seven Pesos (PHP115,352,387.00).

4. Accounts Receivables

All accounts receivable reflected on the Financial Statements or the accounting records of LB Holdco and the LB Holdco Subsidiary as of the First Payment Date represent or will represent valid obligations arising from sales actually made or services actually performed in the Ordinary and Regular Course of business. Reserves with respect to such accounts receivable have been calculated consistent with past practice. To the best knowledge of the Seller after reasonable and diligent inquiry, there is no contest, claim, defense or right of setoff, in the Ordinary and Regular Course of business, under any Contract with any obligor of an account receivable relating to the amount or validity of such account receivable.

5. No Undisclosed Liabilities

To the best knowledge of the Seller after reasonable and diligent inquiry, none of LB Holdco or the LB Holdco Subsidiary has any liabilities (including without limitation, tax liabilities, accrued liabilities, total lease obligations, deferred taxes, contingent liabilities, off-balance sheet liabilities and other short term and long term liabilities, due and whether incurred in respect of or measured by any income for any period prior to such date arising out of transactions entered into or any state of facts existing prior thereto) that would have been required to be reflected in, reserved against or otherwise described in the Financial Statements or in the notes thereto in accordance with PFRS, except for (a) liabilities reflected in, reserved against or otherwise described in the Financial Statements or in the notes thereto, (b) liabilities incurred in the Ordinary and Regular Course of business since the date of the Financial Statements as expressly reflected in the statement of liabilities of LB Holdco and the LB Holdco Subsidiary for the first quarter of 2016.

6. No Material Adverse Effect

- (a) Since the date of the Financial Statements, there has not been any event or circumstance that may have a Material Adverse Effect.*
- (b) Since the Seller Acquisition Date, none of the following events has occurred or is continuing:
 - (iii) cancellation, suspension, termination, shortening of the term or coverage or forfeiture of any of the Franchises of LB Holdco Subsidiary;*
 - (iv) default or change or amendment or revisions in, any of the Franchises of LB Holdco Subsidiary that has a Material Adverse Effect;*
 - (iii) cancellation, suspension, termination, shortening of the term or coverage or forfeiture of Frequencies of the LB Holdco Subsidiary; or*
 - (iv) default or change in the assignment of Frequencies of the LB Holdco Subsidiary that has a Material Adverse Effect.**
- (c) Since the date of the Financial Statements, none of the following events has occurred or is continuing:
 - (i) default in any of the financial obligations that has a Material Adverse Effect; and*
 - (ii) dispute by any of LB Holdco and the LB Holdco Subsidiary with any of its major suppliers that will have a Material Adverse Effect.**

7. Books and Records

Since the Seller Acquisition Date:

- (a) *the Books and Records of each of LB Holdco and the LB Holdco Subsidiary are complete and correct in all material respects;*
- (b) *the minute books of LB Holdco and the LB Holdco Subsidiary contain accurate and complete records of all meetings held and corporate action, and no such meeting has been held for which minutes have not been prepared and are not contained in such minute books; and*
- (c) *each material transaction of each of LB Holdco and the LB Holdco Subsidiary is properly and accurately recorded on the Books and Records of LB Holdco and the LB Holdco Subsidiary, and each document (including any Contract, invoice, or receipt) on which entries in the Books and Records of LB Holdco and the LB Holdco Subsidiary are based is complete and accurate in all material respects.*

On the First Payment Date, all of the Books and Records will be in the possession of each of LB Holdco and the LB Holdco Subsidiary.

8. Absence of Certain Changes and Events

Except as contemplated by this Agreement, since December 31, 2015, the business of each of LB Holdco and LB Holdco Subsidiary has been conducted only in the Ordinary and Regular Course of business and there has not been any:

- (a) *change in the authorized, issued or subscribed shares of any of LB Holdco and the LB Holdco Subsidiary or issuance of any shares of its capital stock, grant of any equity option or right to purchase shares of any of LB Holdco and the LB Holdco Subsidiary, issuance of security convertible into such equity, grant of any registration rights, purchase, redemption, retirement, or other acquisition by any of LB Holdco and the LB Holdco Subsidiary of any of its shares, or declaration or payment of any dividend or other distribution or payment with respect to any of its shares or equity;*
- (b) *prepayment or acceleration of the payment of any debt of any of LB Holdco and the LB Holdco Subsidiary;*
- (c) *amendment to the Governing Documents of any of LB Holdco and the LB Holdco Subsidiary;*
- (d) *payment or increase (in either case, except in the Ordinary and Regular Course of business) by any of LB Holdco and the LB Holdco Subsidiary of any bonuses, salaries, or other compensation to any shareholder, director or employee, or entry into any employment, severance, or similar Contract with any shareholder, director or employee, other than as prescribed under applicable law or existing contracts;*

- (e) *damage to or destruction or loss of any asset or property of any of LB Holdco and the LB Holdco Subsidiary, whether or not covered by insurance, which may have a Material Adverse Effect to such company;*
- (f) *except in the Ordinary and Regular Course of business, entry into, modification or termination, or receipt of written notice of termination of any Contract of any of LB Holdco and the LB Holdco Subsidiary or any transaction involving a total remaining commitment by or to any of LB Holdco and the LB Holdco Subsidiary of at least Twenty Million Pesos (PHP20,000,000.00);*
- (g) *sale, lease, or other disposition of any asset or property of any of LB Holdco and the LB Holdco Subsidiary (except for intra-group sales, leases or other dispositions), or the creation of any Encumbrance on any material asset or on any material asset or property of any of LB Holdco and the LB Holdco Subsidiary;*
- (h) *cancellation or waiver of any claims or rights with a value to any of LB Holdco and the LB Holdco Subsidiary in excess of Twenty Million Pesos (PHP20,000,000.00);*
- (i) *material change in the accounting methods used in respect of any of LB Holdco and the LB Holdco Subsidiary; or*
- (j) *contract or agreement by the Seller or any of LB Holdco and the LB Holdco Subsidiary to do any of the foregoing.*

9. Title to Assets

Each of LB Holdco and LB Holdco Subsidiary has good and valid title to all the assets material to the business of LB Holdco and the LB Holdco Subsidiary, listed, referenced or included in balance sheet portion of the Financial Statements free and clear of all Encumbrances of any nature whatsoever.

10. Intellectual Property

- (g) Each of LB Holdco and the LB Holdco Subsidiary owns, or is licensed or otherwise has the full right to use, all patents, trademarks, trade names, copyrights, technology, know-how, processes and licenses, used in or necessary for the conduct of its business as heretofore conducted free of any liens.
- (h) No activities of each of LB Holdco and the LB Holdco Subsidiary will infringe any intellectual property rights of any Person and no actions or proceedings have been initiated and are pending against any of LB Holdco or the LB Holdco Subsidiary in respect of such infringement.
- (i) None of LB Holdco or the LB Holdco Subsidiary is in breach of any agreement relating to intellectual property rights to which any of LB Holdco or the LB Holdco Subsidiary is a party (whether as licensor or licensee) or which relate to intellectual property rights of third parties for which the Seller has received written notice. All intellectual property rights required to operate the respective businesses of each of LB Holdco and the LB Holdco Subsidiary are valid and subsisting and nothing has been done or omitted to be done by LB Holdco or the LB Holdco Subsidiary which would have a Material Adverse Effect on the validity or subsistence of any such intellectual property rights. Each of LB Holdco and the LB Holdco Subsidiary has the ability to use all intellectual property rights required to use its assets or to carry on its business as currently conducted and such ability to use will not be affected materially and adversely by the acquisition of the Sale Shares by the Purchasers.

11. Contracts; No Defaults

- (a) *All Contracts entered into by each of LB Holdco and the LB Holdco Subsidiary are in full force and effect and valid and enforceable against LB Holdco or the LB Holdco Subsidiary, as applicable, which is party to it in accordance with its terms. None of LB Holdco or the LB Holdco Subsidiary has breached and is currently in breach of any of the applicable terms and requirements of any of the Contracts for which LB Holdco or any Subsidiaries may be liable, which breach shall have a Material Adverse Effect. None of LB Holdco or LB Holdco Subsidiary has received written notice or other written communication regarding any actual or alleged breach of the Contracts, and the Seller has no knowledge of any breach of any Contract by the other party or parties to it that has a Material Adverse Effect.*
- (b) *All Contracts entered into by LB Holdco and the LB Holdco Subsidiary have been: (i) duly and validly executed and delivered pursuant to due authority; and (ii) entered into on arms-length terms.*
- (c) *None of LB Holdco and the LB Holdco Subsidiary is a party to any Contract which restricts its ability to engage in its primary business.*
- (d) *None of LB Holdco and the LB Holdco Subsidiary is party to any Contract under which any third party is entitled, as a result of change in ownership of the Subject Shares:*
 - (i) *to terminate the Contract;*
 - (ii) *to accelerate payment or require the payment of damages or indemnity from, or create any financial obligation on the part of, LB Holdco and the LB Holdco Subsidiary;*
 - (iii) *to call any of LB Holdco and the LB Holdco Subsidiary in default of the Contract;*
or
 - (iv) *to require the adoption of terms which are less favorable to LB Holdco and the LB Holdco Subsidiary than the current terms.*

- (e) *All Contracts, including contracts with suppliers for the supply and provisioning of goods and services relating to the rollout, maintenance and operation, and network infrastructure and facilities, and the operation and provision of services have been and will be disclosed to the Purchasers during the Confirmatory Due Diligence.*
- (f) *No principal contractor or supplier of LB Holdco and the LB Holdco Subsidiary is in default (or, to the best knowledge of the Seller after reasonable and diligent inquiry, would be in default, but for the requirements of notice or lapse of time, or both) under any of the Contracts with LB Holdco and the LB Holdco Subsidiary.*

12. Taxes

- (a) *Since the Seller Acquisition Date, all Returns required to be filed with any taxing authority, including all Returns required to be filed by or on behalf of each of LB Holdco and the LB Holdco Subsidiary, to the extent required to be filed on or before the First Payment Date, have been filed when due in accordance with all applicable Laws.*
- (b) *None of LB Holdco and the LB Holdco Subsidiary has any Tax liability (whether due or to become due) with respect to the income, property and operations of LB Holdco and the LB Holdco Subsidiary, except for Tax liabilities reflected on the Financial Statements or that have arisen after the date of the Financial Statements in the Ordinary and Regular Course of business.*
- (c) *For the previous three (3) fiscal years, all Taxes shown as due and payable on any Return previously filed by or on behalf of LB Holdco and the LB Holdco Subsidiary have been timely paid or withheld and remitted to the appropriate taxing authority.*
- (d) *Neither the Seller nor any of LB Holdco and the LB Holdco Subsidiary has granted or has had granted on its behalf any extension or waiver of the statute of limitations period applicable to any Return, which period (after giving effect to such extension or waiver) has not yet expired.*
- (e) *There is no Action now pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened against or with respect to any of LB Holdco and the LB Holdco Subsidiary in respect of any Tax of which the Seller or any of LB Holdco and the LB Holdco Subsidiary has received written notice.*
- (f) *There are no liens for Taxes upon the assets or properties of any of LB Holdco and the LB Holdco Subsidiary, except for statutory liens for current Taxes, assessments or other governmental charges not yet delinquent or the amount or validity of which is being contested in good faith by appropriate proceedings.*
- (g) *Since the Seller Acquisition Date, none of LB Holdco and the LB Holdco Subsidiary has received written notice of any claim by a Governmental Authority in a jurisdiction where LB Holdco and the LB Holdco Subsidiary do not file Returns that it is or may be subject to taxation by that Governmental Authority.*

- (h) *Since the Seller Acquisition Date, each of LB Holdco and the LB Holdco Subsidiary has withheld and paid all Taxes required to have been withheld and paid by applicable Law in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other Person.*
- (i) *None of LB Holdco and the LB Holdco Subsidiary is party to any Tax allocation or sharing agreement.*
- (j) *During the three (3) years prior to the date of this Agreement, none of LB Holdco and the LB Holdco Subsidiary has distributed the stock of another Person, or have had its stock distributed by another Person, in a transaction that was purported or intended to qualify for tax-free treatment.*
- (k) *There are no outstanding rulings of, or requests for rulings with, any taxing authority expressly addressed to, or from, either LB Holdco and the LB Holdco Subsidiary or the Seller.*

13. Employee Benefits and Labor Standards

- (v) LB Holdco does not have any employees since its date of incorporation.
- (w) To the best knowledge of the Seller after reasonable and diligent inquiry, no Key Executive and no group of employees or independent contractors of the LB Holdco Subsidiary has any plans to terminate his, her or their employment or relationship with the LB Holdco Subsidiary for which the LB Holdco Subsidiary have received written notice, and LB Holdco Subsidiary is not in breach of any Contract with any of its employees.
- (x) Since the Seller Acquisition Date, LB Holdco Subsidiary has complied in all material respects with all Laws relating to labor and employment, including any Laws pertaining to employee relations, employment practices, wages and hours, civil rights, employment discrimination, immigration, occupational safety and health, employee privacy, mass layoffs, labor or arbitration, collective bargaining, or other labor law or ordinance. LB Holdco Subsidiary is not liable for the payment of any claims, damages, fines, penalties, or other amounts, however designated, for failure to comply with any of the foregoing Laws.
- (y) There are no Action against LB Holdco Subsidiary pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened based on any Laws pertaining to employee relations, employment practices, wages and hours, civil rights, employment discrimination, immigration, occupational safety and health, employee privacy, plant closings or mass layoffs, labor or arbitration, collective bargaining, or other violation of any labor or employment law or ordinance; and, to the best knowledge of the Seller after reasonable and diligent inquiry, there are no facts or circumstances which could form the basis for any of the foregoing.
- (z) LB Holdco Subsidiary is not a party to any settlement agreement, consent decree or other Contract containing continuing compliance or reporting obligations entered into to resolve any labor or employment matter;
- (aa) No group of employees of LB Holdco Subsidiary has a pending demand for recognition or filed a petition for recognition or representation rights with any Governmental Authority;
- (bb) There are no negotiations pending between LB Holdco Subsidiary and any labor organization or group of employees regarding terms for a collective bargaining agreement or other labor agreement;

- (cc) LB Holdco Subsidiary is not a party to or bound by any collective bargaining agreement or any other contract or agreement with any labor organization or group of employees;
- (dd) There are no ongoing or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened labor disputes, including but not limited to strikes, slow downs, sit downs, work stoppages, interruptions of work, picketing or lockouts with respect to employees of the LB Holdco Subsidiary; and, to the best knowledge of the Seller after reasonable and diligent inquiry, there are no facts or circumstances which could form the basis for any of the foregoing;
- (ee) There have not been any strikes, slow downs, sit downs, work stoppages, interruptions of work, picketing, lockouts, unfair labor practice charges or other material labor disputes pending or involving any employees of the LB Holdco Subsidiary for the last three (3) years;
- (ff) There are no agreements or arrangements for the payment of additional benefits or compensation to any director, officer, employee or consultants rendering services to the LB Holdco Subsidiary or otherwise the grant of golden parachutes (or other similar arrangements) in case of severance of employment from or termination of service or employment contract with LB Holdco Subsidiary upon a change in controlling interest of LB Holdco Subsidiary.

14. Employee Restrictions

To the best knowledge of the Seller after reasonable and diligent inquiry, no Director or Key Executive of LB Holdco and LB Holdco Subsidiary is a party to, or is otherwise bound by, any Contract, including any confidentiality, noncompetition, or proprietary rights agreement, between such employee or director and any other Person that in any way adversely affects or adversely will affect (a) the performance of his duties as an employee or director of any of LB Holdco and the LB Holdco Subsidiary, or (b) the ability of any of LB Holdco and the LB Holdco Subsidiary to conduct its business.

15. Compliance with Legal Requirements; Governmental Authorizations; Frequencies

- (a) Since the Seller Acquisition Date, each of LB Holdco and LB Holdco Subsidiary is and at all times, has been, in material compliance with each Law that is or was applicable to it or to the conduct or operation of its business or the ownership or use of any of its assets. To the best knowledge of the Seller after reasonable and diligent inquiry, no event has occurred or circumstance exists that (with or without notice or lapse of time) is likely to cause any of LB Holdco and the LB Holdco Subsidiary to materially violate any Law. The LB Holdco and the LB Holdco Subsidiary have not received, any written notice or other written communication from any Governmental Authority regarding any actual or alleged violation of any Law.
- (b) Since the Seller Acquisition Date, each of LB Holdco and LB Holdco Subsidiary has timely filed all material reports and statements required to be filed by it with all relevant Government Authorities, including but not limited to, the SEC, NTC and Congress of the Philippines, and none of the reports, as its respective date, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein so as to ensure that such statements, in light of the circumstances under which they were made, were not misleading.
- (c) All Governmental Authorizations held by LB Holdco and the LB Holdco Subsidiary, are valid and in full force and effect and not the subject of any Action, other than any routine

review, by any Governmental Authority. Since the Seller Acquisition Date, each of LB Holdco and LB Holdco Subsidiary is, and at all times has been, in compliance with all of the terms and requirements of each such Governmental Authorization and has not received any written notice or other written communication within the past two (2) years, from any Governmental Authority regarding any actual or alleged material violation of any Governmental Authorization. No Governmental Authorization granted to LB Holdco Subsidiary has been terminated, revoked or cancelled or allowed to lapse. There are no pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened action or claim for the revocation or cancellation of any Governmental Authorization. All applications required to have been filed for the renewal of such material Governmental Authorizations have been duly filed on a timely basis with the appropriate Governmental Authorities.

- (d) Each of LB Holdco and the LB Holdco Subsidiary has Franchises necessary to allow it to conduct and operate its businesses lawfully in the manner in which it currently conducts and operates its businesses and allow it to own and use its assets in the manner in which it currently owns and uses such assets. The complete list of all Franchises held by the LB Holdco Subsidiary are set forth in **Schedule 3(A)**.
- (e) Since the Seller Acquisition Date, all regulatory fees payable by or due from any of LB Holdco or the LB Holdco Subsidiary have been paid in full, and there are no pending assessments for such regulatory fees issued to any of the LB Holdco or the LB Holdco Subsidiary.
- (g) The complete and accurate list of all Frequencies are set forth in **Schedule 3(B)**. The Frequencies of LB Holdco Subsidiary and the corresponding Franchises for such Frequencies are valid, in full force and effect, and not the subject of any Action , other than any routine review, by any Governmental Authority.
- (h) All Frequencies assigned to LB Holdco Subsidiary are evidenced by applicable frequency assignment sheets. Except for the requirement to obtain the NTC Approvals, there are no restrictions or conditions attached to the Frequencies which would prevent or restrict the Parties from achieving the First Payment Milestone.
- (i) There is no interference on the Frequencies that will restrict or prevent the Purchasers from using the Frequencies.

16. Insurance

All insurance policies of each of LB Holdco and the LB Holdco Subsidiary are in full force and effect. Since the Seller Acquisition Date, none of LB Holdco and the LB Holdco Subsidiary has received any notice of cancellation or non-renewal with respect to any such policies. Since the Seller Acquisition Date, all premiums due and payable thereon have been paid, and each of LB Holdco and the LB Holdco Subsidiary has complied with the provisions of such policies.

17. Legal Proceedings; Orders

There are no pending, or to the best knowledge of the Seller after reasonable and diligent inquiry, threatened claims, legal actions, regulatory or other proceedings, arbitrations, prosecutions, or lawsuits against any of LB Holdco and the LB Holdco Subsidiary or involving the Telco Assets, Governmental Authorizations, or any of their material properties of which any of LB Holdco and the LB Holdco Subsidiary has received notice or is otherwise aware. There are no actions, suits or proceedings pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened against any of LB Holdco and the LB Holdco Subsidiary which, if adversely decided

against LB Holdco and LB Holdco Subsidiary, as the case may be, may impair the ownership of, marketable title to, possession or use of the Telco Assets or the performance of this Agreement by LB Holdco and the LB Holdco Subsidiary. To the best knowledge of the Seller after reasonable and diligent inquiry, there are no circumstances which are likely to give rise to any such action, suit or proceedings.

18. All Information

- (g) All material information about LB Holdco and the LB Holdco Subsidiary and contained in any written document or communication (including e-mails and documents or communications transmitted electronically) which has been or, will be given to the Purchasers, or the Purchasers' advisers, or employees, in the course of the Confirmatory Due Diligence and negotiations relating to this Agreement, is true and accurate in all material respects and is not misleading.
- (h) The copies of all contracts and agreements in respect of LB Holdco and the LB Holdco Subsidiary supplied to or made available for review by the Purchasers or any of its advisers, agents or employees, are true and complete.
- (i) No representation or warranty made by each of LB Holdco and the LB Holdco Subsidiary herein or any statement, document or certificate furnished or to be furnished in behalf of LB Holdco and the LB Holdco Subsidiary to the Purchasers in connection with the transactions contemplated hereby, contains or will contain on the First Payment Date any untrue statement of material fact, or omit or will omit to state a material fact necessary in order to make the statement of fact contained herein or therein not misleading.

19. No Transactions with Affiliates and Related Parties

LB Holdco has not entered into any transaction with or has any indebtedness to any of its directors or officers or any of its shareholders, or any of such shareholders' affiliates or other related parties, except in the Ordinary and Regular Course of business.

20. Outstanding Advances

- (k) The aggregate principal amount of the Outstanding Advances is Four Hundred Seventy Five Million Nine Hundred Ninety Five Thousand Seven Hundred Eighty Eight Pesos (PHP475,995,788.00) as of April 30, 2016. The Outstanding Advances are legal, valid and binding obligations due to the Seller from LB Holdco and the LB Holdco Subsidiary, and enforceable against them, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and to general principles of equity.
- (l) The Seller has no outstanding liabilities to LB Holdco that may give rise to a right of set-off in favor of LB Holdco.
- (m) The Seller has the legal right and authority to assign the Outstanding Advances absolutely and free from all Encumbrances.
- (n) The Outstanding Advances have not been sold, offered for sale or legally or equitably assigned or otherwise encumbered by the Seller.
- (o) There are no Orders, garnishment, attachments or liens outstanding affecting the Outstanding Advances in any way.

21. Environmental Liability

Since the Seller Acquisition Date, each of LB Holdco and the LB Holdco Subsidiary (i) is not in violation of any statute, rule, regulation, decision or order of any Governmental Authority relating to the use, disposal or release of hazardous or toxic substances, electromagnetic or radio frequency, wave or current or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substance, (ii) does not own or operate any real property contaminated with any substance that is subject to environmental laws, or (iii) is not subject to any claim relating to environmental laws or any pending or, to the best knowledge of the Seller after reasonable and diligent inquiry, threatened investigation which might lead to such a claim.

SCHEDULE 7(B)
REPRESENTATIONS AND WARRANTIES OF THE PURCHASERS

1.2 Corporate Existence; Authority; No Conflict

- (i) 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.
- (j) It has full corporate 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 of directors, and no other corporate action or corporate proceeding is necessary to authorize this Agreement or the transactions contemplated hereby.
- (k) 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.
- (l) The execution and delivery of this Agreement, and the performance of its obligations hereunder, do not and will not violate any Law and will not conflict with or result in a breach of its Governing Documents, or of any Contract 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.

SHARE PURCHASE AGREEMENT

This **SHARE PURCHASE AGREEMENT** (the “**Agreement**”) is made and entered into as of this 30th day of May 2016 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 One Billion Two Hundred Ninety One Million Five Hundred Twelve Thousand Four Hundred Ninety Eight (1,291,512,498) common shares (excluding two (2) shares held by its nominees), and Nine Hundred Sixteen Million Seven Hundred Forty Thousand One Hundred Seventy Two (916,740,172) preferred shares of the Company, which represents fifty percent (50%) interest of PCEV in the Company.
- (C) The Seller desires to sell to the Buyer, and the Buyer is willing to purchase from the Seller, a portion of its share ownership in the Company consisting of Six Hundred Forty Five Million Seven Hundred Fifty Six Thousand Two Hundred Fifty (645,756,250) common shares and Four Hundred Fifty Eight Million Three Hundred Seventy Thousand Eighty Six (458,370,086) preferred shares (the “**Shares**”) of the Company representing approximately twenty five percent (25%) of the issued and outstanding common shares, and twenty five percent (25%) of the economic interest in the 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).

“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).

“P” means the lawful currency of the Philippines.

“PDRCI” has the meaning given to that term in Section 8.

“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.

“Share Purchase Price” has the meaning given to that term in Section 2.2(a).

“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 completed, which shall in no case be later than 30 May 2016.

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) except with respect to the Seller’s Special Dividends (as defined in

Section 5.3(a) below), all cash dividends hereafter declared or paid on the Shares; (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 Six Billion Two Hundred Million Pesos (P26,200,000,000.00) (the “**Share Purchase Price**”) comprised of: (a) Philippines Pesos: Twenty Billion Four Hundred Thirteen Million Three Hundred Eighty Eight Thousand Nine Hundred Sixty Two and 50/100 (P20,413,388,962.50) or approximately Philippine Pesos: Thirty One and 612/1000 (P31.612) per Common Share; and (b) Philippine Pesos: Five Billion Seven Hundred Eighty Six Million Six Hundred Eleven Thousand Thirty Seven and 50/100 (P5,786,611,037.50) or approximately Philippine Pesos: Twelve and 62/100 (P12.62) per Preferred Share.

The Share Purchase Price shall be paid in installments as follows:

- (a) Upon execution hereof, Philippine Pesos: Seventeen Billion (P17,000,000,00.00), representing 64.9% 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 2017, 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 One Million Three Hundred Forty Thousand Nine Hundred Thirty Seven (P2,001,340,937.00), representing 7.6% 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 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 One Million Three Hundred Forty Thousand Nine Hundred Thirty Seven (P2,001,340,937.00), representing 7.6% 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 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 One Million Three Hundred Forty Thousand Nine Hundred Thirty Seven (P2,001,340,937.00), representing 7.6% 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 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: Three Billion One Hundred One Hundred Ninety Five Million Nine Hundred Seventy Seven Thousand One Hundred Eighty Nine (P3,195,977,189.00), representing 12.2% of the Share Purchase Price, in cash, to be remitted by the Buyer to a bank account designated by the Seller.

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.
- (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) As of the Transfer Date, the Buyer shall have partially paid the Share Purchase Price to the Seller as provided in Section 2.2(a) above.

4. REPRESENTATIONS AND WARRANTIES

4.1 Common Representations

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 Additional Representations and Warranties of Seller

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 of the Company as of the date hereof. 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 Survival of Representations and Warranties

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 Negative Covenants

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 Affirmative Covenants

- (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 the Seller's Special Dividends which, for the avoidance of doubt, shall be retained by 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 other than the Seller's Special Dividends; (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) Each of the Buyer and Seller affirms their earlier agreement to support the undertaking of the Company that for the calendar year 2016, the Company shall, within July 2016, declare and distribute cash dividends from its unrestricted retained earnings to its common shareholders in proportion to their respective ownership percentage in the Company, in such amounts as may be

distributable as dividends under Philippine law and allowed under all financing agreements to which it is a party and in any case, no less than the amount of P8,486,819,685 (“**2016 Special Dividends**”). Each of the Buyer and Seller acknowledge that on the basis of the Seller’s current ownership percentage in the Company, the Seller is entitled to fifty percent (50%) of the 2016 Special Dividends (“**Seller’s Special Dividends**”)

- (b) Each of the Buyer and Seller further affirms their agreement to waive (on a temporary basis during the period that the Share Purchase Price as defined under the Share Purchase Agreement dated 14 April 2015 between the Company and the Buyer remains outstanding and only in respect of the 2016 Special Dividends) their respective rights under the Articles of Incorporation of the Company requiring payment of dividends on the preferred shares prior to any payment of dividends on the common shares.
- (c) 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 for as long as: (i) the Seller owns at least 20% of the outstanding capital stock of the Company, or (ii) the Share Purchase Price has not been fully paid by the Buyer, the Seller shall have the right to vote 50% of the outstanding capital stock of the Company. As such, Buyer hereby grants to Seller a stockholder’s proxy to vote or act by written consent with respect to the 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. For the avoidance of doubt, the entitlement granted herein to the Seller is limited to voting rights and the Seller shall only have such other shareholder rights to the extent of its percentage of legal and/or beneficial ownership in the Company.

5.4 Reliance

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: 10th 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 Entire Agreement

This Agreement supersedes all prior discussions and agreements between the Parties with respect to the subject matter hereof.

9.4 Amendment

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 Waiver; Cumulative Rights

- (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 Binding Effect

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 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Republic of the Philippines.

9.8 Counterparts; Effectiveness

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
P-04	916,740,172	PLDT Communications and Energy Ventures, Inc.

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 _____, 2016 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 [•] ([•]) common shares / [•] ([•]) 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 and P-04 duly endorsed by the SELLER, 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 Six Billion Two Hundred Million (P26,200,000,000.00) comprised of: (a) Philippine Pesos: Twenty Billion Four Hundred Thirteen Million Three Hundred Eighty Eight Thousand Nine Hundred Sixty Two and 50/100 (P20,413,388,962.50) or approximately Philippine Pesos: Thirty One and 612/1000 (P31.612) per Common Share; and (b) Philippine Pesos: Five Billion Seven Hundred Eighty Six Million Six Hundred Eleven Thousand Thirty Seven and 50/100 (P5,786,611,037.50) or approximately Philippine Pesos: Twelve and 62/100 (P12.62) per 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 2016.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

The Seller:

**PLDT COMMUNICATIONS AND ENERGY
VENTURES, 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:

PLDT Inc.
 Calculation of Ratio of Earnings to Fixed Charges
 For the years 2012 through 2016

	2016 ⁽¹⁾	2016	2015	2014	2013	2012
	(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\$443	Php22,071	Php26,638	Php44,148	Php41,632	Php43,606
Add (Deduct):						
Fixed Charges (see description below)	213	10,622	9,015	8,266	9,060	10,237
Amortization of capitalized interest	17	829	941	1,198	1,221	2,315
Capitalized interest	(11)	(566)	(370)	(442)	(421)	(914)
Total Earnings(2)	US\$662	Php32,956	Php36,224	Php53,170	Php51,492	Php55,244
Fixed Charges						
Interest on loans and related items	US\$151	Php7,522	Php6,289	Php5,429	Php5,086	Php6,319
Capitalized interest	11	566	370	442	421	914
Amortization of debt issuance costs and debt discount	5	230	231	164	1,539	1,051
Estimated financing component of rent expense(3)	46	2,304	2,125	2,231	2,014	1,953
Total Fixed Charges	US\$213	Php10,622	Php9,015	Php8,266	Php9,060	Php10,237
Ratio (a/b)(2)	3.1	3.1	4.0	6.4	5.7	5.4

(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, 2016 has been converted into U.S. dollars at the exchange rate of Php49.77 to US\$1.00, the Philippine peso-dollar rate as quoted through the Philippine Dealing System as at December 31, 2016.

(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.

PLDT INC.
Subsidiaries as at December 31, 2016

Our consolidated financial statements include the financial statements of PLDT (parent company) and the following subsidiaries (collectively, the “PLDT Group”) as at December 31, 2016 and 2015:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2016		2015	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Wireless						
Smart:	Philippines	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	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
eInnovations Holdings Pte. Ltd., or eInnovations ⁽⁹⁾ :	Singapore	Investment company	–	100.0	–	100.0
Takatack Holdings Pte. Ltd., or Takatack Holdings ⁽⁹⁾	Singapore	Investment company	–	100.0	–	100.0
Takatack Technologies Pte. Ltd., or Takatack Technologies ⁽⁹⁾	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 ⁽⁹⁾	Malaysia	Development, maintenance and support services to enable the digital commerce ecosystem	–	100.0	–	–
iCommerce Investments Pte. Ltd., or iCommerce ⁽⁸⁾	Singapore	Investment company	–	100.0	–	100.0
Voyager Fintech Ventures Pte. Ltd., or Fintech Ventures (formerly eInnovations Ventures Pte. Ltd. or eVentures ⁽⁹⁾)	Singapore	Investment company	–	100.0	–	100.0
Fintqologies Corporation, or FINTQ ⁽⁹⁾	Philippines	Development of financial technology innovations	–	100.0	–	–
Fintq Ventures Insurance Agency Corporation ⁽⁸⁾	Philippines	Insurance company	–	100.0	–	–
ePay Investments Pte. Ltd., or ePay ⁽⁸⁾	Singapore	Investment company	–	100.0	–	100.0
PayMaya Philippines, Inc. or PayMaya ⁽⁹⁾	Philippines	Provide and market certain mobile payment services	–	100.0	–	100.0
PayMaya Operations Philippines, Inc., or PayMaya Ops ⁽⁹⁾	Philippines	Market, sell and distribute payment solutions and other related services	–	100.0	–	100.0
3 rd Brand Pte. Ltd., or 3 rd Brand	Singapore	Solutions and systems integration services	–	85.0	–	85.0
WiFun, Inc., or WiFun ⁽⁸⁾	Philippines	Software developer and selling of WiFi access equipment	–	100.0	–	100.0
Telesat, Inc. ⁽⁹⁾	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	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. ⁽⁹⁾	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 ⁽⁹⁾	Philippines	Business infrastructure and 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	–	99.8
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	–	67.0	–	67.0
netGames, Inc. ⁽⁸⁾	Philippines	Gaming support services	–	57.5	–	57.5
Digitel:	Philippines	Telecommunications services	99.6	–	99.6	–
Digitel Information Technology Services, Inc. ⁽⁹⁾	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 ⁽⁹⁾	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 February 24, 2015, the Accounting and Corporate Regulatory Authority, or ACRA, of Singapore, the national regulator of business entities in Singapore, approved the change in the business name of Smart Hub Pte. Ltd. to eInnovations Holdings Pte. Ltd.
- (b) On February 27, 2015, ePay and iCommerce were incorporated in Singapore to provide digital, internet, information, communication and IT-related activities. Both subsidiaries will serve as the holding companies of other digital investments. ePay and iCommerce are 100% owned by eInnovations, each having an initial capitalization of SGD10 thousand, or Php323 thousand. See Note 10 – Investments in Associates and Joint Ventures – eInnovations' Investment in ECommerce Pay to the accompanying audited consolidated financial statements in Item 18. "Financial Statements".
- (c) On October 1, 2015, the ACRA of Singapore approved the change in the business name of Takatack Pte. Ltd. to Takatack Holdings Pte. Ltd.
- (d) On August 6, 2015, Takatack Holdings acquired 100% equity interest in Paywhere Pte. Ltd. On October 1, 2015, the ACRA of Singapore approved the change in the business name of Paywhere Pte. Ltd. to Takatack Technologies Pte. Ltd.
- (e) On April 12, 2016, Takatack Malaysia was incorporated in Malaysia to provide development, maintenance and support services and sales and marketing to enable the entire digital commerce ecosystem in favor of consumers, merchants, service providers and other third parties.
- (f) On August 21, 2015, eVentures was incorporated in Singapore to serve as a holding company of other digital investments providing digital, internet, information, communication and IT-related activities. 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 focusing on customer-centric, demand-driven and mobile-first financial technology platforms that enable banks and non-banks in offering their respective customer base seamless digital access to loans, savings, insurance, disbursements, payments, anti-fraud and card control services, among others. Its key thrust is to promote inclusive growth and financial inclusion leveraging on digital and mobile technologies in emerging markets.
- (h) On December 19, 2016, Fintq Invenures 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) Effective September 15, 2015, the Philippine SEC approved the amendment of Smart e-Money, Inc.'s name to PayMaya Philippines, Inc.
- (j) On February 10, 2015, mePay Operations Philippines, Inc. was incorporated in the Philippines to market, sell and distribute payment solutions and other related services. Effective June 22, 2015, the Philippine SEC approved the amendment of mePay Operations Philippines, Inc. name to PayMaya Operations Philippines, Inc., or PayMaya Ops. PayMaya Ops is 60% and 40% owned by PayMaya and Smart, respectively, with initial capitalization of Php1 million.
- (k) 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.
- (l) Ceased commercial operations.
- (m) On June 16, 2015, Talas was incorporated in the Philippines to implement the Intelligent Data Fabric and immediate delivery of Big Data capability platform of the PLDT Group.
- (n) Ceased commercial operations and under liquidation due to shortened corporate life to August 31, 2015.



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.

April 27, 2017

A handwritten signature in black ink, appearing to read "M. Pangilinan", is written over a horizontal line.

MANUEL V. PANGILINAN
Chairman of the Board
President and CEO
(Principal Executive Officer)



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, 2016 (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.

April 27, 2017

A handwritten signature in black ink, appearing to read "M. Pangilinan", written over a horizontal line.

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.



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.

April 27, 2017

A handwritten signature in black ink that reads "Anabelle L. Chua".

ANABELLE L. CHUA
Senior Vice President and CFO
(Principal Financial Officer)



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, 2016 (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.

April 27, 2017

A handwritten signature in black ink, appearing to read 'Anabelle L. Chua', written over a horizontal line.

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.